

**COSTAR TECHNOLOGIES, INC.**

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**Notice of 2012 Annual Meeting of Stockholders  
To be Held on November 14, 2012**

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To the Stockholders of Costar Technologies, Inc.:

The 2012 Annual Meeting of Stockholders of Costar Technologies, Inc. will be held at the offices of Herrick, Feinstein LLP, 2 Park Avenue, New York, New York 10016, on Wednesday, November 14, 2012 at 10:00 a.m., local time, for the following purposes:

1. to elect five directors to serve for a term of one year;
2. to ratify the selection of Rothstein Kass & Company, P.C. as our independent registered public accounting firm for the fiscal year ended December 31, 2012; and
3. to transact such other business as may properly come before the annual meeting.

The record date for determining stockholders entitled to vote at the annual meeting is the close of business on October 10, 2012. Whether or not you plan to attend the annual meeting, please sign and date the enclosed proxy and promptly return it in the pre-addressed envelope provided for that purpose. Any stockholder may revoke his or her proxy at any time before the annual meeting by giving written notice to such effect, by submitting a subsequently dated proxy or by attending the annual meeting and voting in person.

Scott Switzer  
Secretary

Coppell, Texas  
October 10, 2012

**COSTAR TECHNOLOGIES, INC.  
101 WRANGLER DRIVE  
COPPELL, TEXAS 75019**

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**PROXY STATEMENT**

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**Questions and Answers Regarding This Proxy Statement**

**When is the annual meeting and where will it be located?** The meeting will take place on Wednesday, November 14, 2012, at 10:00 a.m., local time, at the offices of Herrick, Feinstein LLP, 2 Park Avenue, New York, New York 10016.

**Who is soliciting your proxy?** The proxy solicitation is being made by the Board of Directors of Costar Technologies, Inc. (When we use the terms "we", "us", "our", "Costar" and "the Company", we are referring to Costar Technologies, Inc.) Proxies may also be solicited by our officers and employees, but such persons will not be specifically compensated for such services. Original solicitation of proxies by mail may be supplemented by telephone, telegram or other electronic means.

**When will the proxy statement be mailed to stockholders?** This proxy statement will first be mailed to stockholders on or about October 15, 2012.

**What is the record date and who may attend the annual meeting?** Our Board of Directors has selected the close of business on October 10, 2012 as the record date for determining the stockholders of record who are entitled to attend and vote at the annual meeting. This means that all stockholders of record as of the close of business on October 10, 2012 may vote their shares of common stock at the Annual Meeting. If your shares are held through a broker and you would like to attend, please bring a copy of your brokerage account statement reflecting your ownership of our shares on the record date or an omnibus proxy (which you can get from your broker) and we will permit you to attend the annual meeting.

**Who is paying for the solicitation of proxies?** We will pay all expenses of preparing and soliciting proxies. We may also reimburse brokerage houses, nominees, custodians and fiduciaries for expenses in forwarding proxy materials to the beneficial owners of shares of our common stock held of record.

**Who may vote at the annual meeting?** If you are a holder of common stock as of the close of business on October 10, 2012, you will have one vote for each share of common stock that you hold on each matter that is presented for action at the annual meeting. If you have common stock that is registered in the name of a broker, your broker will forward your proxy materials and will vote your shares as you indicate. You may receive more than one proxy card if your shares are registered in different names or are held in more than one account.

**How do you vote?** Sign and date each proxy card you receive and return it in the prepaid envelope. Stockholders who hold their shares through a bank or broker can also vote via the Internet if this option is offered by the bank or broker. Any stockholder may revoke his or her proxy, whether he or she votes by mail or the Internet, at any time before the annual meeting by written notice to such effect received by us at the address set forth above, attn: corporate secretary, by delivery of a subsequently dated proxy or by attending the annual meeting and voting in person.

**How will your shares be voted?** All properly completed and unrevoked proxies that are received prior to the close of voting at the annual meeting will be voted in accordance with the instructions made.

Brokers, banks, or other nominees that hold shares of common stock in "street name" for a beneficial owner of those shares typically have the authority to vote in their discretion if permitted by the stock exchange or other organization of which they are members. Brokers, banks, and other nominees are permitted to vote the beneficial owner's proxy in their own discretion as to certain "routine" proposals when they have not received instructions from the beneficial owner, such as the ratification of the appointment of Rothstein Kass & Company, P.C. as the independent registered public accountant of the Company for the fiscal year ending December 31, 2012. If a broker, bank, or other nominee votes such "uninstructed" shares for or against a "routine" proposal, those shares will be counted towards determining whether or not a quorum is present and are considered entitled to vote on the

“routine” proposals. However, where a proposal is not “routine,” a broker, bank, or other nominee is not permitted to exercise its voting discretion on that proposal without specific instructions from the beneficial owner. These non-voted shares are referred to as “broker non-votes” when the nominee has voted on other non-routine matters with authorization or voted on routine matters. These shares will be counted towards determining whether or not a quorum is present, but will not be considered entitled to vote on the “non-routine” proposals.

**Please note that the rules regarding how brokers, banks, or other nominees may vote your shares have changed. Brokers, banks, and other nominees cannot use discretionary authority to vote shares on the election of directors if they have not received specific instructions from their clients. For your vote to be counted in the election of directors, you now will need to communicate your voting decisions to your broker, bank, or other nominee before the date of the meeting.**

Broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. Abstentions, on the other hand, have the same effect as votes against the matters being voted on at the meeting.

**Is your vote confidential?** Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to the transfer agent and are handled in a manner that protects your voting privacy. Your vote will not be disclosed except as needed to permit the transfer agent to tabulate and certify the vote and as required by law. Additionally, all comments written on the proxy card or elsewhere will be forwarded to management. Your identity will be kept confidential, unless you ask that your name be disclosed.

**What constitutes a quorum?** The presence at the annual meeting, in person or by proxy, of holders of a majority of the issued and outstanding shares of common stock as of the record date is considered a quorum for the transaction of business. If you submit a properly completed proxy or if you appear at the annual meeting to vote in person, your shares of common stock will be considered part of the quorum. Directions to withhold authority to vote for any director, abstentions, and broker non-votes will be counted as present to determine if a quorum for the transaction of business is present. Once a quorum is present, voting on specific proposals may proceed. In the absence of a quorum, the annual meeting shall be adjourned.

As of the close of business on September 30, 2012, 1,457,520 shares of common stock were issued and outstanding. We do not expect our number of issued and outstanding shares to change materially as of the record date. The common stock is our only class of securities entitled to vote, each share being entitled to one non-cumulative vote.

**How many votes are needed to approve each proposal?** Directors will be elected by a plurality of the votes of the shares of our common stock that are present in person or by proxy at the annual meeting. The approval of the measure to ratify our independent auditors requires the affirmative vote of the holders of a majority of the voting power of our common stock that are present in person or by proxy at the annual meeting.

## PROPOSAL 1

### ELECTION OF DIRECTORS

At the annual meeting, you will elect five individuals to our Board of Directors. Each director will hold office until the next annual meeting and until his respective successor is elected and qualified. In the event that any nominee for director withdraws or for any reason is not able to serve as a director, we will vote your proxy for the remainder of those nominated for director (except as otherwise indicated in your proxy) and for any replacement nominee designated by our Board of Directors.

Our Nominating and Corporate Governance Committee has nominated the five individuals listed below to serve as directors of the Company. All of the nominees are currently members of our Board of Directors.

#### Information Concerning Nominees

<u>Name</u>	<u>Age</u>	<u>Position with the Company</u>	<u>Director Since</u>
Rory J. Cowan	59	Chairman of the Board of Directors <sup>(1)(2)(3)</sup>	2001
James Pritchett	65	President, Chief Executive Officer and Director <sup>(4)</sup>	2009
Jared L. Landaw	47	Director <sup>(2)(3)(4)</sup>	2008
Gregory T. Hradsky	52	Director <sup>(1)(3)(4)</sup>	2008
Jeffrey S. Wald	38	Director <sup>(1)(2)</sup>	2010

<sup>(1)</sup> Member of Audit Committee

<sup>(2)</sup> Member of Nominating and Corporate Governance Committee

<sup>(3)</sup> Member of Compensation Committee

<sup>(4)</sup> Member of Strategic Committee (Mr. Pritchett is a non-voting member)

**Mr. Rory J. Cowan** has served as one of our directors since March 2001 and was appointed our Chairman in June 2003. Mr. Cowan is the founder of Lionbridge Technologies, Inc., a provider of globalization products and services for worldwide deployment of technology and information-based products, where he has served as Chairman of the Board and Chief Executive Officer since September 1996. From September 1996 to March 2000, Mr. Cowan also served as President of Lionbridge. Before founding Lionbridge, Mr. Cowan served on the board of Interleaf, Inc., a document management software company from 1995 until its sale in 2000. He also served as its interim Chief Executive Officer from October 1996 until January 1997. From May 1995 to June 1996, Mr. Cowan served as Chief Executive Officer of Stream International, Inc., a software and services provider and a division of R.R. Donnelley & Sons, a provider of commercial print and print-related services. Mr. Cowan joined R.R. Donnelley in 1988 and served most recently as Executive Vice President from 1991 to 1996. Before joining R.R. Donnelley, Mr. Cowan was founder of CSA Press, a software duplication firm, and held positions at Compugraphic Corporation, an automated publishing hardware firm. During his career, Mr. Cowan has served on the boards of multiple public and private companies.

**Mr. James D. Pritchett** has served as our President and Chief Executive Officer and as one of our directors since January 2009. Mr. Pritchett has previously served as the President of Costar Video Systems, LLC since June 2006. Prior to that, he was the President of Video Solutions Technology Center, LLC and a director of Southern Imaging, Inc. from March 2001 until June 2006. Mr. Pritchett served as an independent business consultant from 1999 until March 2001. From 1988 until March 1999, Mr. Pritchett was an executive officer of Ultrak, Inc., a then-publicly-traded company that manufactured and sold products for the security and surveillance and industrial video markets, serving as the Executive Vice-President and Chief Operating Officer from 1988-1997 and as the President and Chief Executive Officer from 1997 until March 1999.

**Mr. Jared L. Landaw** has served as one of our directors since June 2008. He is the Chief Operating Officer and General Counsel of Barington Capital Group, L.P., an investment firm where he has been employed since 2004. From 1998 until 2003, Mr. Landaw worked at International Specialty Products Inc., a manufacturer of specialty chemicals and performance enhancing products, where he was the Vice President of Law. Prior to that, he was an attorney with the law firm Skadden, Arps, Slate, Meagher & Flom LLP in New York City.

**Mr. Gregory T. Hradsky** has been an independent financial consultant since February 2006. Between May 2003 and February 2006, Mr. Hradsky was a Vice President of Avenue Capital Group, a global investment firm, where he managed a portfolio of distressed securities, post-reorganization equities and other investments. From 1999 until 2003, Mr. Hradsky was the founder and Managing Partner of Bellport Capital, an investment firm specializing in distressed securities. Prior to that, Mr. Hradsky was a Managing Director and Head of the Distressed Securities Group at UBS Securities LLC from 1993 until 1998. Mr. Hradsky joined UBS in 1991 as a research analyst focusing on distressed credits. Prior to UBS, Mr. Hradsky was a member of the Distressed Securities Group and the High Yield Research Department at the First Boston Corporation from 1988-1991. He began his career at T. Rowe Price Associates in 1983 and worked in the Fixed Income Department until 1986. Mr. Hradsky is a director of Cyclacel Pharmaceuticals, Inc. (NASDAQ: CYCC), a biopharmaceutical company developing oral therapies for the treatment of cancer and other serious diseases.

**Mr. Jeffrey S. Wald** is the Chief Operating Officer and Chief Financial Officer of Work Market, Inc., a web-based platform for managing variable labor resources he co-founded in August 2010. From May 2008 until August 2010, Mr. Wald served as a Managing Director with Barington Capital Group. From March 2007 through May 2008, Mr. Wald was the Chief Operating Officer and Chief Financial Officer of Spinback, Inc., an internet commerce company he co-founded, which was sold to Buddy Media Corporation. From January 2003 to March 2007, he was a Vice President at The GlenRock Group, a private equity firm which invests in undervalued, middle market companies as well as emerging and early stage companies. Earlier in his career, Mr. Wald held positions in the mergers and acquisitions department at J. P. Morgan Chase & Co. Mr. Wald is a director of ModusLink Global Solutions, Inc. (NASDAQ: MLNK) the global leader in outsourced supply chain logistics and is a former director of Peerless Systems Corporation (NASDAQ: PRLS) a software licensing company and Register.com L.P., a private company which specializes in domain registration, website and business web hosting.

**Our Board of Directors unanimously recommends that you vote *FOR* the election of the nominees listed above.**

#### **Board of Directors and Committees of the Board of Directors**

Our business is managed under the direction of our Board of Directors. The Board consists of a single class of directors who are elected for a term of one year, such term beginning and ending at each annual meeting of stockholders. The Board presently consists of five members. There are no family relationships among any of our directors or executive officers.

**Audit Committee.** We have a separately designated standing audit committee. The current members of our Audit Committee are Gregory Hradsky, Rory Cowan and Jeffrey Wald. Our Board of Directors has determined that each member is “independent” and is “financially literate,” and that Mr. Hradsky qualifies as an Audit Committee Financial Expert under Exchange Act rules.

The Audit Committee hires our independent accountants and is charged with the responsibility of overseeing our financial reporting process. In the course of performing its functions, the Audit Committee reviews, with management and the independent accountants, our internal accounting controls, the annual financial statements, the report and recommendations of the independent accountants, the scope of the audit (if any) and the qualifications and independence of the auditors. As a result of the suspension of our reporting obligations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Audit Committee has determined not to obtain a full audit of our 2011 financial statements as a cost-cutting measure. A copy of the Audit Committee charter is available on the Company’s website at [www.costartechnologies.com](http://www.costartechnologies.com).

**Nominating and Corporate Governance Committee.** The Nominating and Corporate Governance Committee currently consists of Jared Landaw, Rory Cowan and Jeffrey Wald. Our Board of Directors has determined that each member is “independent.”

The Committee is responsible for identifying individuals who are qualified to become directors, recommending nominees for membership on the Board and committees of the Board, promulgating minimum qualifications that it believes must be met by director nominees, establishing policies for considering director candidates recommended by stockholders, implementing procedures for stockholders in submitting recommendations for director candidates and developing and recommending to the Board corporate governance guidelines.

The Committee has established a process for identifying and evaluating nominees for director. The Committee may solicit recommendations from any or all of the following sources: non-management directors, the Chief Executive Officer, other executive officers, third-party search firms or any other source it deems appropriate. The Committee will then, without regard to the source of the initial recommendation of such proposed director candidate, review and evaluate the qualifications of any such proposed director candidate, and conduct inquiries it deems appropriate. Upon identifying individuals qualified to become members of the Board, consistent with the minimum qualifications and other criteria approved by the Board from time to time, and provided that we are not legally required to provide third parties with the ability to nominate individuals for election as a member of the Board, the Committee will then recommend that the Board select the director nominees for election at each annual meeting of stockholders.

The Committee will consider director candidates recommended by our stockholders. A stockholder wishing to propose a nominee should submit a recommendation in writing to our Secretary at least 120 days before the mailing date for proxy material applicable to the annual meeting for which such nomination is proposed for submission, setting forth, among other things required by the Committee's charter, (i) the name, age, business address and, if known, residence address of each nominee, (ii) the principal occupation or employment of each such nominee for the past five years, (iii) the consent of the proposed director candidate to be named in the proxy statement relating to our annual meeting of stockholders and to serve as a director if elected at such annual meeting and (iv) any additional information regarding director nominees pursuant to the rules of the SEC. The Committee anticipates that it would use all of the above sources to identify candidates in the future.

Copies of the Nominating and Corporate Governance Committee charter and the Corporate Governance Guidelines are available on the Company's website at [www.costartechnologies.com](http://www.costartechnologies.com).

**Compensation Committee.** The Compensation Committee currently consists of Rory Cowan, Gregory Hradsky and Jared Landaw. The Board has determined that each member is "independent."

The Compensation Committee sets the compensation of our Chief Executive Officer and other senior executives, administers our stock option plans and executive compensation programs, determines eligibility for, and awards under, such plans and programs, and makes recommendations to the Board with regard to the adoption of new employee benefit plans, stock option plans and executive compensation plans. A copy of the Compensation Committee charter is available on the Company's website at [www.costartechnologies.com](http://www.costartechnologies.com).

**Strategic Committee.** In 2009, the Board created a Strategic Committee in order to explore various strategic alternatives to improve stockholder value, including, without limitation, a strategic acquisition, merger or sale of all or a portion of the Company. The Strategic Committee consists of Jared Landaw, Gregory Hradsky and James Pritchett, with Mr. Pritchett being a non-voting member of the committee. Consistent with its mandate, the Strategic Committee meets from time to time in order to review and evaluate various strategic options available to the Company.

### **Code of Business Conduct and Ethics**

In 2011, we updated our Code of Business Conduct and Ethics which applies to our directors, officers and employees. A copy of the Code of Business Conduct and Ethics is available on the Company's website at [www.costartechnologies.com](http://www.costartechnologies.com) or can be obtained, free of charge, by writing to Costar Technologies, Inc., 101 Wrangler Drive, Suite 201, Coppell, Texas 75019; Attn: Secretary.

### **Stockholder Communication with Board Members**

We maintain contact information for stockholders, both telephone and email, on our website under the heading "Contact Us." By following the "Contact Us" link, a stockholder will be given access to our telephone number and mailing address, as well as links for providing email correspondence to our management. Communications specifically marked as a communication for our Board of Directors will be forwarded to the Board or specific members of the Board as directed in the stockholder communication. In addition, communications sent directly to us via telephone, facsimile or email for our Board of Directors will be forwarded to the Board by an officer.

## EXECUTIVE OFFICER AND DIRECTOR COMPENSATION

### Summary Compensation Table

The following table provides information as to compensation paid by the Company to our: (a) current President and Chief Executive Officer (principal executive officer); (b) former Chief Financial Officer (former principal financial officer); and (c) current Chief Financial Officer (principal financial officer), (collectively, the “Named Executive Officers”), for services rendered for the fiscal years ended December 31, 2011, 2010 and 2009:

Name and Principal Position	Year	Salary	Bonus	Options Awards <sup>(1)</sup>	All Other Compensation	Total
<b>James Pritchett</b> <sup>(2)</sup> President and Chief Executive Officer	2011	\$273,500	\$10,266	—	\$20,000	\$303,766
	2010	\$228,000	—	\$2,273	—	\$230,273
	2009	\$240,000	—	\$3,074	—	\$243,074
<b>Scott Switzer</b> <sup>(3)</sup> Chief Financial Officer	2011	\$108,335	\$8,128	—	\$10,000	\$121,493
	2010	\$89,125	—	\$608	—	\$89,733
	2009	\$93,000	—	—	—	\$93,000
<b>Melvyn Brunt</b> <sup>(4)</sup> Former Chief Financial Officer	2011	\$58,333	—	—	\$171,172	\$229,505
	2010	\$194,000	—	\$852	\$6,600	\$201,452
	2009	\$200,000	—	—	\$6,600	\$206,600

(1) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2011 in accordance with SFAS 123(R). A discussion of valuation assumptions used for purposes of the SFAS 123(R) calculation is included under Note 2 to the Company’s Consolidated Financial Statements set forth in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which can be accessed at [www.sec.gov](http://www.sec.gov).

(2) All Other Compensation paid to Mr. Pritchett in 2011 includes \$10,060 in cash and a grant of 5,680 shares of our common stock valued as of the date of issuance at \$9,940, related to the divestiture of substantially all of the assets of Sielox LLC.

(3) Compensation paid in 2009, 2010, and through June 14, 2011 relates to Mr. Switzer’s role as Controller of Costar Technologies, Inc. All Other Compensation paid to Mr. Switzer in 2011 includes \$5,030 in cash and a grant of 2,840 shares of our common stock valued as of the date of issuance at \$4,970, related to the divestiture of substantially all of the assets of Sielox LLC.

(4) Mr. Brunt retired as Chief Financial Officer of the Company as of April 15, 2011 and will be assisting the Company on a consulting basis through December 31, 2012. See “–Employment Contracts and Termination of Employment” below. All Other Compensation paid to Mr. Brunt in 2011 included \$20,000 related to our December 31, 2010 divestiture of substantially all of the assets of Sielox, LLC.

## Outstanding Equity Awards at Fiscal Year-End Table

The following table provides summary information concerning stock options held by the Named Executive Officers as of December 31, 2011:

Name	Option Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date
James Pritchett	1,480 <sup>(1)</sup>		\$13.6875	6/20/2016
	3,400 <sup>(2)</sup>		\$8.125	9/24/2017
	2,400 <sup>(3)</sup>		\$6.50	2/9/2018
	5,333 <sup>(4)</sup>	2,667 <sup>(4)</sup>	\$1.50	1/22/2019
	2,667 <sup>(5)</sup>	5,333 <sup>(5)</sup>	\$1.05	4/26/2020
Scott Switzer	800 <sup>(6)</sup>		\$8.125	9/24/2017
	667 <sup>(7)</sup>	1,333 <sup>(7)</sup>	\$1.125	10/20/2015
Melvyn Brunt	4,000 <sup>(8)</sup>		\$7.75	12/17/2014
	736 <sup>(9)</sup>		\$11.75	1/6/2016
	2,060 <sup>(9)</sup>		\$14.00	7/18/2013
	12,000 <sup>(10)</sup>		\$8.125	9/24/2017
	2,400 <sup>(3)</sup>		\$6.50	2/9/2018
	1,000 <sup>(5)</sup>	2,000 <sup>(5)</sup>	\$1.05	4/26/2020

(1) Such options were granted on June 20, 2006 and vested annually in 3 equal installments.

(2) Such options were granted on September 24, 2007 and vested annually in 3 equal installments commencing on the grant date.

(3) Such options vested immediately upon grant on February 9, 2008.

(4) Represents options granted upon being appointed President, Chief Executive Officer and a director of the Company on January 20, 2009 and vest annually in 3 equal installments.

(5) Such options were granted on April 26, 2010 and vest annually in 3 equal installments.

(6) Such options were granted on September 24, 2007 and vested annually in 4 equal installments commencing on the grant date.

(7) Such options were granted on October 20, 2010 and vest annually in 3 equal installments commencing on the grant date.

(8) Such options vested immediately upon grant on December 17, 2004.

(9) Represents options that were originally granted for shares of the common stock of L Q Corporation, Inc., which were converted into options to purchase our common stock upon the consummation of our merger with L Q Corporation, Inc. All of such options vested in full on July 31, 2007 upon the consummation of our merger with L Q Corporation pursuant to the terms thereof.

(10) Such options vested immediately upon grant on September 24, 2007.

## Employment Contracts and Termination of Employment

We were party to an employment agreement with James Pritchett, dated as of January 1, 2009, whereby Mr. Pritchett was engaged to serve as our President and Chief Executive Officer. The agreement terminated in accordance with its terms on December 31, 2011. The agreement provided that Mr. Pritchett received (i) an initial base salary of \$240,000 per annum, (ii) an incentive payment in 2009, to the extent that the consolidated net income of Costar Video Systems, LLC, before interest, income taxes, depreciation and amortization, exceeded an established annual target (the "2009 Incentive Payment") and (iii) an additional performance bonus in respect of each complete calendar year during the term of the agreement. Mr. Pritchett was also entitled to at least 3 weeks paid vacation and reimbursement of travel and business expenses incurred in connection with the performance of his duties. Pursuant to the terms of



the agreement, we granted Mr. Pritchett an option to purchase 8,000 shares of our Common Stock, which vested ratably over a three year period. The agreement was subject to certain early termination provisions, and Mr. Pritchett was bound by various restrictive covenants, including a confidentiality, non-competition and non-solicitation covenant.

Effective January 1, 2012, the Company entered into a new employment agreement with Mr. Pritchett whereby Mr. Pritchett has been engaged to continue to serve as our President and Chief Executive Officer. The agreement has an initial three year term ending December 31, 2014. The initial three year term may be extended for additional one year periods upon the mutual consent of the parties. The agreement provides that Mr. Pritchett is to receive (i) an initial base salary of \$300,000 per annum and (ii) a performance bonus established annually by the Board of Directors during the term of the agreement. Mr. Pritchett is also entitled to at least 4 weeks paid vacation and reimbursement of travel and business expenses incurred in connection with the performance of his duties. Pursuant to the terms of the agreement, we granted Mr. Pritchett an option to purchase 20,000 shares of our Common Stock, which shall vest equally over a three year period. The agreement is subject to early termination as follows: (a) by us (i) due to Mr. Pritchett's death or total disability, (ii) without "cause" or (iii) for "cause," and (b) by Mr. Pritchett for "good reason." "Cause" and "good reason" are as defined in the agreement. In the event that the agreement is terminated by us by reason of the death or total disability of Mr. Pritchett or for "cause," or by Mr. Pritchett other than for "good reason," then we shall be obligated to pay Mr. Pritchett (or his spouse or estate, as the case may be) (a) any accrued but unpaid base salary for services rendered to the date of termination, (b) any accrued but unpaid reimbursable expenses, (c) any accrued but unpaid vacation time and (d) for each full bonus eligible year worked by Mr. Pritchett, any performance bonus due and payable under the agreement. In the event the agreement is terminated by us without "cause," then we shall be obligated to pay Mr. Pritchett (a) any accrued but unpaid base salary for services rendered to the date of termination, (b) any accrued but unpaid reimbursable expenses, (c) any accrued but unpaid vacation time, (d) Mr. Pritchett's base salary for a period of twelve months following the date of termination and (f) for each full bonus eligible year worked by Mr. Pritchett, any performance bonus due and payable under the agreement. In the event that the agreement is terminated by Mr. Pritchett for "good reason," then we shall be obligated to pay Mr. Pritchett (a) any accrued but unpaid base salary for services rendered to the date of termination, (b) any accrued but unpaid reimbursable expenses, (c) any accrued but unpaid vacation time, (d) Mr. Pritchett's base salary for a period of twelve months following the date of termination and (e) for each full bonus eligible year worked by Mr. Pritchett, any performance bonus due and payable under the agreement. Mr. Pritchett is also bound by various restrictive covenants, including a confidentiality, non-competition and non-solicitation covenant.

On April 15, 2011, Mr. Brunt retired as Chief Financial Officer of the Company. Mr. Brunt received a bonus and severance package of approximately \$148,972 in 2011 and approximately \$26,852 through June of 2012 with the understanding that he would provide assistance to the Company, on an as needed basis, until June 30, 2012. The Company extended Mr. Brunt's consulting services through the end of 2012 for an additional \$3,000 in consideration.

## Director Compensation

The following table contains information concerning the compensation of our directors for the fiscal year ended December 31, 2011. James Pritchett is not included in this table as he is paid as an employee and thus receives no compensation for his services as a director. The compensation received by Mr. Pritchett is shown above under the heading "Summary Compensation Table."

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Options Awards<sup>(1)</sup></u>	<u>All Other Compensation</u>	<u>Total</u>
<b>Rory Cowan</b>	\$30,000	\$406 <sup>(2)</sup>	—	\$30,406
<b>Jared Landaw</b>	\$14,000	\$406 <sup>(3)</sup>	\$23,675 <sup>(4)</sup>	\$38,081
<b>Gregory Hradsky</b>	\$23,000	\$406 <sup>(5)</sup>	\$15,000 <sup>(6)</sup>	\$38,406
<b>Jeffrey Wald</b>	\$19,000	\$338 <sup>(7)</sup>	—	\$19,338

- (1) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2011 in accordance with SFAS 123(R). A discussion of valuation assumptions used for purposes of the SFAS 123(R) calculation is included under Note 2 to our Consolidated Financial Statements set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, which can be accessed at [www.sec.gov](http://www.sec.gov).
- (2) As of December 31, 2011, Mr. Cowan owned options to purchase an aggregate of 16,000 shares of our common stock.
- (3) As of December 31, 2011, Mr. Landaw owned options to purchase an aggregate of 7,336 shares of our common stock.
- (4) All Other Compensation paid to Mr. Landaw in 2011 includes \$10,060 in cash and a grant of 5,680 shares of our common stock valued as of the date of issuance at \$9,940 related to services Mr. Landaw performed as a member of the Strategic Committee in connection with the divestiture of substantially all of the assets of Sielox LLC. The remaining amount reflects fees for legal services provided by Mr. Landaw on behalf of the Company.
- (5) As of December 31, 2011, Mr. Hradsky owned options to purchase an aggregate of 5,000 shares of our common stock.
- (6) All Other Compensation paid to Mr. Hradsky in 2011 includes \$7,510 in cash and a grant of 4,280 shares of our common stock valued as of the date of issuance at \$7,490 related to services Mr. Hradsky performed as a member of the Strategic Committee in connection with the divestiture of substantially all of the assets of Sielox LLC.
- (7) As of December 31, 2011, Mr. Wald owned options to purchase an aggregate of 3,000 shares of our common stock.

In September 2007, our Board approved a plan that entitles our Chairman to cash compensation of \$20,000 upon initial election and annually thereafter and entitles our other non-employee directors to cash compensation of \$10,000 upon initial election and annually thereafter during their term of service. The annual stipend of \$10,000 to each of Messrs. Hradsky and Landaw was paid on their anniversary date as a director of June 30, 2010. Our Board subsequently changed the director compensation policy to a quarterly payment schedule. The anniversary dates of our other non-employee directors occurred after the policy change and they are being compensated according to the new policy. The plan also provides non-employee directors with \$1,000 per meeting of the Board attended during their term of service. In addition, the plan provides that attendance at committee meetings will be compensated at the rate of \$1,000 per meeting with the exception of Audit Committee meetings, where the chairperson receives \$2,000 per meeting.

Non-employee directors are currently entitled to fully vested options to purchase 2,000 shares of common stock upon initial election and options to purchase up to 1,000 shares of common stock annually thereafter during their term of service.

## SECURITY OWNERSHIP OF MANAGEMENT

The following table presents information with respect to beneficial ownership of the common stock as of September 30, 2012 by:

- individuals serving as our Named Executive Officers;
- each of our directors; and
- all executive officers and directors as a group.

Except as otherwise noted, the address of each person/entity listed in the table is c/o Costar Technologies, Inc., 101 Wrangler Drive, Suite 201, Coppell, Texas 75019. The table includes all shares of common stock issuable within 60 days of September 30, 2012 upon the exercise of options and other rights beneficially owned by the indicated stockholders on that date. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to all shares of common stock. To our knowledge, except under applicable community property laws or as otherwise indicated, the persons named in the table have sole voting and sole investment control with respect to all shares of common stock beneficially owned. The applicable percentage of ownership for each stockholder is based on 1,457,520 shares of common stock outstanding as of September 30, 2012. Shares of common stock issuable upon exercise of options and other rights beneficially owned are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options and other rights, but are not deemed outstanding for computing the percentage ownership of any other person. We no longer disclose information with respect to beneficial ownership of our common stock by persons who beneficially own more than 5% of our common stock, as such persons, if any, are no longer required to publicly disclose their ownership of our company as a result of the suspension of our reporting requirements under the Exchange Act.

Name of Beneficial Owner	Number of Shares	Percent
James Pritchett	38,870 <sup>(1)</sup>	2.63
Melvyn Brunt	23,196 <sup>(2)</sup>	1.57
Rory J. Cowan	17,000 <sup>(2)</sup>	1.15
Jeffrey Wald	14,600 <sup>(3)</sup>	*
Jared L. Landaw	14,016 <sup>(4)</sup>	*
Gregory T. Hradsky	10,280 <sup>(5)</sup>	*
Scott Switzer	8,973 <sup>(6)</sup>	*
All executive officers and directors as a group (consisting of 6 persons)	103,739 <sup>(7)</sup>	6.84

\* Represents less than 1% of the outstanding shares of common stock.

- (1) Includes 20,613 shares of common stock issuable upon the exercise of options.
- (2) Represents shares of common stock issuable upon the exercise of options.
- (3) Includes 4,000 shares of common stock issuable upon the exercise of options.
- (4) Includes 8,336 shares of common stock issuable upon the exercise of options. Mr. Landaw is the Chief Operating Officer and General Counsel of Barington Capital Group, L.P. which, upon information and belief, beneficially owns greater than 15% of our outstanding common stock.
- (5) Includes 6,000 shares of common stock issuable upon the exercise of options.
- (6) Includes 2,133 shares of common stock issuable upon the exercise of options.
- (7) Includes 58,082 shares of common stock issuable upon the exercise of options.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

### **Transactions with Related Persons**

Jared L. Landaw, a director, is the Chief Operating Officer and the General Counsel of Barington Capital Group, L.P. (“Barington”), and Jeff Wald, a director, is a former consultant to Barington. Upon information and belief, Barington and its affiliates, beneficially own greater than 15% of the Company’s outstanding common stock.

#### ***Costar Technologies, Inc.***

The Company entered into a services agreement with Barington dated as of December 17, 2004 (the “Services Agreement”), pursuant to which Barington agreed to perform certain administrative services on behalf of the Company in consideration of a monthly fee, as well as certain financial advisory and legal services from time to time at the request of the Company. The Services Agreement has been amended several times, including as of May 18, 2007 in order to provide for the termination of the administrative services provided by Barington on behalf of the Company immediately following the closing of the merger of the Company with L Q Corporation, Inc.

The Services Agreement permitted the Company to continue to have access to certain financial advisory and legal services from Barington on an “as requested” basis. Pursuant to the terms of the Services Agreement, Barington provided certain M&A and financial consulting services to the Company, as requested by the Company from time to time at a price to be agreed upon, as well as certain legal services as may be requested by the Company from time to time at an hourly rate of \$183.75. There was no requirement under the Agreement for the Company to utilize such services of Barington.

During the fiscal year ended December 31, 2011, the Company paid \$3,675 for legal services provided by Jared Landaw, a director of the Company and the Chief Operating Officer and General Counsel of Barington, pursuant to the Services Agreement. During this same period, Barington did not provide any financial advisory services to the Company pursuant to the Services Agreement. The Board has determined that the payments to Mr. Landaw do not impede his independence as a director of the Company. The Company and Barington have not renewed the Services Agreement, which terminated in accordance with its terms as of December 31, 2011.

### **Review, Approval or Ratification of Transactions with Related Persons**

Pursuant to the Charter of the Audit Committee, the Audit Committee is charged, on behalf of the Board, with conducting an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis, and the approval of the Audit Committee is required for all such transactions.

## PROPOSAL 2

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of our Board of Directors has appointed Rothstein Kass & Company, P.C. as our independent accountants for 2012. We expect a representative of our independent accountants to attend the 2012 Annual Meeting of Stockholders. Such representative will have an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

#### Stockholder Ratification

We are not required to submit the appointment of Rothstein Kass & Company, P.C. for ratification by our stockholders. However, we are doing so as a matter of good corporate practice. If the stockholders fail to ratify the appointment, the audit committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the audit committee in its discretion may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such an appointment would be in our best interests and that of our stockholders.

**The Board of Directors, based upon the recommendation of the audit committee, unanimously recommends a vote *FOR* the ratification of the appointment of Rothstein Kass & Company, P.C. as the independent registered public accounting firm of the Company for 2012.**

### PRINCIPAL ACCOUNTANT FEES AND SERVICES

The public accounting firm of Rothstein Kass & Company, P.C. has served as our independent accountant to perform the review of our financial statements for the fiscal years ended December 31, 2011, 2010, 2009, and audit of our financial statements for fiscal years ended December 31, 2008. The table below sets forth the aggregate audit fees, audit-related fees, tax fees and all other fees billed for services rendered by our principal accountants in our fiscal years ended December 31, 2011 and 2010.

<u>Fee Category</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Audit Fees <sup>(1)</sup>	\$40,000	\$40,000
Audit-Related Fees	—	—
Tax Fees <sup>(2)</sup>	\$35,000	\$35,000
Total Fees	<u>\$75,000</u>	<u>\$75,000</u>

(1) These consist of fees billed for professional services rendered for the review of our annual financial statements and review of our interim quarterly financial statements and for services normally provided in connection with statutory and regulatory filings.

(2) These consist of fees billed for professional services for tax compliance, tax advice and tax planning.

#### Pre-Approval Policies and Procedures of Audit Committee

The Audit Committee has responsibility for the appointment, compensation and oversight of the work of the independent accountant. As part of this responsibility, the Audit Committee must pre-approve all permissible services to be performed by the independent accountant.

The Audit Committee has adopted an auditor pre-approval policy which sets forth the procedures and conditions pursuant to which pre-approval may be given for services performed by the independent auditor. Under the policy, the Committee must give prior approval for all auditing services and the terms thereof (which may include providing comfort letters in connection with securities underwritings) and non-audit services (other than non-audit services prohibited under Section 10A(g) of the Exchange Act or the applicable rules of the SEC or the Public Company Accounting Oversight Board) to be provided. Prior approval need not be given with respect to the

provision of non-audit services if certain “de minimis” provisions of Section 10A(i)(1)(B) of the Exchange Act are satisfied. The Audit Committee may delegate to one or more of its members authority to approve a request for pre-approval provided the member reports any approval so given to the Audit Committee at its next scheduled meeting.

#### **ANNUAL REPORT**

In March 2010, the Company terminated the registration of its common stock under the Exchange Act. As a result, the Company’s obligation to file reports under the Exchange Act, including an annual report under Form 10-K, has been suspended. The Company will continue to make unaudited quarterly and reviewed annual financial information available to its stockholders by press release and through its website located at <http://www.costartechnologies.com>.

#### **OTHER MATTERS**

Our Board of Directors knows of no other matters to be brought before the meeting. However, if other matters should come before the meeting, it is the intention of each person named in the proxy to vote such proxy in accordance with his or her judgment on such matters.