



# **NAPCO Security Technologies, Inc.**

NasdaqGS (Global Select): NSSC

Security.  
Technology.  
Opportunity.

**Investor Presentation**

**July 2009**

**NSSC**  
**NASDAQ**  
GLOBAL SELECT



# Safe Harbor Statement

*This presentation and may contain forward-looking statements that involve numerous risks and uncertainties. Actual results, performance or achievements could differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the Company's filings with the Securities and Exchange Commission.*



**NAPCO is one of the world's most diversified manufacturers of security products, encompassing intrusion and fire alarms, building access control systems and electronic locking devices.**





# NAPCO Security

- Strong 30-year brand recognition
- Unique “pure play” security manufacturing company
- An increasing need for security products
- Positioned for improved sales and profits
- Investing in recurring revenue businesses
- Highly experienced management team
- Strong network of more than 15,000 security dealers, integrators, locksmiths and contractors in 40+ countries
- ISO 9001:2008 Quality Certified Company



# Market Snapshot

Common Stock Ticker:	NasdaqGS: NSSC
Recent Stock Price:	\$1.15
52 Week Range:	\$0.76 – 4.50
Market Capitalization	\$22.0 million
Shares Outstanding:	19.1

- Publicly traded since 1972
- No shareholder dilution since IPO
- 9 stock split/dividends paid out (4 in the last 4 years)
- 38.5% insider ownership

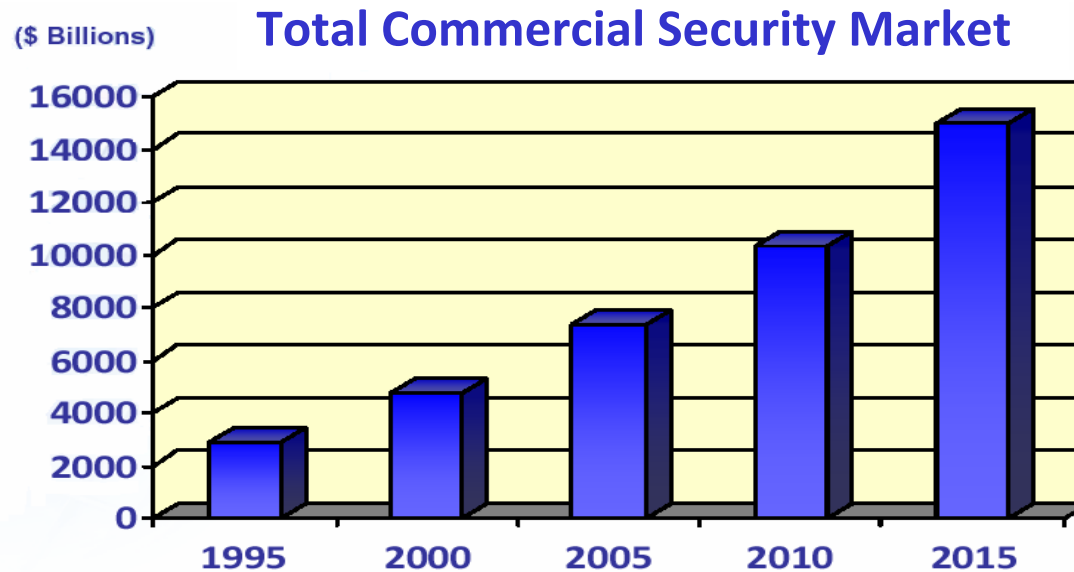


# Security Concerns Creating Opportunities

- \$115 billion, 5 year budget by the Department of Homeland Security for security of aviation, ports, ground transport, bio-terrorism and law enforcement
  - *Department of Homeland Security*
- Sales of network cameras and video servers are soaring and are expected jump from \$800 million in 2007 to \$1.2 billion by 2010
  - *Frost & Sullivan, JP Freeman, IMS Research and IDC*
- Nationwide, burglaries increased 1.3% in 2008; Robberies rose 3.9% in towns with populations under 10,000 during 2008
  - *Preliminary Annual Uniform Crime Report for 2008, FBI/DOJ*



# Large and Growing Market

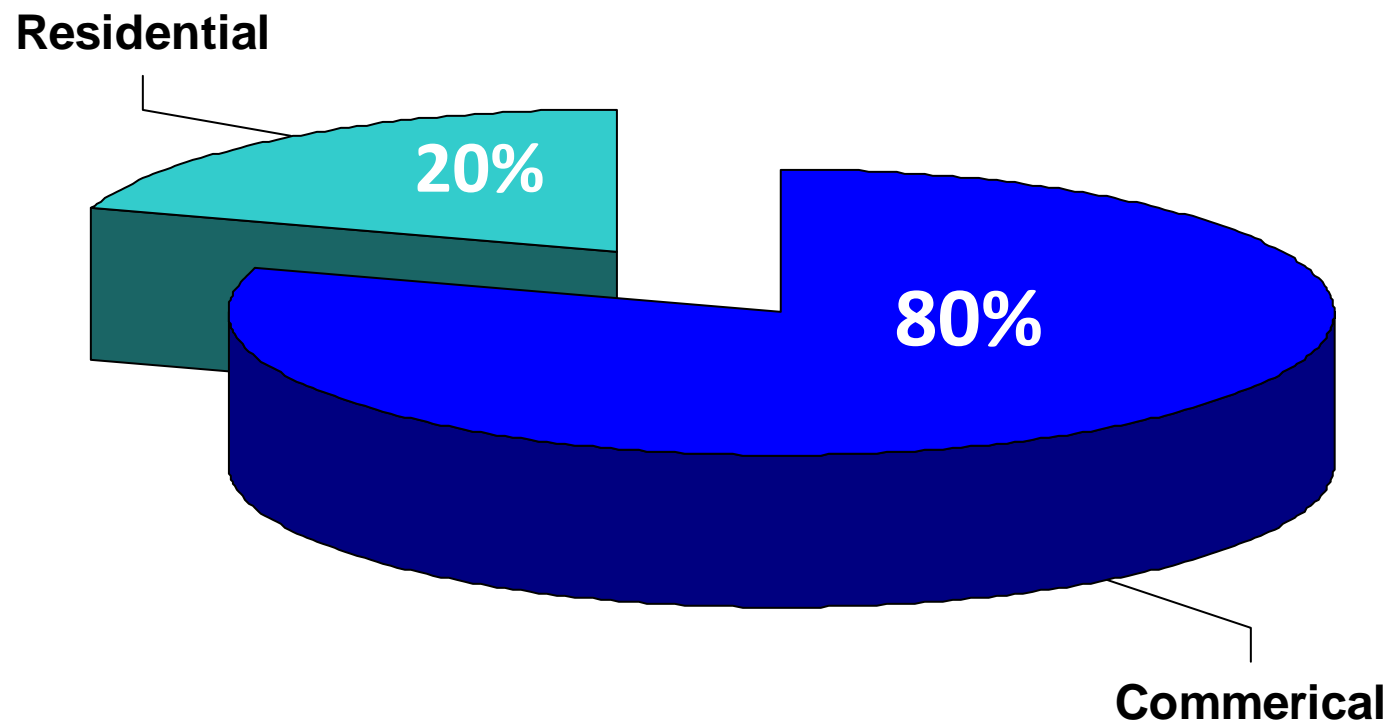


Source: Freedonia Group: Electronic Security Systems 2010 - 2015

- Heightened global level of security consciousness in Post 9/11 era
- Deteriorating economic climate traditionally causes a greater need and demand for security products
- Increasing need for total solutions providers
- Increasing demand for new IP applications and video technologies
- Gains in residential “after-market” security sales expected during hard financial times



# Business Sales Mix



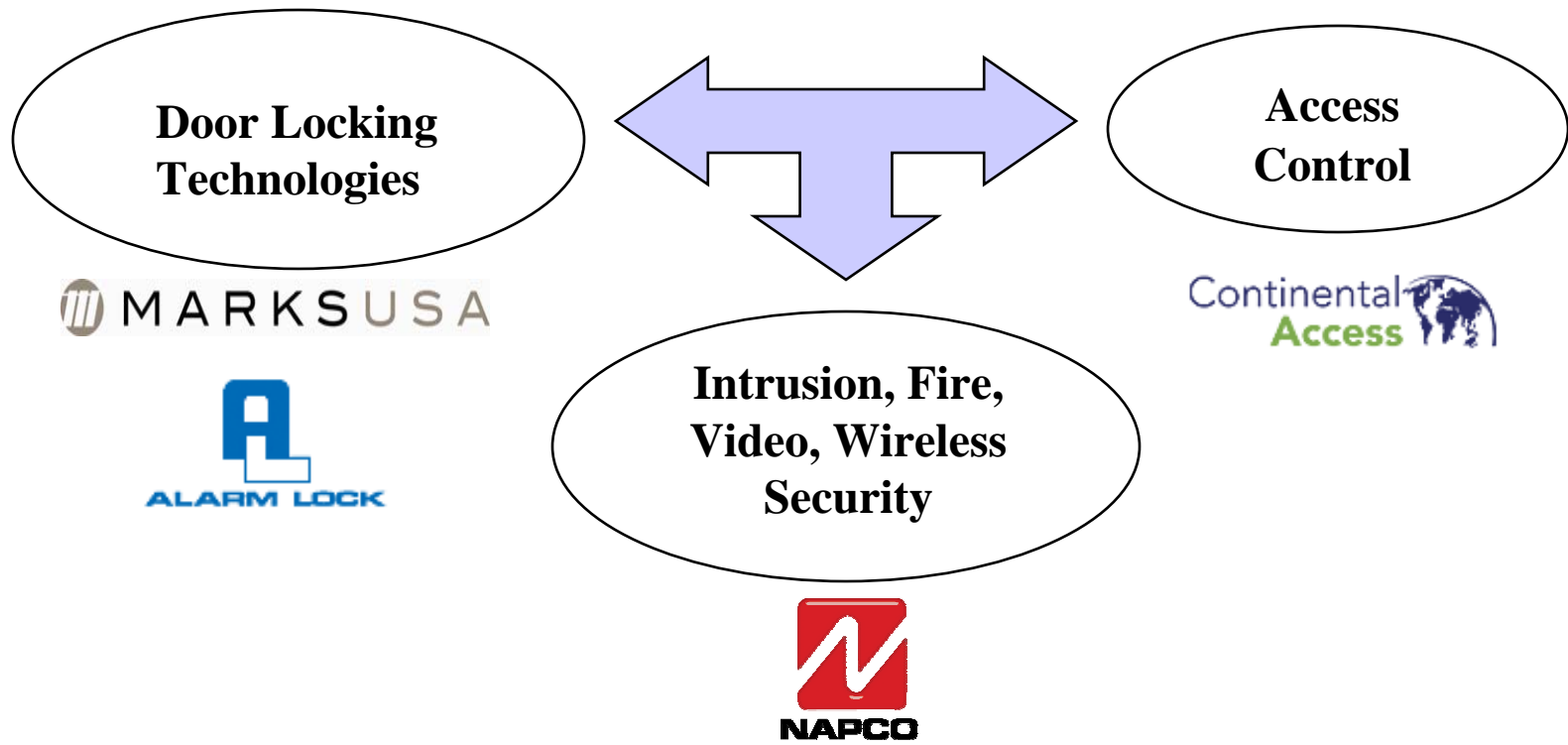




# Fully Integrated Security Solutions Manufacturer

## NAPCO Security Group

Complete One-Stop Shop for  
Security Equipment





# Intrusion, Fire and Video Alarm Products

- Commercial and residential applications
- Government buildings and facilities
- Residential aftermarket installations
- Product sold through Company's authorized distribution network of over 200 distributors
- Over 8,000 dealers worldwide





# Electronic Locking Products

- Comprehensive line of push button and ID card operated electronic locks, door exit alarms and door security hardware
- **Applications**
  - Schools
  - Municipal institutions
  - Military bases
  - Airports
  - Commercial buildings
  - Government facilities
- **Products sold to 100+ locking distributors and over 6,000 locksmiths and contractors**
- **One of the Company's fastest growing divisions**





# Access Control Systems

- **Advanced line of PC-driven Access Control systems for commercial buildings**
  - Featuring video monitoring stations for security personnel, and supporting an array of card and biometric readers, all operating on proprietary software
- **Product sold to over 700 security systems integrators to**
  - Fortune 1000 companies
  - Federal and State Government agencies
  - Office building management companies
  - Airports
- **High margin/growth business**

Continental  
Access



NSSC  
NASDAQ  
GLOBAL SELECT





# Door Locking Technologies

- **Leading provider of industrial/commercial door technology products**
  - Including mortise, cylindrical, electrified, tubular, electronic access and custom designed locksets, for industrial and commercial settings
- **High growth, higher margin business**
- **Products sold to a wide variety of worldwide projects**
  - White House
  - U.S. Senate Building
  - The Plaza Hotel (NYC)
  - The Visionaire (NYC)
  - Ritz Carleton Residences (MD)
  - The Trump Grande (FL)
  - The Mandalay Bay (NV)
  - Miami Int'l (FL), Reagan and Dulles airports (DC)





# Growth Strategy:

## New Products/Recurring Revenues

- New products that are source of recurring revenues
- Higher profit margin products
- Upgrade sales source for dealers
  - Commercial business concerned with security needs, e.g. retailers and shrinkage
  - Retrofits and upgrades for commercial and residential
- Products address high security applications
  - Assisted living facilities
  - Schools
  - Office suites
  - Hospital drug storage rooms
  - Mental health facilities
  - Security and behavior healthcare institutions



# New Recurring Revenue Sources



- iSee Video equipment approximately \$300.00 per installation
- Recurring monthly service revenue up to \$2.50 per month per account
- 25 million consumers in USA currently monitored by alarm companies



# New Recurring Revenue Sources



- \$200.00 Backup radio for alarm systems with a \$7.00 monthly recurring revenue component





# New Product Growth Drivers

## Biometric Fingerprint Reader



## CardAccess<sup>®</sup> 3000



Building access control system  
w/ large scale capabilities  
(30,000 doors) & integrated  
video

## Trilogy<sup>®</sup> DL1200/1300 PDL1300 with prox



New narrow stile pushbutton and card  
locks for glass & storefront doors



**CODED**



**CODE-FREE**

## Freedom<sup>™</sup> 64

64 zone wireless / hardwire alarm system. Now offered in traditional coded and  
break-through code-free technology.

*Patented*



# Strategic Accretive Acquisitions

- **Third Accretive Acquisition: Marks USA** (August 2008)
  - **Major industrial and commercial locking manufacturer**
    - Purchased for \$25 million in cash
    - Annual revenue of approximately \$24 million and pre-acquisition EBITDA of \$4 million
  - **Immediately accretive to operating results**
    - Additional savings due from continued integration
    - Higher gross margin products
  - **Diversification of product line**
    - Rounds out NAPCO as a “total solutions” security equipment manufacturer – NAPCO is now 80% commercial business
    - Opens up new distribution channels for other product offerings
  - **Continued revenue growth and opportunities for cost savings**
    - New business sector - contract locking hardware
    - Strong sales growth over last three years
    - Very little sales overlap with existing business
    - Many cross-selling opportunities



# Strong Distribution Network

- Longstanding relationships with tens of thousands of professional security dealers/installers worldwide
  - Rely on NAPCO for high quality and technologically advanced security products
- Distributors in 40+ countries are promoting the NAPCO Group of products
- Leverage network to bring new products to market
- Recurring revenue sharing programs
- Dealer incentive fees to build advocates



# Competitive Strengths

## NAPCO's Worldwide Facilities

NAPCO Products Are Sold In 59 Countries Worldwide

Headquarters & Plant 1  
Amityville, NY

100% owned by NAPCO



250,000 square  
feet of space  
with a \$200+  
million  
production  
capacity

Plant 2  
Dominican Republic, Caribbean

100% owned by NAPCO



European Sales Office  
Warrington, U.K.



Middle East Sales Office  
Dubai, UAE





# Senior Management Team

(75 Years of Combined Experience in the Security Industry)

## Richard Soloway

Chairman and CEO

(Founder, 30+ years security, electronics experience)

## Kevin Buchel

Senior Vice President of Operations and Finance

(20 years with NAPCO, previously Coopers & Lybrand, CPA)

## Jorge Hevia

Senior Vice President of Corporate Sales and Marketing

(10 years with NAPCO, previously Colgate Palmolive,  
Unilever, American Home Products)

## Michael Carrieri

Senior Vice President of Engineering

(10 years with NAPCO, previously Hazeltine, NCR/AT&T,  
Boundless Technologies, Chyron)

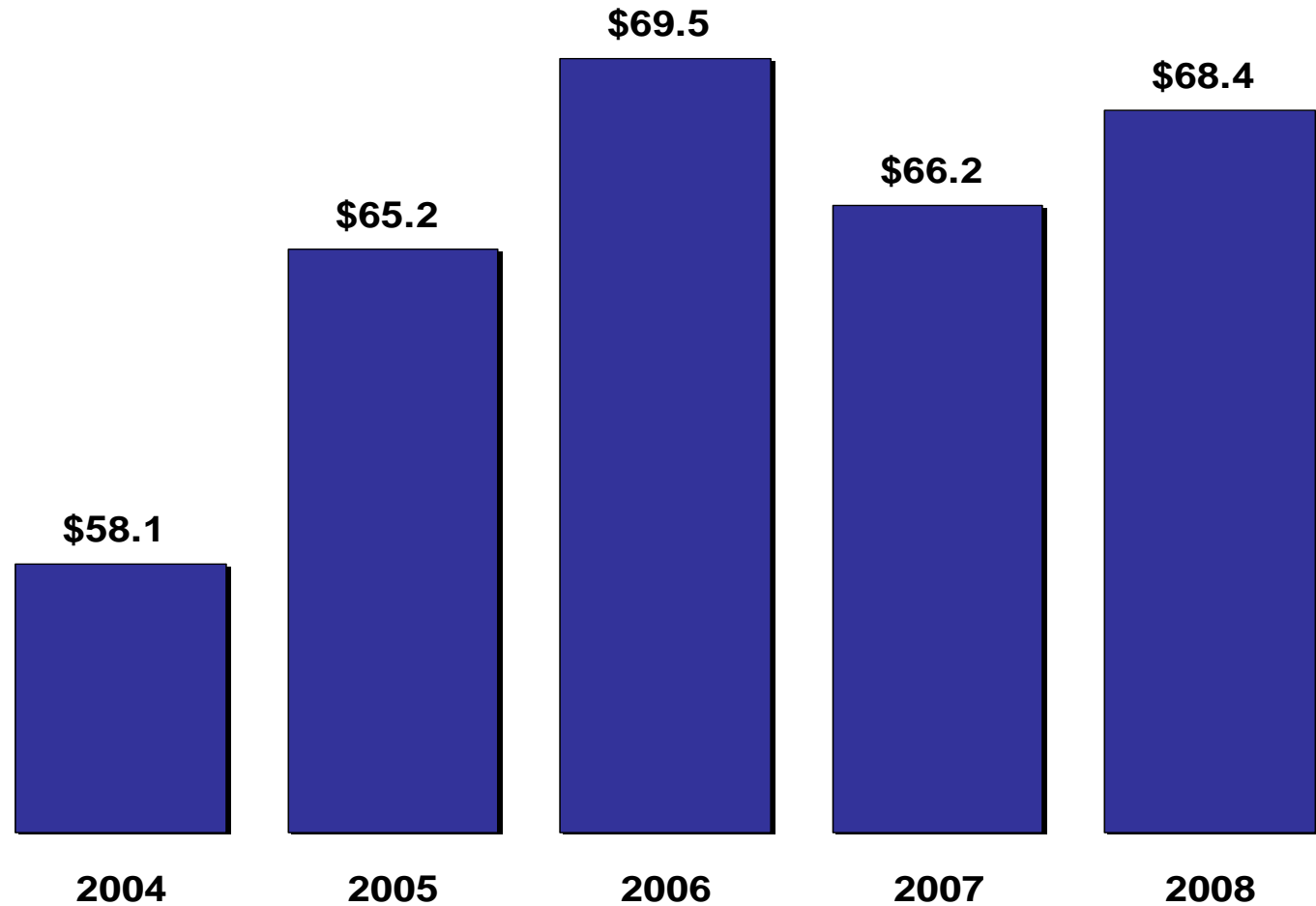






# Net Sales

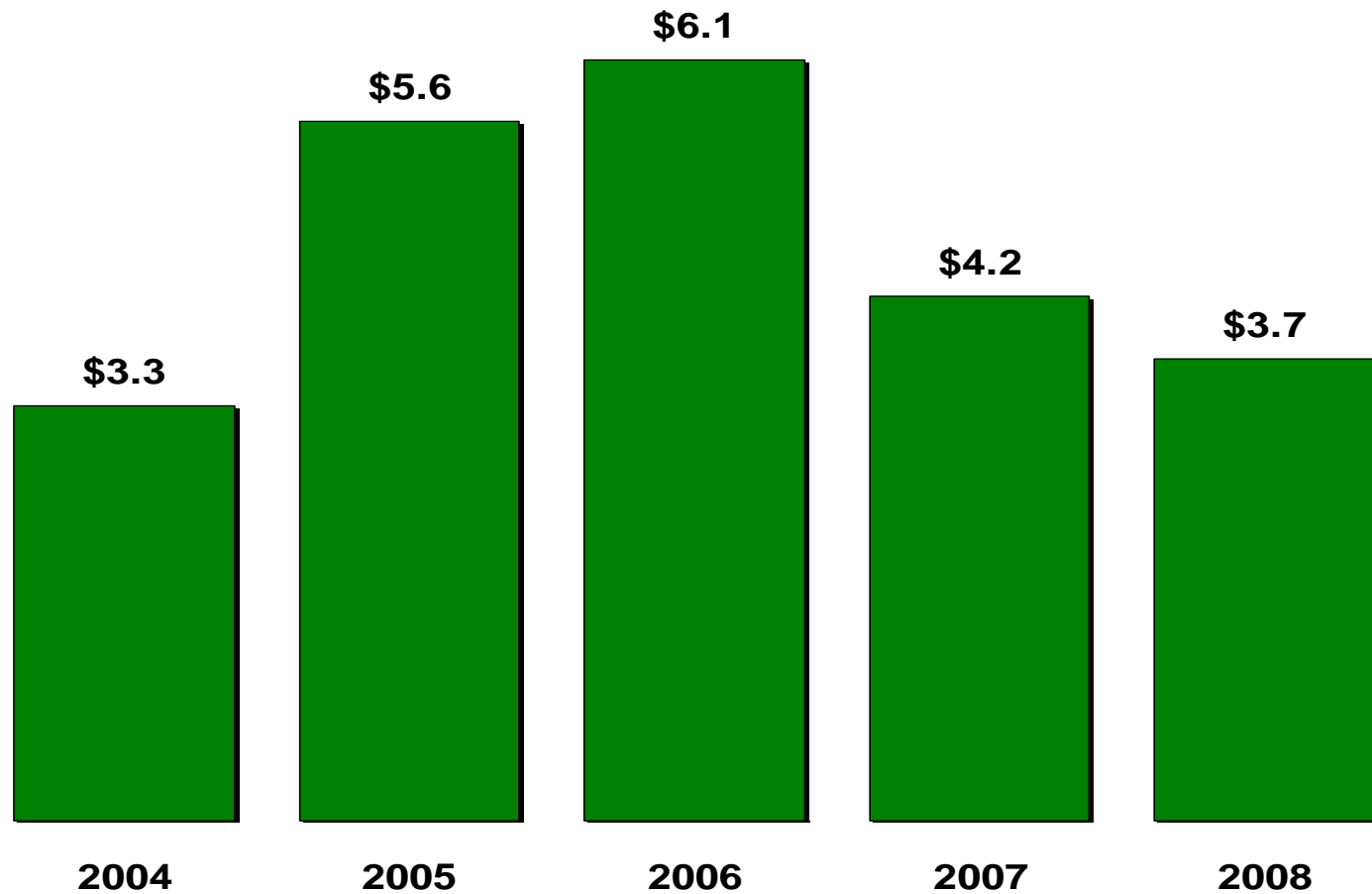
(FY June 30 – Millions of Dollars)





# Net Income

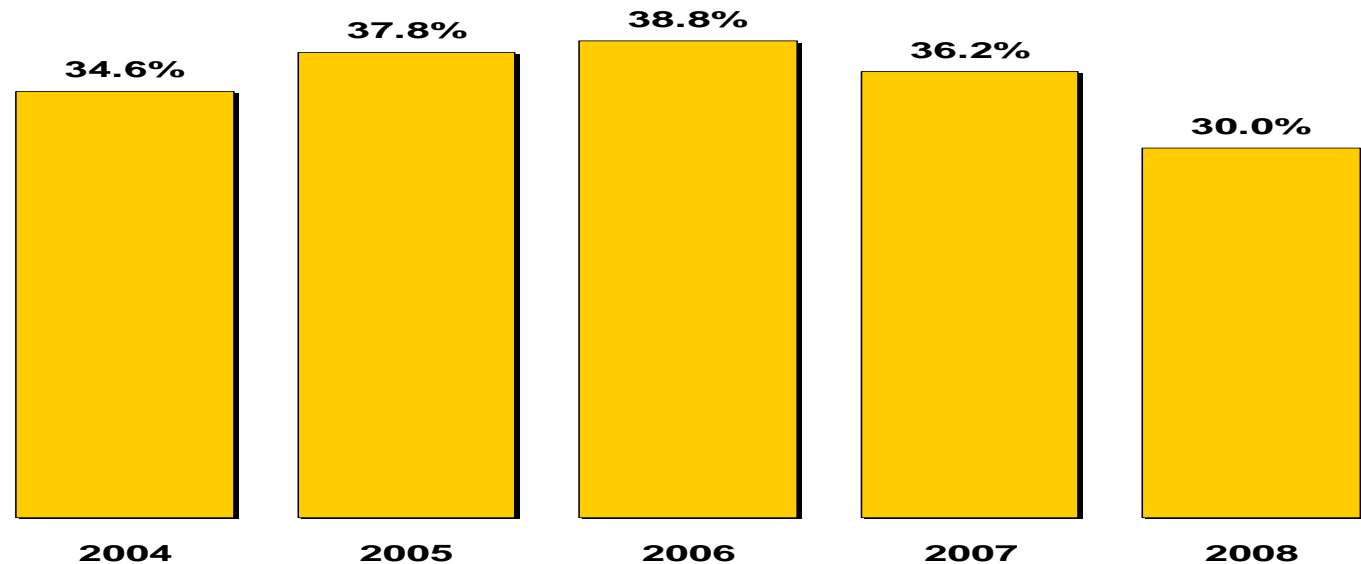
(FY June 30 – Millions of Dollars)





# Margin Enhancement Opportunities

(Gross Profit Margin – FY June 30)



- Focusing on higher margin new products / improving product mix
- Continuing integration of Marks USA acquisition
- Broad cost savings program that will better align cost structure
- Improve efficiency
- Decrease buy-sell transactions





# Q3 Financial Results

(As of March 31, 2009)

- Net sales of \$14.0 million, a 14% decrease
  - Lower sales from intrusion and locking
  - Distributors reducing on-hand inventory during Q3 due to credit line and banking pressures
  - Demand at dealer level: steady
- Gross profit before restructuring costs (non-GAAP) was \$0.9 million, compared to \$5.7 million
  - Led to diluted loss per share of \$0.26
  - Lower GP due to lower overhead absorption
  - Restructuring underway to allow Company to be profitable at a reduced sales level
  - GP to be enhanced throughout the balance of the calendar year due to continued integration of Marks USA and other cost cutting measures



# Restructuring Program

- Initiated program due to unprecedented protracted economic downturn
- Will enable Company to be profitable at reduced sales levels
  - Able to promptly ramp up capacity when sales levels improve
- Expected savings of several million dollars
- Specific measures include:
  - Downsizing direct/indirect labor in factories
  - Consolidated worldwide warehouses into U.S. facility
  - Reduced/Eliminated discretionary spending
  - Across-the-board payroll reduction program
- Move all of Marks subsidiary into NAPCO HQ
- Majority of move expected to be completed by August 2009 and full integration achieved by December 31, 2009



# YTD Financial Highlights

(As of March 31, 2009)

- Net sales for nine months period increased by 9% to \$50.6 million
- Cash from operations of \$4.1 million nine months '09 vs. \$1.2 million in nine months '08
- Q3 ended with \$2.6 million in cash
- Total debt position was reduced by approximately \$3.9 million in Q3
- Inventory reduction program in place, lowered by \$1.9 million in Q3



# Building Shareholder Value

- Global need for security products
- Broad product array addressing multi-billion dollar markets
- New state of the art products and recurring revenue sources
- Strategic accretive acquisitions
- Opportunities for growth, margin expansion and enhanced profitability