

Costar Technologies, Inc.

Letter from the President and Chief Executive Officer



OTC: CSTL.PK
www.costartechnologies.com



August 25, 2016

Dear Stockholders,

2015 was one of the most challenging years for Costar Technologies, as revenues and profits for the year were below expectations in both segments of our business. Revenues declined at our Costar Video Systems segment as our largest customer significantly decreased its overall security spend for the year. Our CohuHD segment also experienced a decline in revenue due to the delayed launch of its new RISE product series and delays in federal transportation funding.

CohuHD successfully released its first RISE product in Q3 2015 and in December 2015 the federal government passed a transportation funding bill allocating approximately \$305 billion in funding over the next five years. The launch of the new RISE product portfolio, the increase in federal and state funding and the growth of our smaller, non-concentrated customers should contribute to improved growth and profitability in 2016. In particular, with new transportation funding in place, CohuHD's backlog is the highest it has been in the past few years.

We were clearly tested in 2015. I am proud of our team which has proven experience managing through tough periods. I am grateful for their dedication and tireless efforts and appreciate their numerous accomplishments.

Over the years, our revenue and EBITDA have experienced various up and down "spikes." While we have taken steps to minimize this volatility, even with these "spikes" we generated \$1.6 million of EBITDA in 2015, doubling EBITDA from just four years ago. Sales increased to \$33.7 million in 2015 from \$19.6 million in 2012, which equals a 14.5% Compound Annual Growth Rate ("CAGR") over that period, consistent with our historical average. The improvement in EBITDA is primarily due to an increase in gross annual profit from \$5.7 million to \$13.2 million over the last four years, or a 23.4% CAGR, due to the addition of the CohuHD operating segment, significant cost savings and a more favorable product mix of higher margin digital video recorders and network products.

In this environment, companies must invest to grow while staying competitive and responsive. Growth is available, but you have to work for it. We continually strive to get more out of the market than our peers. We continue to upgrade the performance of our existing products and introduce new network video product families to increase our market share. The network segment of our product line continues to grow rapidly – increasing 36% last year. The majority of our new hires continue to be in the sales and support areas for network video products in order to drive our growth in this segment.

Our business strategy has been, and continues to be, to focus on targeted accounts with multiple locations which have a low business acquisition cost. As these long-term customers approach the mean-time-to-failure of equipment, we typically experience an increase in the rate of replacement. In addition to the increased replacement rate, older locations are being completely remodeled with new technology. In the years ahead, we expect an increase in earnings from a revenue model made up of new locations, remodel programs and service.

We continue to see signs of slow economic growth and remain cautious. China's financial difficulties have increased the level of competition for commodity products. To counter this, we continue to increase our "value add" by providing superior sales and technical support to our customers. We have an experienced team that is rewarded only when they deliver.

Our Board of Directors continues to be an integral part of the governance, development and strategic initiatives of our business. The Board consistently provides strong leadership and direction and is a guiding force in our efforts to maximize long-term value for our stockholders. I am thankful for the Board's strong commitment and wise stewardship of Costar Technologies.

We thank you for your trust and investment in Costar Technologies. The ongoing support of our stockholders is greatly appreciated.

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.

DIRECTORS

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

COMPANY HEADQUARTERS

101 Wrangler Drive, Suite 201
Coppell, TX 75019

OFFICERS

James D. Pritchett
President and Chief Executive Officer

Scott Switzer
Chief Financial Officer and Secretary

STOCK TRANSFER AGENT

Computershare Inc.
250 Royall Street
Canton, MA 02021

INDEPENDENT AUDITORS

RSM US LLP
1 S Wacker Drive, Suite 800
Chicago, IL 60606

GENERAL/CORPORATE COUNSEL

Ruskin Moscou Faltischek, P.C.
1425 RXR Plaza
Uniondale, NY 11556

COMPANY FINANCIAL INFORMATION

A Copy of 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

It can also be downloaded from our website at www.costartechnologies.com.