



FOR IMMEDIATE RELEASE
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CONTACT: Sarah Ryder
Chief Financial Officer
Costar Technologies, Inc.
(858) 391-1750

Costar Technologies, Inc. Announces Financial Results
For the Second Quarter Ended June 30, 2020
(\$ in thousands except per share amounts)

Coppell, Texas – August 13, 2020 – Costar Technologies, Inc. (the “Company”) (OTC Markets Group: CSTI) announced today its financial results for the second quarter ended June 30, 2020 that have been reviewed by the independent accounting firm BKD, LLP.

Financial Results for the Quarter Ended June 30, 2020

- Revenues of \$14,640, a 28.3% decrease compared to the second quarter of 2019.
- Operating expenses, net of restructuring costs, were down 29.7% to \$5,321, compared to \$7,564 in the second quarter of 2019.
- GAAP net loss of \$498, or (\$0.31) per diluted share, compared to GAAP net income of \$561, or \$0.35 per diluted share, in the second quarter of 2019.
- Adjusted earnings of \$508, or \$0.32 per diluted share, compared to \$972, or \$0.60 per diluted share for the quarter ended June 30, 2019. Adjusted earnings of \$664, or \$0.42 per diluted share for the six months ended June 30, 2020, compared to (\$1,250), or (\$0.80) per diluted share for the six months ended June 30, 2019. Adjusted earnings, a non-GAAP measure, is defined below.
- Adjusted EBITDA of \$650 compared to \$1,593 for the quarter ended June 30, 2019. Adjusted EBITDA of \$1,150 compared to (\$1,106) for the six months ended June 30, 2019. Adjusted EBITDA, a non-GAAP measure, is defined below.

Scott Switzer, the Company's Interim Chief Executive Officer, stated, “Challenges from the COVID-19 pandemic have impacted many businesses in the second quarter of 2020, and ours was no exception. The effects of business restrictions, temporary shutdowns and closures on our customers resulted in a decline in demand for our products. During the second quarter we

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launched a “One Costar” initiative to unify our organization which resulted in significant cost savings, increased efficiencies, and improved employee collaboration across all our subsidiaries. As restrictions and closures ease, we are beginning to see increased quotation activity which we are confident will drive third quarter revenue wins. In addition, in the second quarter we released four new cameras that completes our family of mid-range products and will position us to enter new markets. Finally, in July we hired a Chief Revenue Officer to better leverage our sales team, improve our channel partner programs, and enhance our ability to meet the needs of our customers.”

Sarah Ryder, the Company’s Chief Financial Officer, went on to say, “During this unprecedented time we successfully restructured the organization, improving efficiency and reducing operating expenses by 30%. These efforts helped offset softness in revenue during the quarter resulting from the COVID-19 pandemic. We continue to have constructive conversations with our bank, UMB, as we work to obtain a waiver and modify our covenants to facilitate future compliance. Strong financial performance in the first quarter, combined with material cost reductions achieved in the second quarter, have better positioned the Company to navigate throughout this uncertain economic environment.” For more information regarding the Company’s loan agreements, see Note 7 of the Company’s financial statements.

The Company’s 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 6/30/20	Quarter Ended 6/30/2019	Six Months Ended 6/30/20	Six Months Ended 6/30/19
Adjusted Earnings	508	972	664	(1,250)
Less:				
Stock-Based Compensation	(53)	(87)	(85)	(173)
Intangible Amortization	(318)	(324)	(635)	(648)
Restructuring Costs	(635)		(635)	
Net Income (Loss)	(498)	561	(691)	(2,071)

	Quarter Ended 6/30/20	Quarter Ended 6/30/2019	Six Months Ended 6/30/20	Six Months Ended 6/30/19
Adjusted EBITDA	650	1,593	1,150	(1,106)
Less:				
Interest	(207)	(348)	(498)	(656)
Income Taxes (Benefit)	178	(157)	243	729
Depreciation	(113)	(116)	(231)	(217)
Intangible Amortization	(318)	(324)	(635)	(648)
Stock-Based Compensation	(53)	(87)	(85)	(173)
Restructuring Costs	(635)		(635)	
Net Income (Loss)	(498)	561	(691)	(2,071)

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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.

COSTAR TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (AMOUNTS SHOWN IN THOUSANDS)

	June 30, 2020 (Reviewed)	December 31, 2019 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1	\$ 1
Accounts receivable, less allowance for doubtful accounts of \$292 and \$396 in 2020 and 2019, respectively	8,076	9,056
Inventories, net of reserve for obsolescence of \$1,167 and \$1,264 in 2020 and 2019, respectively	20,285	20,196
Prepaid expenses and other current assets	2,728	2,295
Total current assets	31,090	31,548
Non-current assets		
Property and equipment, net	742	910
Deferred financing costs, net	39	59
Deferred tax asset, net	4,514	4,514
Trade names, net	2,017	2,198
Distribution agreements, net	749	801
Customer relationships, net	3,848	4,187
Covenants not to compete, net	45	60
Patents, net	154	169
Technology, net	235	268
Goodwill	6,513	6,513
Right of use assets	2,664	3,131
Other non-current assets	149	149
Total non-current assets	21,669	22,959
Total assets	\$ 52,759	\$ 54,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,784	\$ 5,639
Accrued expenses and other	6,803	5,879
Line of credit	13,570	15,953
Current maturities of long-term debt, net of unamortized financing fees	3,984	781
Contingent purchase price	990	1,490
Current maturities of notes payable, unrelated party	83	583
Current maturities of lease liabilities	1,021	990
Total current liabilities	31,235	31,315
Long-Term liabilities		
Long-term debt, net of current maturities and unamortized financing fees		3,592
Payroll Protection Program loan	3,025	
Non-current maturities of lease liabilities	1,871	2,389
Total long-term liabilities	4,896	5,981
Total liabilities	36,131	37,296
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	157,586	157,478
Accumulated deficit	(136,440)	(135,749)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	16,628	17,211
Total liabilities and stockholders' equity	\$ 52,759	\$ 54,507

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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,	
	2020	2019	2020	2019
	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
Net revenues	\$ 14,640	\$ 20,425	\$ 31,668	\$ 34,814
Cost of revenues	9,154	11,796	19,532	21,473
Gross profit	5,486	8,629	12,136	13,341
Selling, general and administrative expenses	4,198	6,024	9,383	12,537
Engineering and development expense	1,123	1,540	2,555	2,949
Restructuring costs	635	635	635	635
	5,956	7,564	12,573	15,486
Income (loss) from operations	(470)	1,065	(437)	(2,145)
Other expenses				
Interest expense	(207)	(348)	(498)	(656)
Other income (expense), net	1	1	1	1
Total other expenses, net	(206)	(347)	(497)	(655)
Income (loss) before taxes	(676)	718	(934)	(2,800)
Income tax provision (benefit)	(178)	157	(243)	(729)
Net income (loss)	\$ (498)	\$ 561	\$ (691)	\$ (2,071)
<u>Net income (loss) per share:</u>				
Basic	\$ (0.31)	\$ 0.36	\$ (0.43)	\$ (1.32)
Diluted	\$ (0.31)	\$ 0.35	\$ (0.43)	\$ (1.32)
<u>Weighted average shares outstanding:</u>				
Basic	1,597	1,579	1,593	1,572
Diluted	1,597	1,611	1,593	1,572

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