

Costar Technologies, Inc.

Letter from the President and Chief Executive Officer



OTC: CSTL.PK
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Letter from the President and Chief Executive Officer

October 13, 2015

Dear Stockholders,

In 2014, Costar Technologies experienced another year of profitable growth by remaining focused on its strategic goals. Among other things, we continued to allocate our resources to improve customer service practices, increase trade show exposure and hire top-notch sales personnel, facilitating our expansion into new geographical regions.

It was a strong year for our Company, which would not have been possible without the commendable efforts of our management team and employees. Our team's performance has been outstanding and I am thankful for their diligent work. EBITDA for the year exceeded \$3.5 million, an improvement of 66% over 2013. The trend in video sales revenue growth continued, increasing 36% to \$36.1 million from \$26.5 million in the prior year; with operating profits increasing to \$3.1 million from \$1.9 million in 2013. The improvement in EBITDA was primarily attributable to the acquisition of CohuHD, combined with a 10% 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.

In June 2014, Costar Technologies acquired the assets of CohuHD, the camera products and video solutions division of Cohu, Inc. The transaction was financed with proceeds from a new credit facility with the Bank of Texas. CohuHD is a leading provider of video cameras and related products, specializing in IP video solutions for traffic monitoring, security, surveillance and military applications. CohuHD is a market leader in offering high-definition video systems designed to meet the performance requirements associated with critical infrastructure environments, and sells to a customer base that includes corporate end-users, state and federal government agencies, original equipment manufacturers, distributors, system integrators and value-added resellers. This is a great strategic fit for Costar as we combine efforts with one of the most respected brands in the industry.

Over the past four years, our revenues and EBITDA have experienced various up and down "spikes" largely related to the purchases of our largest customer. Even with these "spikes" we experienced Compound Annual Growth Rates (CAGR) for Revenues and EBITDA of 13% and 33%, respectively, excluding CohuHD's financial results.

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 maximizing value for our shareholders. I am thankful for the board's strong commitment and their wise stewardship of the Company.

It is imperative in the current competitive environment that companies invest in growth and remain responsive to their existing customer base. We believe that the expansion of our network product portfolio helps meet the needs of both. During the previous two years, the network segment of our product line experienced a 20% CAGR, consistent with external market research which estimates long-term growth for this market segment at approximately 20% annually. As the market matures, a critical success factor for continued growth in this area will be increased penetration into smaller installations through offering competitive product features, attractive pricing and an expanded external sales presence. The majority of our infrastructure hires are concentrated in sales and support for network video products in order to drive future growth in this space.

Our business strategy continued to target accounts with multiple locations which have low business acquisition costs, while increasing our market presence and product portfolio through the CohuHD acquisition. Looking forward, we anticipate an acceleration in long-term customer revenues from replacement equipment requirements coupled with new location growth.

Consistent with the first half of 2015, the Company will continue to focus on increasing revenue and delivering strong profitability through the pursuit of new sales initiatives and new products. The third quarter saw the launch of the first product from the new CohuHD RISE series, which we believe provides a competitive advantage in the Intelligent Transportation Systems market. These new projects are expected to help the Company diversify and become less dependent on its largest customer, where we face tighter inventory controls and a move to smaller footprint stores resulting in a near term challenge to provide top line growth.

Economic uncertainty remains, even though the U.S. economy is showing signs of improving growth. The slowdown in China's economy has increased the level of competition for commodity products, so we increased our value added by providing the highest quality sales and technical support. With the strategy we've put into place and the organization we've designed, we believe that we are well-positioned to deliver and capitalize upon future growth.

The ongoing support of our shareholders continues to be 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 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," "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 the Company.

DIRECTORS

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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:

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