

Costar Technologies, Inc.

Letter from the President and Chief Executive Officer



OTC: CSTI.PK

www.costartechnologies.com



Letter from the President and Chief Executive Officer

August 30, 2013

Dear Stockholder:

As I reflect on the past few years, I am proud of our team and their numerous accomplishments and grateful for their dedication and tireless efforts that have made these accomplishments possible. After years of cost restructuring in response to the global economic collapse, our efforts have paid off, resulting in a significant improvement in profits. We also took the opportunity to enhance the infrastructure of the Company to set the stage for future growth.

Our financial results of 2012 reflect the exemplary efforts of our management team and employees. The Company generated more than \$1,085,000 of EBITDA in 2012, a year-on-year improvement of 44.4%. In 2012, video sales increased 12.9% to \$19.58 million from \$17.341 million in 2011, with operating profits increasing to \$0.592 million from \$0.162 million in the prior year. The improvement in EBITDA was primarily due to the 12.9% increase in revenue and a 19.6% increase in gross profit margins due to significant cost savings and a more favorable product mix of higher margin digital video recorders and network products. SG&A expenses increased 20% as we continued to build our team for anticipated increased profits next year and for the years thereafter. We added infrastructure in the following areas: technicians, inside sales, marketing, accounting and warehousing.

Our Board of Directors continues to be an integral part of the governance, development and operating activities of our business. The Board consistently provides strong leadership and direction and is a guiding force in our goal to maximize value for our stockholders. I am thankful for the Board's strong commitment and wise stewardship of the Company.

In this environment, companies must invest to grow, while staying competitive and responsive to the needs of their customers. We have significantly upgraded the performance of our existing products and introduced several new network video product families to increase our market share. External market research estimates the long-term growth potential for the network video market at 20-25 percent annually. The early adopters of network video were large installations and, as a result, the market was initially dominated by brand name product. As the market matures, increasing penetration in smaller installations

is expected to provide a faster growth path. We believe that key issues in capturing the smaller installation business are competitive product features, attractive pricing and an expanded external sales presence. The majority of our infrastructure hires have been in the sales and support areas for network video products in order to drive growth in this segment.

I would like to invite you to visit our newly revamped Costar Video Systems, LLC website, www.costarvideo.com. Not only does our website have a new look, it provides us the ability to update its content without using an outside agency. It has more content, training videos and up-to-date product sheets to support our customers online.

Over the past few years, we spent a significant amount of time seeking a new banking relationship that would give us the flexibility to manage our business and take advantage of strategic opportunities. In April of 2013, we were pleased to announce that the Company secured a line of credit with the Bank of Texas with a competitive interest rate and significantly reduced financing costs.

Part of our business strategy has been, and continues to be, to focus on targeted accounts that have a low business acquisition cost. We continue to see signs of economic strength every day but remain cautious. With an improved balance sheet and a strong team in place, we believe we have never been better poised for the future.

Thank you for your support as we work to continue to build upon our success in the years ahead.

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 the Company 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,” “strategy,” “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 the Company.

DIRECTORS

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

COMPANY HEADQUARTERS

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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.