

# **Costar Technologies, Inc.**

**Letter from the President and Chief Executive Officer**



**OTC: CSTL.PK**  
[www.costartechnologies.com](http://www.costartechnologies.com)



July 23, 2019

Dear Shareholders,

I am very proud of the achievements of our Company and our dedicated employees. Looking back on the last couple of years, it is remarkable how much our organization has grown and how much we have accomplished.

The purchase of Arecont Vision (now Arecont Vision Costar) out of bankruptcy was a strategically-defining transaction for us, as now over 70% of our revenues are derived from products we design and manufacture. Acquisitions are always difficult, and buying assets out of bankruptcy is even more complex. Our team, however, rose to the challenge. We believe we acquired the assets and product lines of Arecont Vision for a good price, but knew we would have to add value to return the brand to its former commanding place within the market. As I write this, it is happening: revenues are improving and the market is responding positively to our ownership. As expected, the fourth quarter of 2018 and first quarter of 2019 were filled with one-time integration, reconfiguration, and product re-engineering expenses. We believe these types of one-time expenses are now largely behind us.

In 2018, we delivered on our strategy of generating both organic growth and growth through acquisition, despite weather-related project delays and increases in component costs due to newly implemented tariffs on Chinese imports. While we expect there to be additional challenges ahead, we are optimistic as to the prospect of our the Company and are continuing to drive progress through the introduction of new technologies, enhancements to our product lines, growth in our customer base, and continuous improvements to our sales and support efforts.

Costar generated a net loss of (\$2.9) million in 2018, compared to a 2017 net loss of (\$371,000). In 2018, our CohuHD segment sales decreased 2% to \$19.5 million from \$19.9 million in 2017, with net income decreasing to \$334,000 from \$1.2 million the prior year. Our Costar Video Systems segment sales increased 62% to \$39.4 million from \$24.3 million in 2017, with net income (loss) decreasing to (\$482,000) from \$4.9 million in the prior year. Arecont Vision Costar

contributed revenues of \$13.3 million and a net loss of (\$3,336) to the Costar Video Systems segment.

Our Board of Directors continues to provide strong support and valuable guidance to our management team. In February 2019, we added two new members to our board – Sally Washlow and Alan Howe – who bring a wealth of knowledge and experience to the boardroom, as well as new perspectives, all of which will be of significant value to our organization.

In closing, I'd like to recognize our nearly 200-strong team members who have proven themselves to be the best in the industry. They worked side-by-side with the Arecont Vision team to improve product quality issues and communicate to the market that we are a reliable, stable partner who is here for the long-term. I would also like to thank our customers, shareholders and partners for their trust in Costar Technologies, Inc. and continued support.

Sincerely,

James D. Pritchett  
*President and Chief Executive Officer*

#### *Cautionary Statement Regarding Forward Looking Statements*

*This document contains forward-looking statements that involve risks and uncertainties, as well as assumptions, that if they never materialize or prove incorrect, could cause the results of Costar Technologies to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements generally are identified by the words “expects,” “anticipates,” “believes,” “intends,” “estimates,” “should,” “would,” “will,” “strategy,” “potentially,” “plan” and similar expressions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. The risks, uncertainties and assumptions include developments in the marketplace for our products, competition, related products and services and general economic conditions, as well as other risks and uncertainties. Accordingly, we cannot give assurance that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on the results of operations or financial condition of Costar Technologies.*

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**DIRECTORS**

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Rory J. Cowan, *Chairman of the Board*  
Gregory T. Hradsky  
Jared L. Landaw  
Jeffrey S. Wald  
Alan Howe  
Sally Washlow  
James D. Pritchett

**COMPANY HEADQUARTERS**

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101 Wrangler Drive, Suite 201  
Coppell, TX 75019

**OFFICERS**

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James D. Pritchett  
*President and Chief Executive Officer*

Scott Switzer  
*Chief Operating Officer, Chief Financial Officer  
and Secretary*

**STOCK TRANSFER AGENT**

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Computershare Inc.  
250 Royall Street  
Canton, MA 02021

**INDEPENDENT AUDITORS**

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BKD LLP  
14241 Dallas Parkway, Suite 1100  
Dallas, TX 75254

**GENERAL/CORPORATE COUNSEL**

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DLA Piper, LLP  
4365 Executive Drive, Suite 1100  
San Diego, CA 92121

**COMPANY FINANCIAL INFORMATION**

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Our Annual Report is available upon request and will be mailed to you at no charge.  
Please send requests to:

*Investor Relations*  
*Costar Technologies, Inc.*  
*101 Wrangler Drive, Suite 201*  
*Coppell, TX 75019*

Our Annual Report can also be downloaded from our website at [www.costartechnologies.com](http://www.costartechnologies.com).