

Costar Technologies, Inc.

Letter from the President and Chief Executive Officer

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www.costartechnologies.com

COSTAR

TECHNOLOGIES, INC.

September 29, 2022

Dear Shareholders,

Over the past two years we have faced a number of challenges: a pandemic, mounting inflation, global logistics issues and component shortages, to name a few. I'm proud of how we addressed these obstacles, implemented a new organizational strategy, and found ways to constantly improve. I want to extend my sincere thanks to all our Costar employees. Despite ongoing uncertainty, they continue to exhibit extraordinary dedication, enthusiasm, and fortitude. I feel incredibly privileged to be a member of this team.

Our One Costar initiative was launched a little over two years ago and it has driven transformative change. Not only has it saved millions of dollars but has led to a more integrated and nimble company. Our four key pillars (Unified Engaged Organization, Quality and Reliability, Innovation, and World Class Customer Service and Support) provide a common framework we use to assess and determine prioritization and next steps.

The difficulties in our global supply chain are ongoing with supplier shutdowns, extended shipping times, and unpredictable component availability but has forced us to change our processes for increased visibility to supply issues. We completely overhauled our demand planning and procurement processes and adapted our product designs to incorporate a broader selection of components. While still challenging, we are creating increased clarity in our product availability for our customers.

With the end of our lease in Duarte, California in March of this year, we transitioned that production facility to our headquarters in Coppell, Texas. Coppell is now the Center of Excellence for our retail and education solutions. We moved our test engineering facility from Glendale, California to our Advanced Technology Center in Clovis, CA. These moves not only created tremendous efficiencies for Costar, but they also centralized functions and increased synergies in each discipline.

We made advancements in product innovation by refreshing over 60% of our camera portfolio. We released our advanced video analytics servers, pedestrian and wrong-way detection aware traffic cameras, security video analytics for the Contera line, improved low light performance, advanced security, and chipsets that are fully NDAA compliant. The support for all of this equipment, regardless of the subsidiary, is also handled by one unified Technical Support Team with increased capabilities.

On the financial front, we remain committed to reducing the company's debt burden, which is down over \$7 million over the last two years, and returning the company to profitability. We have a \$1.8 million refundable tax credit (treated as a prepayment on the balance sheet) with the IRS for the ERC program from the first and second quarters of 2021. Our customer backlog has ballooned from a then record \$6 million at year-end to an \$11.2 million at the end of June. With the backlog and our expense structure realignment, we believe we are poised to return to profitability soon.

We anticipate that there will be numerous opportunities for us to build on the momentum we have established. We have a strong team in place to accomplish our goals and keep us moving forward. We are dedicated to continuously assessing the business environment and the competitive landscape as we strive to advance our initiatives. We are set up for an exciting future.

Thank you to our employees, our customers, our shareholders, and our board for your continued support.

Sincerely,

Scott Switzer
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.