



FOR IMMEDIATE RELEASE
May 15, 2018

CONTACT: Scott Switzer
Chief Financial Officer
Costar Technologies, Inc.
(469) 635-6800

Costar Technologies, Inc. Announces Financial Results
For the First Quarter Ended March 31, 2018
(\$ in thousands except per share amounts)

Coppell, Texas – May 15, 2018 – Costar Technologies, Inc. (the “Company”) (OTC Markets Group: CSTI) announced today its financial results for the first quarter ended March 31, 2018 that have been reviewed by the independent accounting firm BKD, LLP.

Financial Highlights for the First Quarter Ended March 31, 2018

- Revenue of \$10,917, an increase of \$1,346 or 14.1% from the quarter ended March 31, 2017.
- GAAP net income of \$50 or \$0.03 per share based on 1,589 fully diluted shares outstanding, compared to GAAP net loss of (\$159) or (\$0.11) per share based on 1,493 fully diluted shares for the quarter ended March 31, 2017.
- Adjusted earnings of \$399 or \$0.25 per diluted share compared to \$252 or \$0.17 per diluted share for the quarter ended March 31, 2017, an increase per share of 47.1%. (Adjusted earnings, a non-GAAP measure, is defined below.)
- Adjusted EBITDA of \$551 compared to \$316 for the quarter ended March 31, 2017, an increase of 74.4%. (Adjusted EBITDA, a non-GAAP measure, is defined below.)

“The first quarter is typically a seasonally slow period for our Company; however, this year we are off to a solid start,” said James Pritchett, the Company’s President and CEO. “The shipment of a \$1 million sale out of the CohuHD business segment, an increase in purchases by one of Costar Video Systems’ largest customers and the continued expansion of our general security business all contributed to our year-over-year revenue growth.”

Mr. Pritchett continued, “Solid financial results were driven by operational performance with ongoing improvements in cost and production efficiency. The rapid acceptance of our RISE product line enabled us to discontinue older models more quickly than anticipated, resulting in an

COSTAR TECHNOLOGIES, INC.

increased inventory reserve for the end-of-life products, which negatively impacted our gross profit margin for the quarter by 210 basis points. Aside from the effect of that program, our gross profit margin improved 120 basis points.”

“We head into the second quarter with a solid backlog and higher growth in our general security markets. I am optimistic that 2018 will be another positive year showing year-over-year growth for our Company,” concluded Mr. Pritchett.

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 the income tax effect relating to the revaluation of the Company’s deferred tax asset. The Company defines adjusted EBITDA, a non-GAAP measure, as earnings before interest, taxes, depreciation, amortization, transaction and related expenses and adjustments to the fair value of acquisition-related contingent consideration. The following tables reconcile the non-GAAP financial measures disclosed in this release to GAAP net income (loss):

	Quarter Ended 3/31/18	Quarter Ended 3/31/17
Adjusted Earnings	399	252
Less:		
Stock Based Compensation	(42)	(25)
Intangible Amortization	(307)	(318)
Contingent Consideration Fair Value Adjustment		
Transaction and Related Expenses		(68)
Revaluation of Deferred Tax Asset		
Net Income (Loss)	50	(159)

	Quarter Ended 3/31/18	Quarter Ended 3/31/17
Adjusted EBITDA	551	316
Less:		
Interest	(89)	(123)
Income Taxes	(18)	88
Depreciation	(87)	(54)
Amortization	(307)	(318)
Transaction and Related Expenses		(68)
Contingent Consideration Fair Value Adjustment		
Net Income (Loss)	50	(159)

COSTAR TECHNOLOGIES, INC.

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.

* * * * *

COSTAR TECHNOLOGIES, INC.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AMOUNTS SHOWN IN THOUSANDS)

	March 31, 2018 (Reviewed)	December 31, 2017 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 17	\$ 196
Accounts receivable, less allowance for doubtful accounts of \$164 and \$97 in 2018 and 2017, respectively	7,180	7,246
Inventories, net of reserve for obsolescence of \$1,052 and \$815 in 2018 and 2017, respectively	10,318	9,529
Prepaid expenses	772	790
Total current assets	18,287	17,761
Non-current assets		
Property and equipment, net	857	861
Deferred financing costs, net	23	26
Deferred tax asset, net	2,916	2,916
Trade names, net	2,582	2,667
Distribution agreement, net	606	624
Customer relationships, net	5,421	5,600
Covenant not to compete, net	118	126
Patents, net	7	7
Technology, net	385	402
Goodwill	5,574	5,574
Other non-current assets	96	96
Total non-current assets	18,585	18,899
Total assets	\$ 36,872	\$ 36,660
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,002	\$ 3,829
Accrued expenses and other	1,914	2,532
Line of credit	961	
Current maturities of long-term debt	991	740
Contingent purchase price	346	346
Current maturities of notes payable, related party	766	753
Total current liabilities	8,980	8,200
Long-Term liabilities		
Long-term debt, net of current maturities	3,978	4,476
Contingent purchase price, net of current portion	1,101	1,101
Notes payable, related party, net of current maturities	608	805
Total long-term liabilities	5,687	6,382
Total liabilities	14,667	14,582
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	156,844	156,767
Accumulated deficit	(130,121)	(130,171)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	22,205	22,078
Total liabilities and stockholders' equity	\$ 36,872	\$ 36,660

101 WRANGLER DRIVE, STE. 201 • COPPELL, TX • 75019

PHONE: 469.635.6800 • FAX: 469.635.6822

COSTAR TECHNOLOGIES, INC.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

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

	Three Months Ended March 31,	
	2018	2017
	(Reviewed)	(Reviewed)
Net revenues	\$ 10,917	\$ 9,571
Cost of revenues	6,782	5,857
Gross profit	4,135	3,714
Selling, general and administrative expenses	3,291	3,129
Engineering and development expense	689	644
Transaction and related expense	68	68
	3,980	3,841
Income (loss) from operations	155	(127)
Other income (expenses)		
Interest expense	(89)	(123)
Other income, net	2	3
Total other expenses, net	(87)	(120)
Income (loss) before taxes	68	(247)
Income tax provision (benefit)	18	(88)
Net income (loss)	\$ 50	\$ (159)
<u>Net income (loss) per share:</u>		
Basic	\$ 0.03	\$ (0.11)
Diluted	\$ 0.03	\$ (0.11)
Weighted average shares outstanding		
Basic	1,546	1,493
Diluted	1,589	1,493

###

101 WRANGLER DRIVE, STE. 201 • COPPELL, TX • 75019
PHONE: 469.635.6800 • FAX: 469.635.6822