



FOR IMMEDIATE RELEASE
November 14, 2019

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Costar Technologies, Inc. Announces Financial Results
For the Third Quarter Ended September 30, 2019
(\$ in thousands except per share amounts)

Coppell, Texas – November 14, 2019 – Costar Technologies, Inc. (the “Company”) (OTC Markets Group: CSTI) announced today its financial results for the third quarter ended September 30, 2019 that have been reviewed by the independent accounting firm BKD, LLP.

Financial Results for the Quarter Ended September 30, 2019

- Revenues of \$17,774, a 6.3% decrease compared to the third quarter of 2018. The Arecont Vision (AVC) acquisition closed in the prior year quarter and results are included beginning July 14, 2018.
- Operating expenses were down 6.4% to \$6,283, compared to \$6,711 in the third quarter of 2018. The third quarter of 2018 included \$243 in expenses related to the AVC acquisition.
- GAAP net income of \$840, or \$0.51 per diluted share, compared to a GAAP net income of \$56, or \$0.04 per diluted share, in the third quarter of 2018.
- Adjusted earnings of \$1,287, or \$0.79 per diluted share, compared to \$1,099, or \$0.69 per diluted share for the quarter ended September 30, 2018. Adjusted earnings, a non-GAAP measure, is defined below.
- Adjusted EBITDA of \$2,010, compared to \$1,560 for the quarter ended September 30, 2018. Adjusted EBITDA, a non-GAAP measure, is defined below.

Scott Switzer, Chief Operating Officer and Chief Financial Officer, stated, “This quarter marks our second consecutive profitable quarter since the acquisition of Arecont Vision. The third quarter is historically our strongest quarter, and 2019 was no exception. Except for CohuHD and Arecont

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Vision, our divisions were up 11% over the third quarter of 2018. We have experienced softness in CohuHD's transportation market segment, which generated \$4M in revenue during the third quarter of 2019, a decline of over \$0.6M from the third quarter of 2018 due to weather delays and tariffs affecting state budgets."

President and Chief Executive Officer, James Pritchett stated, "We have made significant advances at Arecont Vision Costar in a relatively short period of time. The effects of the bankruptcy still impact the division's revenues, but the cost reduction actions taken early in 2019 are having a positive result. Arecont Vision's third quarter was the division's second positive quarter as revenues stabilized. We recently won two major long-term contacts with financial institutions, both domestic and international, that will begin shipping in the fourth quarter. We continue to invest in developing artificial intelligence for our cameras for retail, financial and Smart City applications. I am confident the changes we have made, and are continuing to make, will position us for long-term growth and profitability for our shareholders."

The Company's outside independent auditors completed their analysis of the Company's financial condition. The Independent Auditor's Review Report, including financial statements and applicable footnote disclosures, is available on our website at www.costartechnologies.com.

Non-GAAP Financial Measures

The Company defines adjusted earnings, a non-GAAP measure, as net income (loss) excluding stock-based compensation and amortization of acquisition-related intangible assets. The Company defines adjusted EBITDA, a non-GAAP measure, as earnings before interest, taxes, depreciation, amortization and stock-based compensation. The following tables reconcile the non-GAAP financial measures disclosed in this release to GAAP net income (loss):

| | Quarter Ended 9/30/19 | Quarter Ended 9/30/18 |
|--|--------------------------------------|--------------------------------------|
| Adjusted Earnings | 1,287 | 1,099 |
| Less: | | |
| Stock-Based Compensation | (124) | (66) |
| Intangible Amortization | (323) | (324) |
| Transaction and Related Expenses | | (243) |
| Loan Forgiveness Required Under AVC Purchase Agreement | | (410) |
| Net Income (Loss) | 840 | 56 |
| | | |
| | Quarter Ended 9/30/19 | Quarter Ended 9/30/18 |
| Adjusted EBITDA | 2,010 | 1,560 |
| Less: | | |
| Interest | (350) | (329) |
| Income Taxes | (255) | (24) |
| Depreciation | (118) | (108) |
| Intangible Amortization | (323) | (324) |
| Stock-Based Compensation | (124) | (66) |
| Transaction and Related Expenses | | (243) |
| Loan Forgiveness Required Under AVC Purchase Agreement | | (410) |
| Net Income (Loss) | 840 | 56 |

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These reconciliations of GAAP to non-GAAP measures should be considered together with the Company's financial statements. These non-GAAP measures are not meant as a substitute for GAAP, but are included solely for informational and comparative purposes. The Company's management believes that this information can assist investors in evaluating the Company's operational trends, financial performance, and cash generating capacity. Management believes these non-GAAP measures allow investors to evaluate the Company's financial performance using some of the same measures as management. However, the non-GAAP financial measures should not be regarded as a replacement for (or superior to) corresponding, similarly captioned, GAAP measures.

About Costar Technologies, Inc.

Costar Technologies, Inc. develops, designs, manufactures and distributes a range of security solution products including surveillance cameras, lenses, digital video recorders and high-speed domes. The Company also develops, designs and distributes industrial vision products to observe repetitive production and assembly lines, thereby increasing efficiency by detecting faults in the production process. Headquartered in Coppell, Texas, the Company's shares currently trade on the OTC Markets Group under the ticker symbol "CSTI". Costar was ranked as the 35th largest company in a&s magazine's Security 50 for 2019. Security 50 is an annual ranking by the magazine of the world's largest security manufacturers in the areas of video surveillance, access control and intruder alarms, based on sales revenue.

Cautionary Statement Regarding Forward Looking Statements

This press release contains forward-looking statements, including statements regarding the Company's ability to grow revenue and earnings, that are subject to substantial risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements, including but not limited to risks related to the ability to diversify business across vertical markets, secure new customer wins, and launch new products. You can often identify forward-looking statements by words such as "believe," "may," "estimate," "continue," "anticipate," "intend," "plan," "expect," "predict," "potential," or the negative of these terms or other comparable terminology. These forward-looking statements are based on management's current expectations but they involve risks and uncertainties. Actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of the risks and uncertainties.

You should not place undue reliance on any forward-looking statements. The Company assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting forward-looking information, except to the extent required by applicable laws.

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COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AMOUNTS SHOWN IN THOUSANDS)

| | September 30, 2019 (Reviewed) | December 31, 2018 (Audited) |
|--|----------------------------------|--------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1 | \$ 189 |
| Accounts receivable, less allowance for doubtful accounts of \$570 and \$859 in 2019 and 2018, respectively | 9,250 | 9,333 |
| Inventories, net of reserve for obsolescence of \$1,026 and \$1,101 in 2019 and 2018, respectively | 20,525 | 20,618 |
| Prepaid expenses and other current assets | 2,573 | 1,531 |
| Total current assets | 32,349 | 31,671 |
| Non-current assets | | |
| Property and equipment, net | 991 | 915 |
| Deferred financing costs, net | 69 | 99 |
| Deferred tax asset, net | 3,766 | 3,766 |
| Trade names, net | 2,289 | 2,561 |
| Distribution agreements, net | 827 | 905 |
| Customer relationships, net | 4,361 | 4,884 |
| Covenants not to compete, net | 68 | 92 |
| Patents, net | 177 | 200 |
| Technology, net | 285 | 335 |
| Goodwill | 6,513 | 6,513 |
| Other non-current assets | 149 | 109 |
| Total non-current assets | 19,495 | 20,379 |
| Total assets | \$ 51,844 | \$ 52,050 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 4,885 | \$ 5,786 |
| Accrued expenses and other | 7,026 | 7,075 |
| Line of credit | 14,772 | 11,738 |
| Current maturities of long-term debt, net of unamortized financing fees | 779 | 773 |
| Current portion of contingent purchase price | 992 | 1,048 |
| Current maturities of notes payable, unrelated party | 833 | |
| Current maturities of notes payable, related party | 206 | 805 |
| Total current liabilities | 29,493 | 27,225 |
| Long-Term liabilities | | |
| Long-term debt, net of current maturities and unamortized financing fees | 3,788 | 4,373 |
| Contingent purchase price, net of current portion | | 992 |
| Total long-term liabilities | 3,788 | 5,365 |
| Total liabilities | 33,281 | 32,590 |
| Stockholders' Equity | | |
| Preferred stock | | |
| Common stock | 3 | 3 |
| Additional paid-in capital | 157,363 | 157,029 |
| Accumulated deficit | (134,282) | (133,051) |
| Less common stock held in treasury, at cost | (4,521) | (4,521) |
| Total stockholders' equity | 18,563 | 19,460 |
| Total liabilities and stockholders' equity | \$ 51,844 | \$ 52,050 |

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COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|---------------|---------------------------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Reviewed) | (Reviewed) | (Reviewed) | (Reviewed) |
| Net revenues | \$ 17,774 | \$ 18,960 | \$ 52,588 | \$ 41,864 |
| Cost of revenues | <u>10,054</u> | <u>11,426</u> | <u>31,527</u> | <u>25,400</u> |
| Gross profit | 7,720 | 7,534 | 21,061 | 16,464 |
| Selling, general and administrative expenses | 4,821 | 5,264 | 17,358 | 12,327 |
| Engineering and development expense | 1,462 | 1,204 | 4,411 | 2,746 |
| Transaction and related expense | <u>6,283</u> | <u>6,711</u> | <u>21,769</u> | <u>15,380</u> |
| Income (loss) from operations | <u>1,437</u> | <u>823</u> | <u>(708)</u> | <u>1,084</u> |
| Other expenses | | | | |
| Interest expense | (350) | (329) | (1,006) | (521) |
| Other income (expense), net | <u>8</u> | <u>(414)</u> | <u>9</u> | <u>(414)</u> |
| Total other expenses, net | <u>(342)</u> | <u>(743)</u> | <u>(997)</u> | <u>(935)</u> |
| Income (loss) before taxes | 1,095 | 80 | (1,705) | 149 |
| Income tax provision (benefit) | <u>255</u> | <u>24</u> | <u>(474)</u> | <u>81</u> |
| Net income (loss) | <u>\$ 840</u> | <u>\$ 56</u> | <u>\$ (1,231)</u> | <u>\$ 68</u> |
| <u>Net income (loss) per share:</u> | | | | |
| Basic | \$ 0.53 | \$ 0.04 | \$ (0.78) | \$ 0.04 |
| Diluted | \$ 0.51 | \$ 0.04 | \$ (0.78) | \$ 0.04 |
| <u>Weighted average shares outstanding:</u> | | | | |
| Basic | 1,597 | 1,546 | 1,576 | 1,546 |
| Diluted | 1,633 | 1,600 | 1,576 | 1,600 |