

Costar Technologies, Inc.

Letter from the President and Chief Executive Officer



OTC: CSTL.PK
www.costartechnologies.com



September 20, 2018

Dear Shareholders,

I am pleased to report to you that the Costar Technologies team has continued to make significant advancements throughout the year to better position our business for future growth and increased market success. While the overall security market has continued to face ongoing business, competitive, and legislative challenges, I believe that Costar is better positioned than ever before as we evolve into a major player in the industry.

In 2017, we continued to move forward with our focus on key customer markets while investing strategically to enable the Company to drive more value for our shareholders. We are accomplishing this strategy by our efforts to scale our businesses, increase our US-based design and manufacturing capabilities, enhance our product lines, grow our customer base, and deliver continuous improvements to our sales and support efforts.

Our Costar Video Systems segment has successfully completed a planned, multi-year process to replace revenue from one of our largest customers which experienced a major reduction in its new store openings. CohuHD introduced the new RISE 4290HD dual-headed thermal and visual camera which was recognized with a 2017 GSN Airport, Seaport, Border Security Award by *Government Security News*. CohuHD also won a \$2.4 million contract with the RISE 4290HD for a major critical infrastructure project in Saudi Arabia. We see the RISE 4290HD as an ideal product for many homeland security, border surveillance, and critical infrastructure monitoring applications.

Costar achieved net income of \$2.3 million in 2017 (exclusive of \$2.7 million in tax expense due to a revaluation of the Company's Deferred Tax Asset to the lower corporate income tax rate effective in 2018), an increase of 263% compared to 2016 net income of \$634,000. In 2017, our CohuHD segment sales increased 14% to \$19.9 million from \$17.5 million in 2016, with net income increasing to \$1.2 million from \$1.1 million the prior year. Our Costar Video Systems segment sales increased 16% to \$24.3 million from \$21.0 million in 2016, with net income increasing to \$4.9 million from \$2.7 million in the prior year. SG&A expenses increased by 18%.

Most recently, we invested in the acquisition of Arecont Vision, a pioneer in megapixel camera design and manufacturing, completing the purchase in July 2018. Along with our other recent acquisitions, Arecont Vision greatly enhances our design and manufacturing capabilities, and transforms our business from an OEM value-added business to a business that designs and manufactures products responsible for 75% of our revenue. Arecont Vision, headquartered in Glendale, California, has led much of the market development for professional IP network megapixel cameras in video surveillance and security applications, shipping over 1.1 million units to date. Arecont Vision's customers around the world include multiple, large vertical segments, several of which were not previously key markets for Costar. Employing roughly 90 people and generating approximately \$40 million in revenue last year, the purchase of Arecont Vision (which we have renamed Arecont Vision Costar) significantly increases our addressable market and global presence for future growth.

Our board of directors has provided strong support and valuable guidance to our management team in our continuing transformation into a US-based design, development, and manufacturing business. I am truly thankful for their commitment to Costar as we continually strive to deliver increased value for our shareholders.

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*
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Jared L. Landaw
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James D. Pritchett

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