



FOR IMMEDIATE RELEASE
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Costar Technologies, Inc. Announces Financial Results
For the Second Quarter Ended June 30, 2018
(\$ in thousands except per share amounts)

Coppell, Texas – August 15, 2018 – Costar Technologies, Inc. (the “Company”) (OTC Markets Group: CSTI) announced today its financial results for the second quarter ended June 30, 2018 that have been reviewed by the independent accounting firm BKD, LLP.

Financial Results for the Second Quarter Ended June 30, 2018

- Revenue of \$11,987, an increase of \$1,705 or 16.6% from the quarter ended June 30, 2017.
- GAAP net loss of \$38 or (\$0.02) per share based on 1,546 fully diluted shares outstanding, compared to GAAP net income of \$112 or \$0.07 per share based on 1,567 fully diluted shares for the quarter ended June, 2017.
- Adjusted earnings of \$834 or \$0.54 per diluted share compared to \$722 or \$0.46 per diluted share for the quarter ended June 30, 2017, an increase per share of 17.4%. (Adjusted earnings, a non-GAAP measure, is defined below.)
- Adjusted EBITDA of \$1,062 compared to \$984 for the quarter ended June 30, 2017, an increase of 7.9%. (Adjusted EBITDA, a non-GAAP measure, is defined below.)
- The Company increased its allowance for doubtful accounts by \$430K due to a customer’s payments that were routed to a non-company bank account as the result of a phishing incident with one employee’s email.

“Increases in demand for our products in the traffic, critical infrastructure, and retail market segments resulted in the highest second quarter revenue the Company has ever seen,” said James Pritchett, the Company’s President and CEO. “Specifically, Innotech had the highest revenue quarter since we acquired them at the end of 2016. The product mix combined with

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component cost increases led to a slight decline in gross profit margin, but we expect a rebound in the third quarter. We are taking the recent unauthorized access to a company email account very seriously and are acting to mitigate the effects and implement controls to ensure that it is not repeated.” Mr. Pritchett went on to say, “With another strong quarter of adjusted earnings the Company is strategically positioned for success that should be further enhanced by our acquisition of Arecont Vision.”

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 excluding stock-based compensation, amortization of acquisition-related intangible assets, adjustments to the fair value of acquisition-related contingent consideration, transaction related expenses and payments routed to a non-company bank account. The Company defines adjusted EBITDA, a non-GAAP measure, as earnings before interest, taxes, depreciation, amortization, stock-based compensation, transaction and related expenses, adjustments to the fair value of acquisition-related contingent consideration and payments routed to a non-company bank account. The following tables reconcile the non-GAAP financial measures disclosed in this release to GAAP net income (loss):

	Quarter Ended 6/30/18	Quarter Ended 6/30/17
Adjusted Earnings	834	722
Less:		
Stock-Based Compensation	(70)	(109)
Intangible Amortization	(308)	(317)
Contingent Consideration Fair Value Adjustment		(184)
Transaction and Related Expenses	(64)	
Payments Routed to a Non-Company Bank Account	(430)	
Net Income (Loss)	(38)	112

	Quarter Ended 6/30/18	Quarter Ended 6/30/17
Adjusted EBITDA	1,062	984
Less:		
Interest	(103)	(124)
Income Taxes	(39)	(79)
Depreciation	(86)	(59)
Amortization	(308)	(317)
Stock-Based Compensation	(70)	(109)
Transaction and Related Expenses	(64)	
Contingent Consideration Fair Value Adjustment		(184)
Payments Routed to a Non-Company Bank Account	(430)	
Net Income (Loss)	(38)	112

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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 40th largest company in a&s magazine's Security 50 for 2017. 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.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AMOUNTS SHOWN IN THOUSANDS)

	June 30, 2018	December 31, 2017
	(Reviewed)	(Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 62	\$ 196
Accounts receivable, less allowance for doubtful accounts of \$669 and \$97 in 2018 and 2017, respectively	6,878	7,246
Inventories, net of reserve for obsolescence of \$1,057 and \$815 in 2018 and 2017, respectively	11,489	9,529
Prepaid expenses	1,911	790
Total current assets	20,340	17,761
Non-current assets		
Property and equipment, net	830	861
Deferred financing costs, net	20	26
Deferred tax asset, net	2,916	2,916
Trade names, net	2,498	2,667
Distribution agreement, net	587	624
Customer relationships, net	5,242	5,600
Covenant not to compete, net	109	126
Patents, net	6	7
Technology, net	369	402
Goodwill	5,574	5,574
Other non-current assets	109	96
Total non-current assets	18,260	18,899
Total assets	\$ 38,600	\$ 36,660
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,130	\$ 3,829
Accrued expenses and other	2,232	2,532
Line of credit	2,983	
Current maturities of long-term debt	991	740
Contingent purchase price	606	346
Current maturities of notes payable, related party	779	753
Total current liabilities	11,721	8,200
Long-Term liabilities		
Long-term debt, net of current maturities	3,731	4,476
Contingent purchase price, net of current portion	502	1,101
Notes payable, related party, net of current maturities	409	805
Total long-term liabilities	4,642	6,382
Total liabilities	16,363	14,582
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	156,914	156,767
Accumulated deficit	(130,159)	(130,171)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	22,237	22,078
Total liabilities and stockholders' equity	\$ 38,600	\$ 36,660

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COSTAR TECHNOLOGIES, INC.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
Net revenues	\$ 11,987	\$ 10,282	\$ 22,904	\$ 19,853
Cost of revenues	<u>7,192</u>	<u>5,903</u>	<u>13,974</u>	<u>11,760</u>
Gross profit	4,795	4,379	8,930	8,093
Selling, general and administrative expenses	3,772	3,209	7,063	6,338
Engineering and development expense	853	671	1,542	1,315
Transaction and related expense	64		64	68
Change in fair value of contingent purchase price		184		184
	<u>4,689</u>	<u>4,064</u>	<u>8,669</u>	<u>7,905</u>
Income from operations	<u>106</u>	<u>315</u>	<u>261</u>	<u>188</u>
Other income (expenses)				
Interest expense	(103)	(124)	(192)	(247)
Other income (expense), net	<u>(2)</u>			<u>3</u>
Total other expenses, net	<u>(105)</u>	<u>(124)</u>	<u>(192)</u>	<u>(244)</u>
Income (loss) before taxes	1	191	69	(56)
Income tax provision (benefit)	<u>39</u>	<u>79</u>	<u>57</u>	<u>(9)</u>
Net income (loss)	<u>\$ (38)</u>	<u>\$ 112</u>	<u>\$ 12</u>	<u>\$ (47)</u>
<u>Net income (loss) per share:</u>				
Basic	\$ (0.02)	\$ 0.07	\$ 0.01	\$ (0.03)
Diluted	\$ (0.02)	\$ 0.07	\$ 0.01	\$ (0.03)
Weighted average shares outstanding				
Basic	1,546	1,509	1,546	1,509
Diluted	1,546	1,567	1,589	1,509

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