

Costar Technologies, Inc.
**Letter from the Interim President and Chief
Executive Officer**



OTC: CSTL.PK
www.costartechnologies.com



September 25, 2020

Dear Shareholders,

Over the last twelve months, Costar Technologies, Inc. and its dedicated employees have made tremendous strides in improving operational efficiencies, unifying our organization, and maintaining business continuity during a very challenging time. Our organization has proven it is resilient, dedicated and engaged by continuing to deliver world class products and services to our customers.

The COVID-19 pandemic created an unprecedented and unpredictable business environment for many companies, and we were no exception. Many of the markets we serve temporarily shut down or experienced reduced operations. While we lost momentum with some of our sales channels, our teams worked diligently to identify new sales opportunities as a result of the pandemic. We have adapted to not only working remotely but also to connecting with our customers and end users in a more virtual way. We also secured a Paycheck Protection Program (PPP) loan which provided additional liquidity for our business.

In response to the pandemic, we accelerated our plans to unify the organization and increase operational efficiencies. We launched a “One Costar” initiative to reorganize and centralize key functions across subsidiaries, such as engineering, technical support, sales operations, global supply chain, and product quality. Not only has this provided a more unified experience for our customers, it has allowed us to leverage the strengths of our team members across the entire organization.

Our One Costar initiative established four key pillars, keeping our customers at the forefront of everything we do:

- creating a *Unified Engaged Organization* by leveraging our talented people and unifying our processes to enhance our speed to market, driving revenue growth, improving efficiency, and fully engaging all team members in cross-departmental collaboration;
- continuing the longtime Costar commitment to *Quality and Reliability* in the delivery of

outstanding products to our customers;

- delivering *World Class Service and Support* to all our customers worldwide; and
- enhancing *Innovation*, with new products, processes and tools to create a culture of continuous improvement and learning.

Fast-tracking this initiative strengthened our Company by providing a higher level of service to our customers, increasing operational and process efficiencies and creating a culture of collaboration and engaged employees. Our operational costs have been reduced by approximately 30% compared to the same time last year and we have improved upon the already high level of support and service we provide our customers and end users. I am delighted with our team for embracing the One Costar initiative and very pleased with the results from the program thus far.

In terms of our financial performance, Costar generated revenues of \$69.5 million and a net loss of (\$2.7) million in 2019, compared to revenues of \$58.9 million and a net loss of (\$2.9) million in 2018. In 2019, our CohuHD segment sales decreased 21% to \$15.5 million from \$19.5 million in 2018, with net income (loss) decreasing to (\$1.9) million from \$334,000 in net income the prior year. Our Costar Video Systems segment sales increased 37% to \$54.1 million from \$39.4 million in 2018, with net income (loss) increasing to \$2.2 million from (\$482,000) in net loss in the prior year. In 2019, Arecont Vision contributed revenues of \$24.1 million and a net loss of (\$2.5) million to the Costar Video Systems segment. 2019 was a transitional year for the Company with the further integration and turnaround of the Arecont acquisition. In addition, several large transportation orders at CohuHD were delayed from 2019 into the first quarter of 2020.

In closing, I would like to recognize our employees, who have risen to meet the difficult challenges we have faced and remain optimistic and committed to the future success of the organization. I would also like to thank our customers, shareholders, board, and partners for their commitment to Costar Technologies and their continued support.

Sincerely,

Scott Switzer
Interim 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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COMPANY FINANCIAL INFORMATION

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

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Our Annual Report can also be downloaded from our website at www.costartechnologies.com.