

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

FORM 10-K

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

For the fiscal year ended: September 30, 2017

Commission File No. 1-07939



VICON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK

(State or other jurisdiction of incorporation or organization)

11-2160665

(I.R.S. Employer identification No.)

135 Fell Court, Hauppauge, New York

(Address of principal executive offices)

11788

(Zip Code)

Registrant's telephone number, including area code: **(631) 952-2288**

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

Common Stock, Par Value \$.01

(Title of class)

NYSE American

(Name of each exchange on which registered)

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 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, a smaller reporting company or an emerging growth company. See 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 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 Securities Exchange Act of 1934).

Yes No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant based upon the closing price of \$0.94 per share as of March 31, 2017 was approximately \$2,532,000.

The number of shares outstanding of the registrant's common stock as of December 26, 2017 was 17,552,623.

PART I

Statements in this Report on Form 10-K that are not strictly historical facts including, without limitation, statements included under the “Business” and “Management’s Discussion and Analysis” captions, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that should be considered as subject to the many risks and uncertainties that exist in the Company's operations and business environment. The forward-looking statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the actual results, performance and/or achievements of the Company to differ materially from any future results, performance or achievements, express or implied, by the forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, and that in light of the significant uncertainties inherent in forward-looking statements, the inclusion of such statements should not be regarded as a representation by the Company or any other person that the objectives or plans of the Company will be achieved. The Company assumes no obligation to publicly update or revise its forward-looking statements or to advise of changes in the assumptions and factors on which they are based.

ITEM 1 - BUSINESS

General

Vicon Industries, Inc. (the "Company"), incorporated in 1967, develops video management software and also designs and markets a wide range of video system components, comprised principally of cameras, network video servers/recorders, encoders and mass storage units, used in security, surveillance, safety and control applications by a broad group of end users. A video system is typically a private (or hybrid public/private) network that can transmit and receive video, audio and data signals in accordance with the operational needs of the user. The Company's primary business focus is the design of network video systems that it produces and sells worldwide, primarily to authorized dealers, system integrators, government entities and security products distributors.

The Company operates within the electronic protection segment of the security industry. The U.S. security industry consists of thousands of individuals and businesses (exclusive of public sector law enforcement) that provide products and services for the protection and monitoring of people, property and information. The security industry includes fire and detection systems, access control, video surveillance, asset protection, guard services and equipment, locks, safes, armored vehicles, perimeter protection, private investigations, biometric systems, software and network security, among others. The Company's products are typically used for crime deterrence, visual documentation, observation of inaccessible or hazardous areas, enhancing safety, mitigating liability, obtaining cost savings (such as lower insurance premiums), accumulating command and control data, managing control systems and improving the efficiency and effectiveness of personnel. The Company's products are used in, among others, office buildings, manufacturing plants, apartment complexes, retail stores, government facilities, airports, highways, transportation operations, prisons, casinos, hotels, sports arenas, health care facilities and financial institutions.

Products

The Company's product line consists of various elements of a video system, including cameras for image capture, stand-alone network video management system (VMS) software and various video recording, storage, management and output devices and peripherals. The Company's VMS software is sold either separately or configured in a Network Video Recording (“NVR”) or Digital Video Recording (“DVR”) device. Video capture offerings include a range of analog, digital and high definition (HD) megapixel cameras for both fixed and robotic positioning applications, along with associated housing options to perform in a broad range of climatic and operating environments. The Company also sells and/or produces other video system components such as video encoders decoders and monitors, camera lenses, housings and mounts, matrix video switchers and controls and various video transmission devices.

The Company's products range from a simple camera mounting bracket to a large IP based video camera control, transmission, recording, storage and virtual matrix switching system. The Company's sales are concentrated principally among its network video products and cameras.

Marketing

The Company's marketing emphasizes video system solution capability which includes system and network design, pre-ship configuration, project management, technical training and pre and post-sales support. The Company promotes and markets its products through industry trade shows worldwide, product brochures, catalogs, direct marketing and electronic mailings to existing and prospective customers, webinars, technical seminars for system designers, customers and end users, road shows which preview new systems and system components, and advertising through trade and end user magazines and the Company's web site

(www.vicon-security.com). The Company's products are sold principally to independent dealers, system integrators and security products distributors. Sales are made principally by Company field sales engineers supported by inside customer service representatives. The Company's sales effort is supported by field or in-house professional and technical services staff who provide product information, system and network design, project management, and hardware and software pre-configuration and support.

The Company's products are utilized in video surveillance applications by: (1) commercial and industrial users, such as office buildings, manufacturing plants, warehouses, apartment complexes, shopping malls and retail stores; (2) federal, state, and local governments for national security purposes, agency facilities, prisons, and military installations; (3) financial institutions, such as banks, clearing houses, brokerage firms and depositories, for security purposes; (4) transportation departments for highway traffic control, bridge and tunnel monitoring, and airport, subway, bus and seaport security and surveillance; (5) gaming casinos, where video surveillance is often mandated by regulatory authorities; (6) health care facilities, such as hospitals; and (7) institutions of education, such as schools and universities.

The Company's principal sales offices are located in Hauppauge, New York and Fareham, England.

International Sales

The Company sells its products in Europe, the Middle East and Africa (EMEA) through its European based subsidiary and elsewhere outside the U.S. principally by direct export from its U.S. headquarters. The Company primarily uses a wide range of installation companies and security product distributors in international markets.

Export sales and sales from the Company's foreign subsidiaries amounted to \$8.3 million and \$12.3 million, or 31% and 34% of consolidated net sales in fiscal years 2017 and 2016, respectively. The Company's principal foreign markets are the U.K., Europe, Middle East and the Pacific Rim, which together accounted for approximately 73% of international sales in fiscal 2017.

Competition

The Company operates in a highly competitive marketplace both domestically and internationally. The Company competes by providing a value added video system solution combined with a high level of professional and technical support. The Company is also well known in the security field having specialized in video security applications since its founding in 1967. Generally, the Company does not compete based on price alone.

Many of the Company's principal competitors are larger companies whose financial resources and scope of operations are substantially greater than the Company's. Such competitors include security divisions of the Bosch Group, Honeywell International, Schneider Electric, Tyco International, Samsung Group and United Technologies, among others. The Company also competes with many VMS producers such as Avigilon Corporation, Exacq Technologies, Genetec Inc. and Milestone Systems and for cameras with companies such as Axis Communications, Hikvision Digital Technology, Panasonic Corporation and Samsung Electronics, among others. Many additional companies, both domestic and international, produce products that compete against one or more of the Company's product lines.

Engineering and Development

The Company's principal engineering and development activities are conducted out of its Israel based facility. The Israeli based team is responsible for the development of the Company's Valerus video management software system, which was introduced in January 2017. The trend of product development and demand within the video security and surveillance market has been toward enhanced software applications involving the compression, analysis, transmission, storage, manipulation, imaging and display of digital video over IP networks. Since the Company's target market segment (enterprise applications) requires it to keep pace with changes in technology, the Company has focused its engineering effort in these developing areas. Development projects are chosen and prioritized based on competitor threats, the Company's analysis as to the needs of the marketplace, anticipated technological advances and market research.

Engineering and development expense amounted to approximately \$4.8 million and \$5.2 million, or 18% and 15% of net sales, in fiscal years 2017 and 2016, respectively.

Source and Availability of Raw Materials

The Company has relied upon independent contract manufacturers and suppliers to produce and assemble a majority of its hardware related products. In fiscal 2017, the Company commenced an outsourcing plan of its production to turnkey OEM suppliers. The

Company's relationships with its independent manufacturers, assemblers and suppliers are not covered by formal contractual agreements allowing it to move freely to wherever the best quality and price can be obtained.

Raw materials and components purchased by the Company and its suppliers are generally readily available in the market, subject to market lead times at the time of order. The Company is generally not dependent upon any single source for a significant amount of its raw materials or components.

Intellectual Property

The Company owns a very limited number of patents and trademarks. Most of the Company's key products utilize proprietary software which is protected by copyright. The Company considers its software to be unique and is a principal element in the differentiation of the Company's products from its competition. However, the laws of certain foreign countries do not protect intellectual property rights to the same extent or in the same manner as the laws of the U.S. The Company has no significant licenses, franchises or concessions with respect to any of its products or business dealings.

Inventories

The Company generally maintains sufficient finished goods inventory levels to respond to customer demand, since most sales are to security dealers and system integrators who normally do not carry any significant inventory. The Company principally builds inventory to known or anticipated customer demand. In addition to normal safety stock levels, certain additional inventory levels may be maintained for products with long purchase and manufacturing lead times. The Company believes that it is important to carry adequate inventory levels of parts, components and products to avoid production and delivery delays that may detract from its sales efforts.

Backlog

The backlog of orders believed to be firm as of September 30, 2017 and 2016 was approximately \$2.2 million and \$1.7 million, respectively. Orders are generally cancelable without penalty at the option of the customer. The Company prefers that its backlog of orders not exceed its ability to fulfill such orders on a timely basis, since experience shows that long delivery schedules only encourage the Company's customers to look elsewhere for product availability.

Employees

At September 30, 2017, the Company employed 120 full-time employees and there are no collective bargaining agreements with any of the Company's employees. The Company considers its relations with its employees to be good.

ITEM 1B – UNRESOLVED STAFF COMMENTS

None.

ITEM 2 - PROPERTIES

The Company operates from a 30,000 square-foot headquarters facility located at 135 Fell Court, Hauppauge, New York, which it leases. In addition, the Company leases a 9,439 square-foot sales, service and warehouse facility in southern England, which services Europe, the Middle East and Africa and an 8,394 square-foot software development facility in Yavne, Israel.

The Company believes that its facilities are adequate to meet its current and foreseeable operating needs.

ITEM 3 - LEGAL PROCEEDINGS

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's stock is traded on the NYSE American under the symbol (VII). The following table sets forth for the periods indicated, the range of high and low prices for the Company's common stock:

<u>Quarter Ended</u>	<u>High</u>	<u>Low</u>
<u>Fiscal 2017</u>		
December	0.78	0.51
March	0.72	0.26
June	0.99	0.30
September	0.70	0.32
<u>Fiscal 2016</u>		
December	2.55	1.33
March	2.15	0.71
June	0.99	0.49
September	1.80	0.46

The last sale price of the Company's common stock on December 26, 2017 as reported on the NYSE American was \$0.39 per share. As of December 26, 2017, there were approximately 159 shareholders of record.

Other than a one-time special cash dividend paid in 2014 in connection with a merger, the Company has never declared or paid any cash dividends on its common stock and does not anticipate paying any such cash dividends in the future.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses the Company's consolidated financial statements for the periods indicated, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments, including those related to revenue recognition, bad debts, product warranties, inventories, long lived assets, income taxes and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors including general market conditions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Results for the periods reported herein are not necessarily indicative of results that may be expected in future periods.

Overview

The Company designs and markets video management systems and system components for use in security, surveillance, safety and communication applications by a broad group of end users worldwide. The Company's product line consists of various elements of a video system, including DVR's, NVR's, video encoders, decoders, servers and related video management software, data storage units, analog, digital and HD megapixel fixed and robotic cameras, virtual and analog matrix video switchers and controls, and system peripherals.

The Company sells video surveillance system components in a highly competitive worldwide marketplace principally to authorized security distributors, dealers and system integrators. Such dealers and integrators typically resell and install the Company's products directly to end users, among other services. The Company's sales are principally project based and are largely dependent upon winning projects, construction activities and the timing of funding. Sales will vary from period to period depending upon many factors including seasonal and geographic trends in construction activities and the timing of deliveries due to changes in project schedules and funding. The Company usually does not have a large backlog as its customer orders are typically deliverable within three months or often upon receipt of order.

The Company competes in a market of rapid technology shifts which enhance the performance capability of security systems. As a result, the Company spends a significant amount on new product development. In fiscal 2017 and 2016, the Company incurred \$4.8 million and \$5.2 million of engineering and development expense or 18% and 15% of net sales, respectively. The Company's expenditures for product development are substantially less than its major competitors. The ongoing market shift to intelligent software solutions will continue to burden the Company's development resources and increase ongoing annual expense for product development. Further, the Company's sales effort requires a high level of customer service and technical support for its products. The Company routinely considers various strategic options that may augment or supplement its present product offerings and technology platforms.

The Company has a foreign sales and distribution subsidiary in Europe that conducts certain of its business in British pounds and Euros that represented approximately 18% of the Company's consolidated sales for fiscal 2017. It also has an Israel based engineering and development subsidiary that incurs a majority of its operating expenses in Shekels that represented approximately 23% of the Company's operating expenses for fiscal 2017. Changes in these local foreign currency exchange rates will have a direct impact on the Company's reported financial position and results.

RESULTS OF OPERATIONS

Fiscal Year 2017 Compared with 2016

Net sales for 2017 decreased by \$9.1 million (25%) to \$26.7 million compared with \$35.8 million in 2016. Sales in the Americas market segment decreased \$5.8 million (21%) to \$21.7 million compared with \$27.6 million in 2016, while Europe, Middle East and Africa (EMEA) sales decreased \$3.3 million (40%) to \$4.9 million compared with \$8.2 million in 2016. Sales weakened across all market segments due principally to a continuing reliance on an uncompetitive legacy core product offering. While the Company launched its new Valerus video management system platform in 2017, its full market impact is not expected until further system enhancements are added and Valerus gains increased market penetration. Order intake for 2017 decreased 23% to \$27.2 million compared with \$35.1 million in 2016. Americas market segment order intake decreased 19% to \$22.1 million compared with \$27.3 million in 2016, while EMEA order intake decreased 35% to \$5.1 million compared with \$7.8 million in 2016. The backlog of unfilled orders was \$2.2 million at September 30, 2017 compared with \$1.7 million at September 30, 2016.

Gross profit margins for 2017 increased to 38.1% compared with 37.4% in 2016. Operating expenses for 2017 decreased \$10.1 million to \$16.8 million compared with \$26.8 million in 2016. Prior year operating expenses included an \$8 million writeoff of goodwill and intangible assets relating to the 2014 IQinVision merger, while current year operating expenses included the writeoff of the remaining intangible asset balance of \$839,000. Excluding the effects of these writeoffs, operating expenses decreased \$2.9 million in the current year. Selling, general and administrative (SG&A) expenses decreased \$2.5 million to \$11.1 million for 2017 compared with \$13.7 million in 2016. Such decreases included the effects of planned staff and other cost reduction initiatives necessitated by lower revenue expectations. Engineering and development expenses decreased \$382,000 to \$4.8 million for 2017 compared with \$5.2 million for 2016 as the Company continued investing in its new video management system platform.

The Company incurred an operating loss of \$6.6 million for fiscal 2017 compared with an operating loss of \$13.5 million for fiscal 2016. Excluding the non-recurring goodwill and intangible asset writeoffs in both years, the Company would have reported operating losses of \$5.8 million and \$5.5 million for 2017 and 2016, respectively.

The Company recorded a gain on the sale of its United Kingdom based operating facility of \$785,000 in fiscal 2016. In addition, interest expense increased to \$380,000 for fiscal 2017 compared with \$71,000 in fiscal 2016 as a result of increased borrowings under the Company's revolving credit agreement and non-cash interest charges relating to the warrant granted to the Company's lender in fiscal 2017.

No income tax benefit was recognized on losses reported for the years presented due to uncertainty of realization. In fiscal 2011, the Company provided a valuation allowance against its deferred tax assets due to the uncertainty of future realization and, thus, no tax benefit has been recognized on subsequent reported pretax losses (see Note 3: Income Taxes).

As a result of the foregoing, the Company reported a net loss of \$7.0 million for 2017 compared with a net loss of \$12.8 million for 2016.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was \$3.1 million for fiscal 2017, which included a \$5.5 million net loss exclusive of \$1.5 million of non-cash charges, offset in part by cash generated by decreases in accounts receivable and inventories of \$1.8 million and \$496,000, respectively. Net cash used in investing activities was \$139,000 in 2017 consisting principally of capital expenditures. Net cash provided by financing activities was \$3.2 million for 2017 consisting of revolving credit borrowings. As a result of the foregoing, cash (exclusive of marketable securities) increased by \$300,000 in 2017 after the effect of exchange rate changes on the cash position of the Company.

The Company continues to incur operating losses due to decreased revenue levels and ongoing strategic investments. Since 2012, the Company has made a significant investment in the development of a completely new, and strategically critical, video management system (VMS). The first release of this product offering was launched in January 2017 and is ultimately expected to enhance the Company's market competitiveness. The funding of this major development effort has contributed to the ongoing operating losses and depletion of cash reserves. In response, the Company phased in material operating expense reductions over the course of the past several years. However, the Company intends to continue funding the development of its new VMS platform and the rebuilding of its market channels.

At September 30, 2017, the Company had \$2.3 million of cash reserves and \$1.05 million of maximum borrowings available under its Credit Agreement, which is subject in part to a borrowing-base formula. Cash losses over the past several years have

been financed by credit facility borrowings, the sale of the Company's two principal operating facilities and ongoing management of working capital levels. During fiscal 2016, the Company entered into a Credit Agreement that was subsequently amended and restated in August 2016 and April 2017. This Agreement currently consists of two credit lines totaling \$6 million that mature in April 2019 (see Note 10 - Credit Agreement). The Company expects to continue to draw on its credit facility to the extent available to finance its near term working capital needs.

Subsequent to year end, the Company received approximately \$3.1 million of net cash proceeds from the sale of its common stock upon the closing of a rights offering, which included \$3 million of funding under the related backstop commitment provided by NIL Funding Corporation, the Company's secured lender. Notwithstanding the cash infusion, the Company may require additional financing over the next twelve months to implement its planned business objectives and strategies. Accordingly, and in light of the Company's historic and continuing losses, there is substantial doubt about the Company's ability to continue as a going concern.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet transactions, arrangements or obligations (including contingent obligations) that have, or are reasonably likely to have, a material effect on the Company's financial condition, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

The Company's significant accounting policies are fully described in Note 1 to the consolidated financial statements included in Part IV. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue is generally recognized when products are sold and title is passed to the customer. Advance service billings are deferred and recognized as revenues on a pro rata basis over the term of the service agreement. Pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-25-05, the Company evaluates multiple-element revenue arrangements for separate units of accounting, and follows appropriate revenue recognition policies for each separate unit. Elements are considered separate units of accounting provided that (i) the delivered item has stand-alone value to the customer, (ii) there is objective and reliable evidence of the fair value of the undelivered item, and (iii) if a general right of return exists relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially within the control of the Company. As applied to the Company, under arrangements involving the sale of product and the provision of services, product sales are recognized as revenue when the products are sold and title is passed to the customer, and service revenue is recognized as services are performed.

For products that include software and for separate licenses of the Company's software products, the Company recognizes revenue in accordance with the provisions of FASB Accounting Standards Update (ASU) 2009-13, "Revenue Recognition (Topic 605) - Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). ASU 2009-13 provides revenue recognition guidance for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable in the arrangement based on the fair value of the elements. The fair value for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company provides for the estimated cost of product warranties at the time revenue is recognized. While the Company engages in product quality programs and processes, including monitoring and evaluating the quality of its component suppliers, its warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from its estimates, revisions to the estimated warranty liability may be required.

The Company writes down its inventory for estimated obsolescence and slow moving inventory equal to the difference between the carrying cost of inventory and the estimated net realizable market value based upon assumptions about future demand and market conditions. Technology changes and market conditions may render some of the Company's products obsolete and additional inventory write-downs may be required. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

The Company evaluates the establishment of technological feasibility of its software in accordance with ASC 985 ("Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed"). The Company has determined that technological feasibility for its new products is reached shortly before products are released for field testing. Costs incurred after technological feasibility has been established have not been material and are expensed as incurred.

The Company assesses the recoverability of the carrying value of its long-lived and intangible assets whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates the recoverability of such assets based upon the expectations of undiscounted cash flows from such assets. If the sum of the expected future undiscounted cash flows were less than the carrying amount of the asset, a loss would be recognized for the difference between the fair value and the carrying amount.

The Company's ability to recover the reported amounts of deferred income tax assets is dependent upon its ability to generate sufficient taxable income during the periods over which net temporary tax differences become deductible. The Company provides for a valuation allowance against all deferred tax assets due to the uncertainty of future realization. The Company plans to provide a full valuation allowance against its deferred tax assets until such time that it can achieve a sustained level of profitability or other positive evidence arises that would demonstrate an ability to recover such assets.

The Company accrues liabilities for identified tax contingencies that result from positions that are being challenged or could be challenged by tax authorities. The Company believes that its accrual for tax liabilities is adequate for all open years, based on Management's assessment of many factors, including its interpretations of the tax law and judgments about potential actions by tax authorities. However, it is possible that the ultimate resolution of any tax audit may be materially greater or lower than the amount accrued.

The Company is subject to proceedings, lawsuits and other claims related to labor, product and other matters. The Company assesses the likelihood of an adverse judgment or outcomes for these matters, as well as the range of potential losses. A determination of the reserves required, if any, is made after careful analysis. The required reserves may change in the future due to new developments.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved, in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance permits the use of either the retrospective or cumulative effect transition method and is effective for the Company beginning in fiscal 2019; early adoption is not permitted prior to 2018. The Company is currently in the initial stages of evaluating the effect of implementing this guidance.

In February 2016, the FASB issued guidance on lease accounting requiring lessees to recognize a right-of-use asset and a lease liability for long-term leases. The liability will be equal to the present value of lease payments. The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. This guidance must be applied using a modified retrospective transition approach to all annual and interim periods presented and is effective for the Company beginning in fiscal 2019. The Company is currently in the initial stages of evaluating the effect of implementing this guidance.

In March 2016, the FASB issued guidance on simplifying several aspects of accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance requires a mix of prospective, modified retrospective, and retrospective transition to all annual and interim periods presented and is effective for the Company beginning in fiscal 2018. The Company does not expect the adoption of this guidance to have a material effect on its operating results or financial position.

In January 2017, the FASB issued guidance that clarifies the definition of a business, which will impact many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for the Company beginning in fiscal 2019 and will be considered for any future acquisitions.

Foreign Currency Activity

The Company's foreign exchange exposure is principally limited to the relationship of the U.S. dollar to the British pound sterling, the Euro and the Israeli shekel. Sales by the Company's U.K. and German based subsidiaries to customers in Europe are transacted in British pounds or Euros. In fiscal 2017, approximately \$1.0 million of products were sold by the Company to its U.K. based subsidiary for resale. The Company has also entered into certain engineering cost sharing agreements with its U.K. based subsidiary that are denominated in U.S. dollars. The Company's Israeli based subsidiary incurs shekel based operating expenses which are funded by the Company in U.S. dollars.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Part IV, Item 15, for an index to consolidated financial statements and financial statement schedules.

ITEM 9A – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as required by Exchange Act Rule 13a-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of its Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting in accordance with accounting principles generally accepted in the United States of America. Management evaluates the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the 2013 Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2017 and concluded that it is effective at a reasonable assurance level.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation referred to above that occurred during the fourth quarter of the fiscal year ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Limitations on the Effectiveness of Controls

The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, within a Company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and the Company's Chief Executive Officer and Chief Financial Officer has concluded that such controls and procedures are effective at the "reasonable assurance" level.

ITEM 9B – OTHER INFORMATION

None.

PART III

ITEM 10 - DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Executive Officers and Directors of the Company are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
John M. Badke	58	Chief Executive Officer and Chief Financial Officer
Bret M. McGowan	52	Senior Vice President, Sales and Marketing (Americas)
Peter A. Horn	62	Vice President, Operations
Mark S. Provinsal	51	Managing Director, Vicon Industries, Ltd.
Julian A. Tiedemann	53	Chairman of the Board of Directors
Arthur D. Roche	79	Director
Steven E. Walin	62	Director
Warren J. White	66	Director

The business experience, principal occupations and employment, as well as period of service, of each of the officers and directors of the Company during at least the last five years are set forth below.

John M. Badke - Chief Executive Officer and Chief Financial Officer. Mr. Badke assumed the Chief Executive Officer position in August 2016. Previously, he served as Chief Financial Officer and Senior Vice President, Finance since 1999. Prior to that time, he was Vice President, Finance since 1998 and served as Controller since joining the Company in 1992. Prior to joining the Company, Mr. Badke was Controller for NEK Cable, Inc. and an audit manager with the international accounting firms of Arthur Andersen & Co. and Peat Marwick Main & Co.

Bret M. McGowan - Senior Vice President, Sales and Marketing (Americas). Mr. McGowan has been Senior Vice President, Sales and Marketing (Americas) since June 2012. Previously, he served in varying Sales and Marketing vice president capacities since 2001. Previously, he served as Director of Marketing since 1998 and as Marketing Manager since 1994. He joined the Company in 1993 as a Marketing Specialist.

Peter A. Horn - Vice President, Operations. Mr. Horn has been Vice President, Operations since June 1999. From 1995 to 1999, he was Vice President, Compliance and Quality Assurance. Prior to that time, he served as Vice President in various capacities since his promotion in May 1990.

Mark S. Provinsal - Managing Director, Vicon Industries, Ltd. Mr. Provinsal joined the Company in January 2010 as its Vice President, Marketing and Product Management, and in January 2012 transferred to the Company's U.K. based subsidiary, Vicon Industries, Ltd., to serve as its Director of Sales and Marketing until becoming its Managing Director in June 2014. Prior to joining the Company, Mr. Provinsal served as Executive Vice President of Dedicated Micros Inc. (U.S.) from 2008 and prior as its Vice President Marketing and Product Strategy since 2006. From 2000 to 2006, he served as the Director of Marketing and Product Development of IPIX Corporation.

Julian A. Tiedemann - Chairman of the Board of Directors. Mr. Tiedemann has been a director of the Company since May 2011 and was elected Chairman of the Board on December 4, 2014. Since 2008, he has been Executive Vice President and Chief Operating Officer of The InterTech Group, a holding company and operator of a diverse global group of companies. From 1996 to 2008, Mr. Tiedemann was Vice President of Human Resources, Risk Management and Administration for The InterTech Group. In addition, he previously served on the Board of Directors of Hudson's Bay Company, a multi-billion dollar Canadian national retailer. Mr. Tiedemann brings extensive knowledge and experience in operating and administration matters having served as Chief Operating Officer of a diverse group of global companies and having previously served as a director of a multi-billion dollar retailer. His current term on the Board ends at the 2018 Annual Meeting of Shareholders.

Arthur D. Roche - Director. Mr. Roche has been a director of the Company since 1992. He served as Executive Vice President and co-participant in the Office of the President of the Company from August 1993 until his retirement in November 1999. For the six months prior to that time, Mr. Roche provided consulting services to the Company. In October 1991, Mr. Roche retired as a partner of Arthur Andersen & Co., an international accounting firm which he joined in 1960. Mr. Roche brings extensive

Company knowledge and financial experience having served as the Company's Executive Vice President and formerly serving as a partner with an international public accounting firm. Mr. Roche brings particular insight to the Board based on his former management responsibilities and provides strategic planning and financial oversight. His current term on the Board ends at the 2020 Annual Meeting of Shareholders.

Steven E. Walin - Director. Mr. Walin has been a director of the Company since June 2016. He served as the Chief Executive Officer of GVI Security Solutions, Inc., a developer and distributor of video surveillance solutions, from March 2006 until his retirement in 2011 to manage personal investments in both the security and consumer finance industries. Mr. Walin previously served as the President of General Electric's Security Enterprise Solutions Group from 2003 to 2006 and as the Senior Vice President of North American Security for the Security Systems Division of Siemens Building Technologies since 2001. Prior to that, Mr. Walin served in various senior level capacities for companies serving the broad security market. Mr. Walin brings extensive knowledge of video and broader security markets having spent his entire career in the industry. He also brings general senior level operational experience to the Board. His current term on the Board ends at the 2019 Annual Meeting of Shareholders.

Warren J. White - Director. Mr. White has been a director of the Company since June 2016. He served as the Senior Vice President of Global Business Engineering for CGI Group Inc., a publicly listed international IT services provider, from which he retired in 2012. He previously served as the Vice President of Information Technology and Global Procurement at Alcan Aluminum until 2003. Mr. White presently works as an independent consultant in Information Technology and teaches related subjects at the John Molson School of Business. He also serves on the Board of Directors of a number of companies, including Supremex Inc., Circa Enterprises Inc. and Titan Logix Corp. Mr. White brings extensive experience in information technology, international operations, strategic planning, public company oversight and finance, having started his career as a licensed accountant. His current term on the Board ends at the 2019 Annual Meeting of Shareholders.

There are no family relationships between any director, executive officer or person nominated or chosen by the Company to become a director or officer.

Audit Committee Financial Expert

All Audit Committee members are independent directors. The Board of Directors has determined that Arthur D. Roche, Chairman of the Audit Committee, qualifies as an "Audit Committee Financial Expert", as defined by Securities and Exchange Commission Rules, based on his education, experience and background. Mr. Roche is independent as that term is used in Item 7(d)(3)(iv) of Schedule 14A under the Exchange Act.

Code of Ethics

The Company has adopted a Code of Ethics and Business Conduct that applies to all its employees, including its chief executive officer, chief financial and accounting officer, controller, and any persons performing similar functions. Such Code of Ethics and Business Conduct is published on the Company's internet website (www.vicon-security.com).

Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended September 30, 2017 and certain written representations that no Form 5 is required, no person who, at any time during the year ended September 30, 2017 was a director, officer or beneficial owner of more than 10 percent of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act failed to file on a timely basis, as disclosed in the above forms, reports required by Section 16(a) of the Exchange Act during the year ended September 30, 2017.

ITEM 11 - EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy and Objectives of Our Compensation Program

The Company's compensation programs are intended to enable it to attract, motivate, reward and retain the management talent required to achieve corporate objectives, and thereby increase stockholder value. It is the Company's policy to provide incentives to senior management to achieve both short-term and long-term objectives and to reward exceptional performance and contributions to the development of the business. To attain these objectives, the executive compensation program includes four key components:

Base Salary. Base salary for the Company's executives is intended to provide competitive remuneration for services provided to the Company over a one-year period. Base salaries are set at levels designed to attract and retain the most appropriately qualified individuals for each of the key management level positions within the Company.

Cash Incentive Bonuses. The Company's bonus programs are intended to reward executive officers for the achievement of various annual performance goals approved by the Company's Board of Directors.

For fiscal 2017 and 2016, there were no bonus plans established and no bonuses were paid to the Company's executive officers.

Equity-based Compensation. Equity-based compensation is designed to provide incentives to the Company's executive officers to build shareholder value over the long term by aligning their interests with the interest of shareholders. The Compensation Committee of the Board of Directors believes that equity-based compensation provides an incentive that focuses the executive's attention on managing the company from the perspective of an owner with an equity stake in the business. Among our executive officers, the number of shares of stock awarded or common stock subject to options granted to each individual generally depends upon the level of that officer's responsibility. The largest grants are generally awarded to the most senior officers who, in the view of the Compensation Committee, have the greatest potential impact on the Company's profitability and growth. Previous grants of stock options or stock grants are reviewed in determining the size of any executive's award in a particular year.

In March 2007, the Board of Directors adopted the Company's 2007 Stock Incentive Plan, which was approved by the Company's stockholders at its Annual Meeting of Stockholders held on May 18, 2007. Under such plan, a total of 500,000 shares of common stock were reserved for issuance and include the grant of stock options, restricted stock and other stock awards as determined by the Compensation Committee. The purpose of the Stock Incentive Plan is to attract and retain executive management by providing them with appropriate equity-based incentives and rewards for superior performance and to provide incentive to a broader range of employees. No stock options were awarded to the Company's executive officers in fiscal 2017 and 2016.

Retirement, Health and Welfare Benefits and Other Perquisites. The Company's executive officers are entitled to a specified retirement/severance benefit pursuant to employment agreements as detailed below.

In addition, the executive officers are entitled to participate in all of the Company's employee benefit plans, including medical, dental, group life, disability, accidental death and dismemberment insurance and the Company's sponsored 401(k). The Company's named executive officers are also provided with either a leased car or automobile allowance.

Employment Agreements

The Company has entered into employment agreements with certain of its named executive officers that provide certain benefits upon termination of employment or change in control of the Company without Board of Director approval. All such agreements provide the named executive officer with a payment of three times their average annual compensation for the previous five year period if there is a change in control of the Company without Board of Director approval, as defined. Such payment can be taken in a present value lump sum or equal installments over a three year period. The agreements also provide the named executive officers with certain severance/retirement benefits upon certain occurrences including termination of employment without cause as defined, termination of employment due to the Company's breach of specified employment conditions (good reason termination), death, disability or retirement at a specified age. Such severance/retirement benefit provisions survive the expiration of the agreements and include a fixed stated benefit of \$350,000 for Mr. Badke and \$290,000 for Mr. McGowan. In addition, Mr. Badke receives an additional deferred compensation benefit upon termination of employment in certain circumstances in the form of 6,561 shares of the Company's common stock. In August 2016, the Board of Directors approved a change in Mr. Badke's title to Chief Executive Officer from Interim Chief Executive Officer, and an increase in Mr. Badke's annual base salary to \$225,000 per annum for serving as the Company Chief Executive Officer.

2017 Summary Compensation Table

The following table sets forth all compensation for the fiscal years ended September 30, 2017 and 2016 awarded to or earned by (i) the person serving as the Company's Chief Executive Officer and Chief Financial Officer during its fiscal year ended September 30, 2017, and (ii) by each of the Company's other executive officers whose total compensation exceeded \$100,000 during such periods (collectively, our "named executive officers").

Name and Principal Position	Year	Salary (\$)	All Other Compensation (\$)(1)	Total (\$)
John M. Badke	2017	225,000	7,974	232,974
Chief Executive Officer and Chief Financial Officer	2016	193,096	7,843	200,939
Bret M. McGowan	2017	190,000	6,000	196,000
Senior Vice President, Sales and Marketing (Americas)	2016	190,000	6,000	196,000

(1) Represents automobile expense paid by the Company.

Outstanding Equity Awards at Fiscal 2017 Year-End

The following table sets forth information with respect to the outstanding equity awards of the named executive officers as of September 30, 2017.

<u>Name</u>	<u>Number of securities underlying unexercised options (#) exercisable</u>	<u>Number of securities underlying unexercised options (#) unexercisable</u>	<u>Option exercise price (\$)</u>	<u>Option expiration date</u>
John M. Badke Chief Executive Officer and Chief Financial Officer	10,000 (1)	— (1)	\$4.79	5/22/2018
	8,000 (1)	— (1)	\$5.00	11/5/2018
	7,000 (1)	— (1)	\$4.06	10/15/2020
	6,500 (1)	— (1)	\$3.31	10/25/2021
	8,000 (1)	2,000 (1)	\$2.62	12/4/2022
	5,600 (2)	8,400 (2)	\$1.48	6/9/2025
Bret M. McGowan Senior Vice President, Sales and Marketing (Americas)	5,000 (1)	— (1)	\$4.79	5/22/2018
	7,000 (1)	— (1)	\$4.06	10/15/2020
	6,500 (1)	— (1)	\$3.31	10/25/2021
	4,000 (1)	1,000 (1)	\$2.62	12/4/2022
	5,600 (2)	8,400 (2)	\$1.48	6/9/2025

- (1) Options vest over a five year period in five equal annual installments beginning on the first anniversary of the grant date. Options expire after the tenth anniversary of the grant date.
- (2) Options vest over a four year period in four equal annual installments beginning on the first anniversary of the grant date. Options expire after the tenth anniversary of the grant date.

Fiscal 2017 Directors' Compensation

The table below summarizes the compensation paid by the Company to non-employee directors for the fiscal year ended September 30, 2017.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Total (\$)</u>
Arthur D. Roche	47,000	47,000
Julian A. Tiedemann	54,000	54,000
Steven E. Walin	45,000	45,000
Warren J. White	45,000	45,000

Directors' Compensation and Term

Non-employee directors are compensated at the rate of \$35,000 per year retainer and \$1,000 per committee meeting attended in person or by teleconference, with the non-executive Chairman of the Board receiving an additional annual retainer of \$15,000. Also, the Chairman of the Audit Committee receives an additional annual retainer of \$8,000 and the Chairperson of each of the Compensation and Nominating and Governance Committees receives an additional annual retainer of \$6,000. Employee directors are not compensated for Board or committee meetings. Directors may not stand for reelection after age 70, except that any director may serve additional three-year terms after age 70 with the unanimous consent of the Board of Directors.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee of the Board of Directors consists of Mr. Walin (Chairman), Mr. Roche, Mr. Tiedemann and Mr. White, none of whom has ever been an officer of the Company except for Mr. Roche, who served as Executive Vice President from August 1993 until his retirement in November 1999.

EQUITY COMPENSATION PLAN INFORMATION **at September 30, 2017**

<u>Plan category</u>	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	362,942	\$3.64	195,668 (2)
Equity compensation plans not approved by security holders	180,148 (1)	\$2.72	—
Total	543,090	\$3.33	195,668

(1) Consists of: (i) 173,587 shares subject to stock options and stock appreciation rights assumed by the Company in connection with the IQinVision merger; and (ii) 6,561 shares of common stock issuable to a certain officer under a deferred compensation benefit arrangement upon retirement and other termination of employment events.

(2) Represents awards available for issuance under the Company's Stock Incentive Plans.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information, as of December 18, 2017, based on information furnished by the persons named below, obtained by the Company from its transfer agent or obtained from filings made by the persons named below with the SEC, with respect to the beneficial ownership of shares of common stock by (i) each person known by the Company to be the beneficial owner of more than 5% of its outstanding shares of common stock, (ii) each director and named executive officer of the Company and (iii) all directors and executive officers of the Company as a group.

<u>Name and Address Of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned (1)</u>	<u>% of Class</u>
Anita G. Zucker, as Trustee of the Article 6 Marital Trust, a transferee of the Jerry Zucker Revocable Trust c/o The InterTech Group, Inc. 4838 Jenkins Avenue North Charleston, SC 29405	9,000,000 (2)	47.2%
Gordian, Inc. and Gregory A. Bone 424 Peachtree Lane Paso Robles, CA 93446	1,382,111 (3)	7.9%
Arthur D. Roche	99,171 (4)	*
John M. Badke	90,946 (5)	*
Bret M. McGowan	46,535 (6)	*
Julian A. Tiedemann	26,500 (7)	*
Steven E. Walin	3,750 (8)	*
Warren J. White	3,750 (8)	*
Total all Executive Officers and Directors as a Group (8 persons)	399,247 (9)	2.2%
* Less than 1%		

- (1) All information was determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934 and based on 17,552,623 shares of common stock outstanding on December 18, 2017. Unless otherwise indicated, the Company believes that all persons named in the table have sole voting and investment power over the shares of stock owned.
- (2) Consists of 7,500,000 shares of common stock and a warrant to purchase 1,500,000 shares of common stock owned directly by NIL Funding Corporation, a subsidiary of the Article 6 Marital Trust. Anita G. Zucker is the trustee of the Trust.
- (3) Includes 1,306,350 shares held by Gordian, Inc. and 75,761 shares held by Gregory A. Bone. Mr. Bone is the President, a director and the principal shareholder of Gordian, Inc. and therefore may be deemed to beneficially own the securities held by Gordian, Inc.
- (4) Includes 15,000 shares held by Mr. Roche's wife and currently exercisable options to purchase 32,000 shares.
- (5) Includes currently exercisable options to purchase 46,100 shares.
- (6) Includes currently exercisable options to purchase 28,300 shares.
- (7) Includes currently exercisable options to purchase 22,500 shares.
- (8) Consists of currently exercisable options to purchase 3,750 shares.
- (9) Includes currently exercisable options to purchase 201,800 shares.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company is a party to a Credit Agreement with NIL Funding Corporation that provides a \$6 million revolving line of credit for working capital purposes (see Note 10 to the accompanying financial statements for further information). NIL Funding Corporation is an affiliate of The InterTech Group, whose Executive Vice President and Chief Operating Officer, Julian A. Tiedemann, serves as the Chairman of the Company's Board of Directors. As of September 30, 2017, outstanding borrowings under the Agreement were \$4,950,000.

On July 27, 2017, the Company entered into an Investment Agreement with NIL Funding Corporation whereby NIL agreed to purchase up to \$3.0 million of shares of the Company's common stock in connection with a rights offering of common stock to the Company's shareholders. On November 8, 2017, subsequent to the end of the fiscal year and the closing of the rights offering, the Company sold 7,500,000 shares of common stock to NIL Funding Corporation for an aggregate purchase price of \$3.0 million pursuant to the Investment Agreement.

Shezhen Infinova Limited (Infinova), a Chinese corporation which prior to the consummation of the rights offering beneficially owned in excess of 5% of the outstanding shares of the Company's common stock, serves as a contract manufacturer to the Company for certain of its products. The Company procured approximately \$3.1 million and \$2.0 million of products from or through Infinova in fiscal 2017 and 2016, respectively. Sales of parts to Infinova were \$18,000 and \$496,000 in fiscal 2017 and 2016, respectively.

To date, the Company has not adopted a formal written policy with respect to related party transactions. However, an informal unwritten policy has been in place whereby all such related-party transactions are reported to, and approved by, the full Board of Directors (other than any interested director).

ITEM 14 – PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table details: the aggregate fees billed by BDO USA, LLP for professional services rendered for the audit of the Company's consolidated annual financial statements and review of the financial statements included in the Company's quarterly reports on Form 10-Q; the aggregate fees billed by BDO USA, LLP for audit related matters and; the aggregate fees billed by BDO USA, LLP for tax compliance, tax advice and tax planning during fiscal years ended September 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Audit fees	\$295,000	\$268,000
Audit related fees	—	—
Tax fees	49,000	56,000
Totals	<u>\$344,000</u>	<u>\$324,000</u>

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors. Under the policy, pre-approval generally is provided for an annual period and any pre-approval is detailed as to the particular service or category of services and is subject to a specific limit. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis, which must be accompanied by a detailed explanation for each proposed service. The Audit Committee may delegate pre-approval authority to one or more of its members. Such member must report any decisions to the Audit Committee at the next scheduled meeting.

PART IV

ITEM 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

Included in Part IV, Item 15:

Report of Independent Registered Public Accounting Firm

Financial Statements:

Consolidated Statements of Operations, years ended September 30, 2017 and 2016

Consolidated Statements of Comprehensive Loss, years ended September 30, 2017 and 2016

Consolidated Balance Sheets at September 30, 2017 and 2016

Consolidated Statements of Shareholders' Equity, years ended September 30, 2017 and 2016

Consolidated Statements of Cash Flows, years ended September 30, 2017 and 2016

Notes to Consolidated Financial Statements, years ended September 30, 2017 and 2016

(a) (2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission have been omitted because they are not required under the related instructions or are not applicable or are included in the financial statements and notes thereto included in this Form 10-K.

(a)(3) Exhibits

Number Description

- 2.1 Agreement and Plan of Merger and Reorganization dated March 28, 2014 by and among the Registrant, VI Merger Sub Inc. and IQinVision, Inc. (Incorporated by reference to the Current Report on Form 8-K dated March 31, 2014)
- 3.1 Articles of Incorporation (Incorporated by reference to the 1985 Annual Report on Form 10-K; Form S-2 filed in Registration Statement No. 33-10435 and Exhibit A, B and C of the 1987 Proxy Statement)
- 3.2 Amendment of the Certificate of Incorporation dated May 7, 2002 (Incorporated by reference to the 2002 Annual Report on Form 10-K)
- 3.3 By-Laws of the Company, as amended (Incorporated by reference to the Registration Statement on Form S-1 dated August 7, 2017)
- 4.1 Warrant to purchase 1,500,000 shares of Common Stock of Vicon Industries, Inc. issued to NIL Funding Corporation dated as of April 20, 2017 (Incorporated by reference to the Current Report on Form 8-K dated April 20, 2017)
- 4.2 Amendment to Warrant to purchase 1,500,000 shares of Common Stock of Vicon Industries, Inc. issued to NIL Funding Corporation dated as of July 27, 2017 (Incorporated by reference to the Current Report on Form 8-K dated July 27, 2017)
- 10.1 Employment and Deferred Compensation Agreement dated January 1, 2006 between the Registrant and John M. Badke (Incorporated by reference to the Current Report on Form 8-K dated March 6, 2006)
- 10.2 Amendment 1 to the Employment and Deferred Compensation Agreement dated November 13, 2006 between the Registrant and John M. Badke (Incorporated by reference to the Current Report on Form 8-K dated November 16, 2006)
- 10.3 Employment Agreement dated August 7, 2006 between the Registrant and Bret M. McGowan (Incorporated by reference to the 2006 Annual Report on Form 10-K)
- 10.4 2007 Stock Incentive Plan (Incorporated by reference to the Proxy Statement filed on April 27, 2007)
- 10.5 Credit Agreement between the Registrant and NIL Funding Corporation, dated as of March, 4, 2016 (Incorporated by reference to the Current Report on Form 8-K dated March 4, 2016)
- 10.6 Security Agreement by the Registrant in favor of NIL Funding Corporation, dated as of March 4, 2016 (Incorporated by reference to the Current Report on Form 8-K dated March 4, 2016)
- 10.7 Amended and Restated Credit Agreement between the Registrant and NIL Funding Corporation, dated as of August 18, 2016 (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended June 30, 2016)
- 10.8 Amended and Restated Revolving Line of Credit Note (Facility A) between the Registrant and NIL Funding Corporation, dated as of August 18, 2016 (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended June 30, 2016)
- 10.9 Revolving Line of Credit Note (Facility B) between the Registrant and NIL Funding Corporation, dated as of August 18, 2016 (Incorporated by reference to the Quarterly Report on Form 10-Q for the period ended June 30, 2016)
- 10.10 Second Amended and Restated Credit Agreement between the Registrant and NIL Funding Corporation, dated as of April 20, 2017 (Incorporated by reference to the Current Report on Form 8-K dated April 20, 2017)
- 10.11 Amended and Restated Revolving Line of Credit Note (Facility A) between the Company and NIL Funding Corporation, dated as of April 20, 2017 (Incorporated by reference to the Current Report on Form 8-K dated April 20, 2017)
- 10.12 Amended and Restated Revolving Line of Credit Note (Facility B) between the Company and NIL Funding Corporation, dated as of April 20, 2017 (Incorporated by reference to the Current Report on Form 8-K dated April 20, 2017)
- 10.13 Investment Agreement between the Company and NIL Funding Corporation, dated as of July 27, 2017 (Incorporated by reference to the Current Report on Form 8-K dated July 27, 2017)
- 21 Subsidiaries of the Registrant (Incorporated by reference to the Notes to the Consolidated Financial Statements)
- 23 Consent of BDO USA, LLP
- Rule 13a-14(a)/15d-14(a) Certifications
- 31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.SCH XBRL Taxonomy Extension Schema Document*
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document*
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document*
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document*
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document*

* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Annual Report on Form 10-K shall be deemed to be “furnished” and not “filed.”

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Vicon Industries, Inc.

We have audited the accompanying consolidated balance sheets of Vicon Industries, Inc. as of September 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vicon Industries, Inc. at September 30, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully discussed in Note 13, the Company has incurred losses from operations and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 13. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO USA, LLP

Melville, New York
December 29, 2017

VICON INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended September 30, 2017 and 2016

	2017	2016
Net sales	\$ 26,651,631	\$ 35,759,651
Cost of sales	16,499,372	22,402,117
Gross profit	10,152,259	13,357,534
Operating expenses:		
Selling, general and administrative expense	11,135,545	13,656,969
Engineering and development expense	4,811,465	5,193,085
Goodwill and intangible asset writedowns	838,500	7,995,636
	16,785,510	26,845,690
Operating loss	(6,633,251)	(13,488,156)
Other income (expense):		
Gain on sale of building	—	784,896
Interest expense	(379,767)	(71,332)
Interest income	1,438	608
	(7,011,580)	(12,773,984)
Loss before income taxes	(7,011,580)	(12,773,984)
Income tax expense	—	—
Net loss	\$ (7,011,580)	\$(12,773,984)
Loss per share:		
Basic	\$ (.75)	\$ (1.37)
Diluted	\$ (.75)	\$ (1.37)

See accompanying notes to consolidated financial statements.

VICON INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Net loss	\$ (7,011,580)	\$ (12,773,984)
Other comprehensive income (loss):		
Unrealized gain (loss) on securities	(424)	173
Foreign currency translation adjustment	373,225	(251,718)
Other comprehensive income (loss)	<u>372,801</u>	<u>(251,545)</u>
Comprehensive loss	<u>\$ (6,638,779)</u>	<u>\$ (13,025,529)</u>

See accompanying notes to consolidated financial statements.

VICON INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEETS
September 30, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
<u>Current Assets:</u>		
Cash and cash equivalents	\$ 2,253,952	\$ 1,954,422
Marketable securities	13,555	13,545
Accounts receivable (less allowance of \$946,000 in 2017 and \$1,069,000 in 2016)	4,349,733	6,158,504
Inventories:		
Parts, components and materials	783,553	1,432,135
Work-in-process	985,934	812,455
Finished products	4,780,514	4,745,660
	<u>6,550,001</u>	<u>6,990,250</u>
Prepaid expenses and other current assets	782,128	572,440
Total current assets	<u>13,949,369</u>	<u>15,689,161</u>
Property, plant and equipment:		
Leasehold improvements	195,950	188,728
Machinery, equipment and vehicles	5,842,970	5,677,241
	<u>6,038,920</u>	<u>5,865,969</u>
Property, plant and equipment	6,038,920	5,865,969
Less accumulated depreciation and amortization	5,637,222	5,345,786
Property, plant and equipment, net	<u>401,698</u>	<u>520,183</u>
Intangible assets, net	—	1,106,500
Other assets	1,116,583	761,865
	<u>1,116,583</u>	<u>761,865</u>
TOTAL ASSETS	<u><u>\$ 15,467,650</u></u>	<u><u>\$ 18,077,709</u></u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
<u>Current Liabilities:</u>		
Accounts payable	\$ 3,138,057	\$ 2,551,080
Accrued compensation and employee benefits	1,629,175	1,701,103
Accrued expenses	1,169,392	1,472,272
Unearned revenue	500,878	476,565
Total current liabilities	<u>6,437,502</u>	<u>6,201,020</u>
Revolving credit borrowings	4,950,000	1,750,000
Unearned revenue-non current	139,601	76,950
Other long-term liabilities	1,570,861	1,522,825
Total liabilities	<u>13,097,964</u>	<u>9,550,795</u>
Commitments and contingencies - Note 8		
Shareholders' equity:		
Common stock, par value \$.01 per share		
authorized - 25,000,000 shares		
issued - 10,044,827 shares	100,448	100,448
Capital in excess of par value	40,999,470	40,517,919
Accumulated deficit	(35,136,539)	(28,124,959)
Treasury stock at cost, 696,439 shares in 2017 and 2016	(3,437,643)	(3,437,643)
Accumulated other comprehensive loss	(156,050)	(528,851)
Total shareholders' equity	<u>2,369,686</u>	<u>8,526,914</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 15,467,650</u></u>	<u><u>\$ 18,077,709</u></u>

See accompanying notes to consolidated financial statements.

VICON INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended September 30, 2017 and 2016

	<u>Shares</u>	<u>Common Stock</u>	<u>Capital in excess of par value</u>	<u>Accumulated deficit</u>	<u>Treasury Stock</u>	<u>Accumulated other compre- hensive income (loss)</u>	<u>Total share- holders' equity</u>
September 30, 2015	10,010,995	\$ 100,110	\$40,972,205	\$ (15,350,975)	\$(3,979,852)	\$ (277,306)	\$21,464,182
Net loss	—	—	—	(12,773,984)	—	—	(12,773,984)
Foreign currency translation adjustment	—	—	—	—	—	(251,718)	(251,718)
Unrealized gain on marketable securities	—	—	—	—	—	173	173
Distribution of deferred compensation shares	22,050	220	(542,429)	—	542,209	—	—
Exercise of stock options	11,782	118	5,066	—	—	—	5,184
Stock-based compensation	—	—	81,593	—	—	—	81,593
Deferred compensation amortization	—	—	1,484	—	—	—	1,484
September 30, 2016	<u>10,044,827</u>	<u>\$ 100,448</u>	<u>\$40,517,919</u>	<u>\$ (28,124,959)</u>	<u>\$(3,437,643)</u>	<u>\$ (528,851)</u>	<u>\$ 8,526,914</u>
Net loss	—	—	—	(7,011,580)	—	—	(7,011,580)
Foreign currency translation adjustment	—	—	—	—	—	373,225	373,225
Unrealized loss on marketable securities	—	—	—	—	—	(424)	(424)
Issuance of warrants	—	—	438,000	—	—	—	438,000
Stock-based compensation	—	—	42,071	—	—	—	42,071
Deferred compensation amortization	—	—	1,480	—	—	—	1,480
September 30, 2017	<u><u>10,044,827</u></u>	<u><u>\$ 100,448</u></u>	<u><u>\$40,999,470</u></u>	<u><u>\$ (35,136,539)</u></u>	<u><u>\$(3,437,643)</u></u>	<u><u>\$ (156,050)</u></u>	<u><u>\$ 2,369,686</u></u>

See accompanying notes to consolidated financial statements.

VICON INDUSTRIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Net loss	\$ (7,011,580)	\$ (12,773,984)
Adjustments to reconcile net loss to net cash used in operating activities:		
Goodwill and intangible asset impairments	838,500	7,995,636
Gain on sale of building	—	(784,896)
Depreciation and amortization	626,332	850,697
Amortization of deferred compensation	1,480	1,484
Stock compensation expense	42,071	81,593
Change in assets and liabilities, net of acquisition:		
Accounts receivable, net	1,820,642	4,312,092
Inventories	496,078	1,406,203
Prepaid expenses and other current assets	(202,892)	(96,348)
Other assets	(15,935)	(39,842)
Accounts payable	555,832	(2,983,822)
Accrued compensation and employee benefits	(74,723)	(1,188,773)
Accrued expenses	(304,136)	(156,448)
Unearned revenue	86,964	(380,402)
Other liabilities	46,382	26,003
Net cash used in operating activities	<u>(3,094,985)</u>	<u>(3,730,807)</u>
Cash flows from investing activities:		
Proceeds from sale of building, net	—	1,512,320
Net increase in marketable securities	(434)	(325)
Capital expenditures	(138,443)	(199,859)
Net cash provided by (used in) investing activities	<u>(138,877)</u>	<u>1,312,136</u>
Cash flows from financing activities:		
Revolving credit borrowings	3,200,000	1,750,000
Proceeds from exercise of stock options	—	5,184
Net cash provided by financing activities	<u>3,200,000</u>	<u>1,755,184</u>
Effect of exchange rate changes on cash	<u>333,392</u>	<u>227,500</u>
Net increase (decrease) in cash	299,530	(435,987)
Cash and cash equivalents at beginning of year	1,954,422	2,390,409
Cash and cash equivalents at end of year	<u>\$ 2,253,952</u>	<u>\$ 1,954,422</u>
Cash paid during the fiscal year for:		
Income taxes	\$ 21,751	\$ 20,425
Interest	\$ 231,113	\$ 71,497
Non-cash investing and financing activities:		
Warrants issued	\$ 438,000	\$ —

See accompanying notes to consolidated financial statements.

VICON INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended September 30, 2017 and 2016

NOTE 1. Summary of Significant Accounting Policies

Nature of Business

The Company designs, assembles and markets video management systems and system components for use in security, surveillance, safety and control purposes by end users. The Company markets its products worldwide primarily to installing dealers, systems integrators, government entities and distributors.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Vicon Industries, Inc. (the Company) and its wholly owned subsidiaries: IQinVision, Inc., Vicon Industries Limited and subsidiary (Vicon Deutschland GmbH) and TeleSite U.S.A., Inc. and subsidiary (Vicon Systems Ltd.), after elimination of intercompany accounts and transactions.

Revenue Recognition

Revenue is generally recognized when products are sold and title is passed to the customer. Advance service billings are deferred and recognized as revenues on a pro rata basis over the term of the service agreement. Pursuant to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 605-25-05, the Company evaluates multiple-element revenue arrangements for separate units of accounting, and follows appropriate revenue recognition policies for each separate unit. Elements are considered separate units of accounting provided that (i) the delivered item has stand-alone value to the customer, (ii) there is objective and reliable evidence of the fair value of the undelivered item, and (iii) if a general right of return exists relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially within the control of the Company. As applied to the Company, under arrangements involving the sale of product and the provision of services, product sales are recognized as revenue when the products are sold and title is passed to the customer, and service revenue is recognized as services are performed.

For products that include software and for separate licenses of the Company's software products, the Company recognizes revenue in accordance with the provisions of FASB Accounting Standards Update (ASU) 2009-13, "Revenue Recognition (Topic 605) — Multiple-Deliverable Revenue Arrangements" (ASU 2009-13). ASU 2009-13 provides revenue recognition guidance for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable in the arrangement based on the fair value of the elements. The fair value for each deliverable is based on vendor-specific objective evidence ("VSOE") if available, third-party evidence ("TPE") if VSOE is not available, or best estimate of selling price ("BESP") if neither VSOE nor TPE is available. BESP must be determined in a manner that is consistent with that used to determine the price to sell the specific elements on a standalone basis.

Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and amounts invested in highly liquid money market funds.

Marketable Securities

At September 30, 2017, marketable securities consisted of mutual fund investments principally in federal, state and local government debt securities of \$13,555. Such mutual fund investments are stated at market value based on quoted market prices (Level 1 inputs) and are classified as available-for-sale under ASC 320, with cumulative unrealized gains and losses reported in accumulated other comprehensive loss as a component of shareholders' equity. The cost of such securities was \$14,114 and \$13,680 at September 30, 2017 and 2016, respectively, with \$(559) and \$(135) of cumulative unrealized losses, net of tax where applicable, included in the carrying amounts at September 30, 2017 and 2016, respectively.

Allowances for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Inventories

Inventories are valued at the lower of cost (on a moving average basis which approximates a first-in, first-out method) or market. When it is determined that a product or product line will be sold below carrying cost, affected on hand inventories are written down to their estimated net realizable values.

Long-Lived and Intangible Assets

Long-lived assets include reported property, plant, and equipment and intangible assets. The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value.

Property, plant, and equipment are recorded at cost and are being depreciated over periods ranging from 2 to 10 years. Intangible assets are being amortized over periods ranging from 7 to 15 years. Depreciation and amortization expense was \$626,332 and \$850,697 for the years ended September 30, 2017 and 2016.

Engineering and Development

Product engineering and development costs are charged to expense as incurred, and amounted to \$4,811,465 and \$5,193,085 in fiscal 2017 and 2016, respectively. The Company evaluates the establishment of technological feasibility of its software in accordance with ASC 985 ("Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed"). The Company has determined that technological feasibility for its new products is reached shortly before products are released for field testing. Costs incurred after technological feasibility has been established have not been material and are expensed as incurred.

Earnings Per Share

Basic EPS is computed based on the weighted average number of common shares outstanding. Diluted EPS reflects the maximum dilution that would have resulted from the exercise of stock options, warrants and incremental shares issuable under a deferred compensation agreement (see Note 7). In periods when losses are incurred, the effects of these securities are antidilutive and, therefore, are excluded from the computation of diluted EPS.

Foreign Currency Translation

The Company translates the financial statements of its foreign subsidiaries by applying the current rate method under which assets and liabilities are translated at the exchange rate on the balance sheet date, while revenues, costs, and expenses are translated at the average exchange rate for the reporting period. The resulting cumulative translation adjustment of \$(155,491) and \$(528,716) at September 30, 2017 and 2016, respectively, is recorded as a component of shareholders' equity in accumulated other comprehensive loss.

Income Taxes

The Company accounts for income taxes under the provisions of ASC 740 ("Accounting for Income Taxes"), which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred U.S. income taxes are not provided on undistributed earnings of foreign subsidiaries as the Company presently intends to reinvest such earnings indefinitely, and any plan to repatriate any of such earnings in the future is not expected to result in a material incremental tax liability to the Company. The Company provides for a valuation allowance against its entire net deferred tax asset balance due to the uncertainty of future realization (see Note 3 for further discussion).

On December 22, 2017, new tax legislation came into effect. The provisions are generally effective for years beginning on or after January 1, 2018. The most impactful item to the Company in the new law is the change in tax rate from 34% to 21%. This will reduce the gross US deferred tax assets prior to existing full valuation allowance from an effective rate of 38% to an effective rate of 25.75%. The current provision and disclosures do not reflect the new tax legislation. Given the full valuation allowance, the change is not expected to have a significant impact on the financial statements.

The Company accrues liabilities for identified tax contingencies that result from positions that are being challenged or could be challenged by tax authorities. The Company believes that its accrual for tax liabilities is adequate for all open years, based on Management's assessment of many factors, including its interpretations of the tax law and judgments about potential actions by tax authorities. However, it is possible that the ultimate resolution of any tax audit may be materially greater or lower than the amount accrued.

Product Warranties

The Company provides for the estimated cost of product warranties at the time revenue is recognized. While the Company engages in product quality programs and processes, including monitoring and evaluating the quality of its component suppliers, its warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from its estimates, revisions to the estimated warranty liability may be required.

Changes in the Company's warranty liability (included in accrued expenses) for the fiscal years ended September 30, 2017 and 2016 were as follows:

	2017	2016
Balance at beginning of year	\$ 681,000	\$ 650,000
Provision for warranties	124,000	423,000
Expenses incurred	<u>(374,000)</u>	<u>(392,000)</u>
Balance at end of year	<u>\$ 431,000</u>	<u>\$ 681,000</u>

Fair Value of Financial Instruments

The majority of the Company's non-financial assets and liabilities are not required to be carried at fair value on a recurring basis, but the Company is required on a non-recurring basis to use fair value measurements when analyzing asset impairment as it relates to long-lived assets. The carrying amounts for trade accounts, other receivables, accounts payable and revolving credit borrowings approximate fair value due to either the short-term maturity of these instruments or the fact that the interest rate of the revolving credit borrowings is based upon current market rates.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Accounting for Stock-Based Compensation

The Company follows ASC 718 ("Share-Based Payment"), which requires that all share based payments to employees, including stock options, stock appreciation rights (SARs) and common stock share awards, be recognized as compensation expense in the consolidated financial statements based on their fair values and over the requisite service period. For the years ended September 30, 2017 and 2016, the Company recorded non-cash compensation expense of \$42,071 (\$.00 per basic and diluted share) and \$81,593 (\$.01 per basic and diluted share), respectively, relating to stock-based compensation.

No options were granted during the fiscal year ended September 30, 2017. The fair value for options granted during the fiscal year ended September 30, 2016 was determined at the date of grant using a Black-Scholes valuation model and the straight-line attribution approach using the following weighted average assumptions:

Risk-free interest rate	<u>1.6%</u>
Dividend yield	0.0%
Volatility factor	72.5%
Weighted average expected life	7.0 years

The risk-free interest rate used in the Black-Scholes valuation method is based on the implied yield currently available in U.S. Treasury securities at maturity with an equivalent term. Other than a one-time special dividend paid in connection with the IQinVision merger, the Company never declared or paid any cash dividends and does not currently expect to do so in the future. Expected volatility is based on the annualized daily historical volatility of the Company's stock over a representative

period. The weighted-average expected life represents the period over which stock-based awards are expected to be outstanding and was determined based on a number of factors, including historical weighted average and projected holding periods for the remaining unexercised shares, the contractual terms of the Company's stock-based awards, vesting schedules and expectations of future employee behavior.

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. Because the Company's employee stock options and SARs have characteristics significantly different from traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and SARs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, provisions for doubtful accounts receivable, net realizable value of inventory, warranty obligations, income tax accruals, deferred tax valuation and assessments of the recoverability of the Company's long-lived assets. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

NOTE 2. Goodwill and Intangible Assets

The Company recognized goodwill in connection with its August 29, 2014 IQinVision business combination. The Company conducted an impairment test at March 31, 2016 using the income approach and determined that its goodwill carrying value was fully impaired. As a result, the Company recorded an impairment charge of \$6.0 million in the quarter ended March 31, 2016. This noncash charge was principally based upon an updated assessment of the Company's continuing depressed market valuation and operating losses. In addition, the Company determined that its technology asset was fully impaired due to the redesign of its acquired camera line and, as a result, recorded an impairment charge of \$2.0 million at September 30, 2016. The Company also determined that its tradenames and customer relationships assets were fully impaired due to declining revenues from the acquired customers and, as a result, recorded impairment an charge of \$838,500 at September 30, 2017.

The components and estimated useful lives of intangible assets as of September 30, 2017 and 2016 are stated below.

	September 30, 2017		September 30, 2016		Estimated Useful Life
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization	
Definite-lived intangibles:					
Customer relationships	—	—	910,000	371,833	7 years
Tradenames	—	—	660,000	91,667	15 years
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,570,000</u>	<u>\$ 463,500</u>	

The activity in the goodwill balance consists of the following:

Balance at October 1, 2015	\$ 6,016,469
Goodwill Impairment	(6,016,469)
Balance at September 30, 2016	<u>—</u>
Changes in Goodwill	<u>—</u>
Balance at September 30, 2017	<u>\$ —</u>

Amortization expense related to intangible assets for the year ended September 30, 2017 and 2016 was \$268,000 and \$517,000, respectively.

NOTE 3. Income Taxes

No income tax benefit was recognized on losses reported for the years presented due to uncertainty of realization. In fiscal 2011, the Company provided a valuation allowance against its deferred tax assets due to the uncertainty of future realization and, thus, no tax benefit has been recognized on subsequent reported pretax losses.

A reconciliation of the U.S. statutory tax rate to the Company's effective tax rate follows:

	2017		2016	
	Amount	Percent	Amount	Percent
U.S. statutory tax	\$ (2,384,000)	(34.0)%	\$ (4,343,000)	(34.0)%
Increase in valuation allowance	2,280,000	32.5	2,318,000	18.1
Goodwill writedown	—	—	2,046,000	16.0
Foreign tax rate differences	238,000	3.4	—	—
Permanent differences	18,000	0.3	45,000	0.4
State tax, net of federal benefit	(126,000)	(1.8)	(119,000)	(0.9)
Other, net	(26,000)	(0.4)	53,000	0.4
Effective tax rate	<u>\$ —</u>	<u>— %</u>	<u>\$ —</u>	<u>— %</u>

The tax effects of temporary differences that give rise to deferred tax assets and liabilities at September 30, 2017 and 2016 are presented below:

	2017	2016
Deferred tax assets:		
Inventories	\$ 1,543,000	\$ 1,558,000
Accrued compensation	539,000	528,000
Warranty accrual	150,000	244,000
Depreciation	100,000	98,000
Allowance for doubtful accounts receivable	320,000	337,000
Unearned revenue	237,000	205,000
U.S. net operating loss carryforwards	8,794,000	7,223,000
Foreign net operating loss carryforwards	1,916,000	1,575,000
Tax credits	989,000	989,000
Other	1,181,000	724,000
Gross deferred tax assets	<u>15,769,000</u>	<u>13,481,000</u>
Deferred tax liabilities:		
Other	64,000	56,000
Gross deferred tax liabilities	<u>64,000</u>	<u>56,000</u>
Total deferred tax assets and liabilities	<u>15,705,000</u>	<u>13,425,000</u>
Less valuation allowance	(15,705,000)	(13,425,000)
Net deferred tax assets and liabilities	<u>\$ —</u>	<u>\$ —</u>

Deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets represent items to be used as a tax deduction or credit in future tax returns for which a tax benefit has been recorded in the income statement. As of September 30, 2017, there were no undistributed earnings of foreign subsidiaries.

The Company provides for a valuation allowance against its deferred tax assets due to the uncertainty of future realization. The full valuation allowance is determined to be appropriate due to the Company's operating losses since fiscal year 2010 and the inherent uncertainties of predicting future operating results in periods over which such net tax differences become deductible.

Pretax domestic loss amounted to approximately \$(5,309,000) and \$(12,441,000) in fiscal years 2017 and 2016, respectively. Pretax foreign loss amounted to approximately \$(1,703,000) and \$(333,000) in fiscal years 2017 and 2016, respectively. The Company has U.S. and foreign net operating loss carryforwards (NOLs) of approximately \$23.8 million and \$8.7 million, respectively, available to offset future taxable income. Such NOLs can be carried forward over periods through September 30, 2037 in the U.S. and indefinitely in foreign jurisdictions. On August 29, 2014, the Company merged with IQinVision, Inc. In connection with this merger, the Company's ability to utilize pre-merger net operating losses and tax credit carryforwards in the future is subject to certain limitations pursuant to Section 382 of the Internal Revenue Code. The annual limitation on utilization of the Company's U.S. net operating loss carryforwards is presently estimated at \$500,000.

Subsequent to year end, on November 7, 2017 the Company completed a rights offering that could further limit its ability to utilize prior net operating losses and tax credit carryforwards in the future pursuant to Section 382 of the Internal Revenue Code. This will not materially impact the balance sheet or statement of operations as all deferred tax assets have a full valuation allowance.

The Company follows the provisions of ASC 740 as it relates to uncertain tax positions. Unrecognized tax benefits activity for the years ended September 30, 2017 and 2016 is summarized below:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 45,000	\$ 45,000
Additions (reductions) based on tax positions related to prior years	—	—
Additions (reductions) based on tax positions related to the current year	—	—
Ending balance	<u>\$ 45,000</u>	<u>\$ 45,000</u>

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits in income tax expense. At September 30, 2017 and 2016, there was no accrued net interest and penalties related to tax positions taken or to be taken on the Company's tax returns and recorded as part of the reserves for uncertain tax positions. The Company files U.S. Federal and State income tax returns and foreign tax returns in the United Kingdom, Germany and Israel. The Company is generally no longer subject to tax examinations for fiscal years prior to 2014 in the U.S. and 2011 in the U.K., Germany and Israel.

NOTE 4. Accumulated Other Comprehensive Loss

The accumulated other comprehensive loss balances at September 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Foreign currency translation adjustment	\$ (155,491)	\$ (528,716)
Unrealized loss on marketable securities	(559)	(135)
Accumulated other comprehensive loss	<u>\$ (156,050)</u>	<u>\$ (528,851)</u>

NOTE 5. Segment and Geographic Information

The Company operates in one business segment which encompasses the design, assembly and marketing of video management systems and system components for the electronic protection segment of the security industry. Its U.S. based operations consist of Vicon Industries, Inc., the Company's corporate headquarters and principal operating entity. Its Europe-based operation consists of Vicon Industries Limited, which markets and distributes the Company's products principally within Europe and the Middle East.

Net sales and long-lived assets related to operations in the United States and other foreign countries for the fiscal years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
<u>Net sales</u>		
U.S.	\$ 21,698,526	\$ 27,534,522
Foreign	4,953,105	8,225,129
Total	<u>\$ 26,651,631</u>	<u>\$ 35,759,651</u>
<u>Long-lived assets</u>		
U.S.	\$ 271,258	\$ 1,466,822
Foreign	130,440	159,861
Total	<u>\$ 401,698</u>	<u>\$ 1,626,683</u>

U.S. sales include \$3,333,429 and \$4,062,421 for export in fiscal years 2017 and 2016, respectively. Foreign sales principally represent sales from the Company's Europe based subsidiaries.

NOTE 6. Long-Term Equity Incentive Plans

The Company maintains stock incentive plans that provide for the grant of incentive and non-qualified options, stock appreciation rights ("SARs") and common stock awards covering a total of 808,333 shares of common stock reserved for issuance to key employees, including officers and directors, as of September 30, 2017. All options and SARs are issued at fair market value at the grant date and are exercisable in varying installments according to the plans. SARs provide the holder the right to receive, upon exercise, the excess of the exercise date fair market value over the grant date fair market value of a share of the Company's common stock in the form of equivalent shares of common stock at market value, cash or a combination of both. The plans allow for the payment of option exercises through the surrender of previously owned mature shares based on the fair market value of such shares at the date of surrender. Such surrendering of mature shares by holders results in an increase to treasury stock based on the stock price on date of surrender. There were 195,668 options and SARs available for grant under these plans at September 30, 2017.

Changes in outstanding stock options for the two years ended September 30, 2017 are as follows:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at September 30, 2015	539,768	\$3.36		
Options granted	40,000	\$1.33		
Options exercised	(11,782)	\$0.44		
Options forfeited	(31,756)	\$2.83		
Outstanding at September 30, 2016	<u>536,230</u>	\$3.31		
Options granted	—	—		
Options exercised	—	—		
Options forfeited	(80,497)	\$2.86		
Outstanding at September 30, 2017	<u>455,733</u>	\$3.39	3.6	\$—
Exercisable at September 30, 2017	393,683	\$3.68	2.9	\$—

The weighted-average grant date fair value of options granted during the year ended September 30, 2016 was \$0.88. As of September 30, 2017, there was \$36,458 of total unrecognized compensation cost, net of estimated forfeitures, related to nonvested stock options, which is expected to be recognized over a weighted-average period of 0.9 years.

Changes in outstanding SARs for the two years ended September 30, 2017 are as follows:

	Number of SARs	Weighted Average Base Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at September 30, 2015	100,994	\$3.05		
SARs granted	—	—		
SARs exercised	—	—		
SARs forfeited	(20,198)	\$2.93		
Outstanding at September 30, 2016	80,796	\$3.08		
SARs granted	—	—		
SARs exercised	—	—		
SARs forfeited	—	—		
Outstanding at September 30, 2017	80,796	\$3.08	0.3	—
Exercisable at September 30, 2017	80,796	\$3.08	0.3	—

As of September 30, 2017, there was no unrecognized compensation cost related to nonvested SARs.

NOTE 7. Loss Per Share

The following table provides the components of the basic and diluted loss per share (EPS) computations:

	<u>2017</u>	<u>2016</u>
<u>Basic EPS Computation</u>		
Net loss	\$ (7,011,580)	\$ (12,773,984)
Weighted average shares outstanding	9,348,388	9,341,030
Basic loss per share	<u>\$ (.75)</u>	<u>\$ (1.37)</u>
<u>Diluted EPS Computation</u>		
Net loss	\$ (7,011,580)	\$ (12,773,984)
Weighted average shares outstanding	9,348,388	9,341,030
Stock options	—	—
Stock compensation arrangements	—	—
Diluted shares outstanding	<u>9,348,388</u>	<u>9,341,030</u>
Diluted loss per share	<u>\$ (.75)</u>	<u>\$ (1.37)</u>

For fiscal years 2017 and 2016, all outstanding stock options, warrants and shares issuable under stock compensation arrangements totaling 2,043,090 and 623,587 shares, respectively, have been omitted from the calculation of diluted EPS as their effect would have been antidilutive. The actual effect of these stock options and shares, if any, on the diluted earnings per share calculation will vary significantly depending on fluctuations in the market price of the Company's stock.

NOTE 8. Commitments and Contingencies

The Company leases vehicles and occupies certain facilities under operating leases that expire at various dates through 2021. The leases, which cover periods from three to eight years, generally provide for renewal options at specified rental amounts. The aggregate operating lease commitment at September 30, 2017 was \$1,845,000 with minimum rentals for the fiscal years shown as follows: 2018 - \$774,000; 2019 - \$726,000; 2020 - \$274,000; and 2021 - \$71,000. Rent expense for fiscal 2017 and 2016 was approximately \$696,114 and \$690,020, respectively.

The Company is a party to employment agreements with certain of its officers that provide for, among other things, the payment of compensation if there is a change in control without Board of Director approval (as defined in the agreements). The contingent liability under such change in control provisions at September 30, 2017 would have been approximately \$1.7 million. Certain of

the Company's employment agreements with its officers provide for a severance/retirement benefit upon certain occurrences or at a specified date of retirement, absent a change in control, aggregating \$1.0 million at September 30, 2017. The Company is amortizing such obligation to expense on the straight-line method through the specified dates of retirement. Such expense amounted to approximately \$38,000 and \$38,000 in fiscal 2017 and 2016, respectively.

The Company has an agreement with an officer to provide a deferred compensation benefit in the form of 6,561 shares of common stock. Such shares vest upon retirement or earlier under certain occurrences including death, involuntary termination or a change in control of the Company. The market value of such shares approximated \$20,000 at the date of grant, which is being amortized on the straight-line method through the specified date of retirement.

NOTE 9. Operating Facilities Sale

In January 2016, the Company sold its United Kingdom based operating facility at a gross sales price of \$1.5 million. A gain of approximately \$785,000 was recognized on the sale in the March 31, 2016 quarter after factoring in selling and transaction costs.

NOTE 10. Credit Agreement

On March 4, 2016, the Company entered into a Credit Agreement (the "Agreement") with NIL Funding Corporation to provide a \$3 million revolving line of credit for working capital purposes, which was subsequently amended and restated on two occasions as described below. The Agreement provides for a borrowing formula based upon eligible accounts receivable and is secured by a first priority security interest in substantially all of the Company's assets. Borrowings under the Agreement bore interest at a rate of 6.75% per annum. The Agreement also provides for an unused commitment fee equal to .5% per annum. The Agreement includes provisions that are customarily found in similar financing agreements. NIL Funding Corporation is an affiliate of The InterTech Group, whose Executive Vice President and Chief Operating Officer, Julian A. Tiedemann, serves as the Chairman of the Company's Board of Directors.

On August 18, 2016, the Company entered into an Amended and Restated Credit Agreement (the "Amended Agreement") with NIL Funding Corporation which increased the \$3 million revolving line of credit to \$6 million. Under the Amended Agreement, the facility was to mature on October 2, 2018 and consisted of two credit lines of \$4 million and \$2 million which bore interest at rates of 6.95% per annum and 8.25% per annum, respectively. The \$4 million line of credit was subject to a borrowing formula based upon eligible accounts receivable. The Amended Agreement also provided for an initial commitment fee of \$60,000, which was paid at closing, as well as an unused commitment fee equal to .5% per annum. The Amended Agreement includes a financial covenant that requires the Company to maintain a specified minimum tangible net worth, as defined, and is otherwise substantially similar to the original Agreement with NIL Funding Corporation.

On April 20, 2017, the Company entered into a Second Amended and Restated Credit Agreement (the "Second Amended Agreement") with NIL Funding Corporation, under which only \$2 million of the \$6 million facility is subject to a borrowing formula, effectively providing the Company with \$2 million of additional borrowing availability. The Second Amended Agreement also extends the maturity date of the credit facility to April 2, 2019, and reduces the Company's minimum tangible net worth requirement, but is otherwise substantially similar to the Amended Agreement. At September 30, 2017, the Company was in compliance with this covenant. As of September 30, 2017, outstanding borrowings under the Amended Agreement were \$4.95 million.

In connection with the Second Amended Agreement, NIL Funding was issued a three-year warrant to purchase 1.5 million shares of the Company's common stock at a price of \$.40 per share. The fair value of the warrant at the date of issuance was \$438,000, which is being amortized over the two-year remaining credit facility term from the date of issuance. At September 30, 2017, there was \$339,000 of deferred warrant issuance costs included in other assets in the accompanying balance sheets.

The fair value for the warrants was determined at the date of issuance using a Black-Scholes valuation model and the straight-line attribution approach using the following weighted average assumptions (see Note 1 for further discussion of Black Scholes valuation method):

	<u>2017</u>
Risk-free interest rate	1.4%
Dividend yield	0.0%
Volatility factor	125.6%
Weighted average expected life	3.0 years

Changes in outstanding warrants for the two years ended September 30, 2017 are as follows:

<u>Warrants</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at September 30, 2015	—	—		
Warrants exercised	—	—		
Warrants forfeited	—	—		
Outstanding at September 30, 2016	—	—		
Warrants granted	1,500,000	\$0.40		
Warrants exercised	—	—		
Warrants forfeited	—	—		
Outstanding at September 30, 2017	1,500,000	\$0.40	2.6	\$—
Exercisable at September 30, 2017	1,500,000	\$0.40	2.6	\$—

NOTE 11. Related Party Transactions

The Company has entered into a Credit Agreement with NIL Funding Corporation, which is an affiliate of The InterTech Group. The Chairman of the Company's Board of Directors, Julian A. Tiedemann, serves as the Executive Vice President and Chief Operating Officer of The InterTech Group (see Note 10. Credit Agreement for further information).

On July 27, 2017, the Company entered into an Investment Agreement with NIL Funding Corporation whereby NIL agreed to purchase up to \$3.0 million of shares of the Company's common stock in connection with a rights offering of common stock to the Company's shareholders. On November 8, 2017, subsequent to the end of the fiscal year and the closing of the rights offering, the Company sold 7,500,000 shares of common stock to NIL Funding Corporation for an aggregate purchase price of \$3.0 million pursuant to the Investment Agreement.

Shezhen Infinova Limited (Infinova), a Chinese corporation which prior to the consummation of the Company's rights offering beneficially owned in excess of 5% of the outstanding shares of the Company's common stock, began serving as a contract manufacturer to the Company for certain of its products in fiscal 2016. The Company procured approximately \$3.1 million and \$2.0 million of products from Infinova in fiscal 2017 and 2016, respectively. Sales of Vicon products to Infinova were \$18,000 and \$496,000 in 2017 and 2016, respectively. At September 30, 2017, the Company owed \$690,000 to Infinova and Infinova owed \$14,000 to the Company resulting from purchases and sales of products.

NOTE 12: Recent Accounting Pronouncements

In May 2014, the FASB issued guidance on revenue from contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved, in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. This guidance permits the use of either the retrospective or cumulative effect transition method and is effective for the Company beginning in 2019; early adoption is not permitted prior to 2018. The Company is currently in the initial stages of evaluating the effect of implementing this guidance.

In February 2016, the FASB issued guidance on lease accounting requiring lessees to recognize a right-of-use asset and a lease liability for long-term leases. The liability will be equal to the present value of lease payments. The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. This guidance must be applied using a modified retrospective transition approach to all annual and interim periods presented and is effective for the Company beginning in fiscal 2019. The Company is currently in the initial stages of evaluating the effect of implementing this guidance.

In March 2016, the FASB issued guidance on simplifying several aspects of accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This guidance requires a mix of prospective, modified retrospective, and retrospective transition to all annual and interim periods presented and is effective for the Company beginning in fiscal 2018. The Company does not expect the adoption of this guidance to have a material effect on its operating results or financial position.

In January 2017, the FASB issued guidance that clarifies the definition of a business, which will impact many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The new standard is intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This guidance is effective for the Company beginning in fiscal 2019 and will be considered for any future acquisitions.

NOTE 13. Going Concern and Liquidity

The accompanying financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future and, thus, do not include any adjustments relating to the recoverability and classification of assets and liabilities that may be necessary if the Company is unable to continue as a going concern. However, the Company's ability to continue as a going concern is dependent upon generating profitable operations in the future and obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

The Company continues to incur operating losses due to decreased revenue levels and ongoing strategic investments. Since 2012, the Company has made a significant investment in the development of a completely new, and strategically critical, video management system (VMS). The first release of this product offering was launched in January 2017 and is ultimately expected to enhance the Company's market competitiveness. The funding of this major development effort has contributed to the ongoing operating losses and depletion of cash reserves. In response, the Company phased in material operating expense reductions over the course of the past several years. However, the Company intends to continue funding the development of its new VMS platform and rebuilding its market channels.

At September 30, 2017, the Company had \$2.3 million of cash reserves and \$1.05 million of maximum borrowings available under its Credit Agreement, which is subject in part to a borrowing-base formula. Cash losses over the past several years have been financed by credit facility borrowings, the sale of the Company's two principal operating facilities and ongoing management of working capital levels. The Company expects to continue to draw on its credit facility to the extent available to finance its near term working capital needs.

Subsequent to year end, the Company received approximately \$3.1 million of net cash proceeds from the sale of its common stock upon the closing of a rights offering, which included \$3 million of funding under the related backstop commitment provided by NIL Funding Corporation, the Company's secured lender. Notwithstanding the cash infusion, the Company may require additional financing over the next twelve months to implement its planned business objectives and strategies. Accordingly, and in light of the Company's historic and continuing losses, there is substantial doubt about the Company's ability to continue as a going concern.

NOTE 14. Subsequent Event

On November 7, 2017, the Company completed a rights offering of common stock to its existing shareholders, whereby it raised approximately \$282,000 of gross proceeds for the issuance of 704,235 shares of its common stock pursuant to subscription commitments. On November 8, 2017, following the closing of the rights offering, the Company issued 7,500,000 shares of its common stock to NIL Funding Corporation for an aggregate purchase price of \$3.0 million, pursuant to an Investment Agreement between the Company and NIL Funding Corporation, dated as of July 27, 2017. The net proceeds from the rights offering and Investment Agreement were used by the Company to pay down interest bearing borrowings under its Credit Agreement.

Following the completion of the rights offering and the related backstop commitment, the Company had a total of 17,552,623 shares of its common stock outstanding. NIL Funding Corporation is a subsidiary of the Article 6 Marital Trust, of which Anita G. Zucker is the trustee.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) of 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.

VICON INDUSTRIES, INC.

By /s/ John M. Badke
John M. Badke
Chief Executive Officer and
Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

December 29, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated:

VICON INDUSTRIES, INC.

<u>/s/ Julian A. Tiedemann</u> Julian A. Tiedemann	Chairman of the Board of Directors	<u>December 29, 2017</u> Date
<u>/s/ Arthur D. Roche</u> Arthur D. Roche	Director	<u>December 29, 2017</u> Date
<u>/s/ Steven E. Walin</u> Steven E. Walin	Director	<u>December 29, 2017</u> Date
<u>/s/ Warren J. White</u> Warren J. White	Director	<u>December 29, 2017</u> Date