



FOR IMMEDIATE RELEASE
November 13, 2020

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

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

Financial Results for the Quarter Ended September 30, 2020

- Revenues of \$15,727, a 11.5% decrease compared to the third quarter of 2019.
- Operating expenses, net of a goodwill impairment loss of \$939, were down 19.4% to \$5,062, compared to \$6,283 in the third quarter of 2019.
- GAAP net loss of \$8,292, or (\$5.17) per diluted share, compared to GAAP net income of \$840, or \$0.51 per diluted share, in the third quarter of 2019.
- Adjusted earnings of \$372, or \$0.23 per diluted share, compared to \$1,287, or \$0.79 per diluted share, for the quarter ended September 30, 2019. Adjusted earnings of \$1,036, or \$0.65 per diluted share, for the nine months ended September 30, 2020, compared to \$37, or \$0.02 per diluted share, for the nine months ended September 30, 2019. Adjusted earnings, a non-GAAP measure, is defined below.
- Adjusted EBITDA of \$974, compared to \$2,010 for the quarter ended September 30, 2019. Adjusted EBITDA of \$2,124, compared to \$904 for the nine months ended September 30, 2019 Adjusted EBITDA, a non-GAAP measure, is defined below.

Scott Switzer, the Company’s Interim Chief Executive Officer stated, “Like many businesses, we continue to adapt and evolve in response to the global pandemic. Our “One Costar” initiative has led to increased collaboration across our subsidiaries which has opened the door to new opportunities by expanding our ability to introduce products into new markets. The initiative has

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also driven many efficiencies that increase our agility to respond to the ever-changing market environment. I am encouraged by how well our team continues to navigate new challenges while remaining focused on providing industry leading customer service and support.”

Sarah Ryder, the Company’s Chief Financial Officer, went on to say, “During the third quarter we saw a nearly 7.5% increase in revenue over the prior quarter, while realizing the benefit of expense reduction efforts executed throughout the second and third quarters. There were large non-cash charges incurred in the quarter as we put a valuation allowance on our deferred tax asset, recognized an impairment loss on the goodwill associated with the Arecont Vision acquisition and modified our inventory excess and obsolescence reserve policy. We will continue to evaluate our cost structure to ensure alignment with potential COVID-19 related restrictions which may continue to impact revenue.”

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 9/30/20	Quarter Ended 9/30/2019	Nine Months Ended 9/30/20	Nine Months Ended 9/30/19
Adjusted Earnings	372	1,287	1,036	37
Less:				
Stock-Based Compensation	(27)	(124)	(112)	(297)
Intangible Amortization	(318)	(323)	(953)	(971)
Restructuring Costs			(635)	
Impairment Loss	(939)		(939)	
Revaluation of Deferred Tax Asset	(4,614)		(4,614)	
Modification to Inventory Reserve Policy	(2,766)		(2,766)	
Net Income (Loss)	(8,292)	840	(8,983)	(1,231)

	Quarter Ended 9/30/20	Quarter Ended 9/30/2019	Nine Months Ended 9/30/20	Nine Months Ended 9/30/19
Adjusted EBITDA	974	2,010	2,124	904
Less:				
Interest	(205)	(350)	(703)	(1,006)
Income Taxes (Benefit)	(4,896)	(255)	(4,653)	474
Depreciation	(115)	(118)	(346)	(335)
Intangible Amortization	(318)	(323)	(953)	(971)
Stock-Based Compensation	(27)	(124)	(112)	(297)
Restructuring Costs			(635)	
Impairment Loss	(939)		(939)	
Modification to Inventory Reserve Policy	(2,766)		(2,766)	
Net Income (Loss)	(8,292)	840	(8,983)	(1,231)

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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 2020. 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, 2020 (Reviewed)	December 31, 2019 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1	\$ 1
Accounts receivable, less allowance for doubtful accounts of \$249 and \$396, respectively	9,467	9,056
Inventories	15,974	20,196
Prepaid expenses and other current assets	2,286	2,295
Total current assets	27,728	31,548
Non-current assets		
Property and equipment, net	645	910
Deferred financing costs, net	30	59
Deferred tax asset, net		4,514
Intangible assets, net	6,730	7,683
Goodwill	5,574	6,513
Right of use assets	2,426	3,131
Other non-current assets	149	149
Total non-current assets	15,554	22,959
Total assets	\$ 43,282	\$ 54,507
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,362	\$ 5,639
Accrued expenses and other	6,473	5,879
Line of credit	14,030	15,953
Current maturities of long-term debt, net of unamortized financing fees	3,789	781
Contingent purchase price	498	1,490
Current maturities of notes payable, unrelated party		583
Current maturities of lease liabilities	1,035	990
Total current liabilities	30,187	31,315
Long-Term liabilities		
Long-term debt, net of current maturities and unamortized financing fees		3,592
Payroll Protection Program loan	3,025	
Deferred tax liability	100	
Non-current maturities of lease liabilities	1,607	2,389
Total long-term liabilities	4,732	5,981
Total liabilities	34,919	37,296
Stockholders' Equity		
Preferred stock		
Common stock	3	3
Additional paid-in capital	157,613	157,478
Accumulated deficit	(144,732)	(135,749)
Less common stock held in treasury, at cost	(4,521)	(4,521)
Total stockholders' equity	8,363	17,211
Total liabilities and stockholders' equity	\$ 43,282	\$ 54,507

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Reviewed)	(Reviewed)	(Reviewed)	(Reviewed)
Net revenues	\$ 15,727	\$ 17,774	\$ 47,395	\$ 52,588
Cost of revenues	<u>12,917</u>	<u>10,054</u>	<u>32,449</u>	<u>31,527</u>
Gross profit	2,810	7,720	14,946	21,061
Selling, general and administrative expenses	4,065	4,821	13,448	17,358
Engineering and development expense	997	1,462	3,552	4,411
Restructuring costs			635	
Impairment loss	<u>939</u>	<u> </u>	<u>939</u>	<u> </u>
	6,001	6,283	18,574	21,769
Income (loss) from operations	<u>(3,191)</u>	<u>1,437</u>	<u>(3,628)</u>	<u>(708)</u>
Other expenses				
Interest expense	(205)	(350)	(703)	(1,006)
Other income, net	<u> </u>	<u>8</u>	<u>1</u>	<u>9</u>
Total other expenses, net	<u>(205)</u>	<u>(342)</u>	<u>(702)</u>	<u>(997)</u>
Income (loss) before taxes	(3,396)	1,095	(4,330)	(1,705)
Income tax provision (benefit)	<u>4,896</u>	<u>255</u>	<u>4,653</u>	<u>(474)</u>
Net income (loss)	<u>\$ (8,292)</u>	<u>\$ 840</u>	<u>\$ (8,983)</u>	<u>\$ (1,231)</u>
<u>Net income (loss) per share:</u>				
Basic	\$ (5.17)	\$ 0.53	\$ (5.63)	\$ (0.78)
Diluted	\$ (5.17)	\$ 0.51	\$ (5.63)	\$ (0.78)
<u>Weighted average shares outstanding:</u>				
Basic	1,603	1,597	1,596	1,576
Diluted	1,603	1,633	1,596	1,576