NAPCO Reports Results for Three and Six Months Ended December 31, 2012

-Recurring Revenue Increases; Installations of Starlink2™ Radios up 22% Sequentially-

-Management to Host Conference Call Today at 11AM-

AMITYVILLE, N.Y., Feb. 11, 2013 /PRNewswire/ -- **NAPCO Security Technologies, Inc.**, (NASDAQ: NSSC), one of the world's leading suppliers of high performance electronic security equipment for over 30 years, today announced financial results for its second fiscal quarter ended December 31, 2012.

Highlights:

- Net sales for the quarter decreased by 2% to $17.2 million from $17.6 million a year ago. "Superstorm Sandy" effected customers and dealers, temporarily lowering ordering behavior. As storm damage-related construction is completed, the Company expects revenue to normalize. In addition, a few large intrusion distributors combined branches, resulting in temporarily requiring less inventory replenishment.
- Demand from the end seller, dealers, which are serviced by distributors who will have to stock back up to meet the demand, remain strong, as do the fundamentals of the business growth strategy to increase sales of high margin commercial and recurring revenue products:
    - Recurring revenue increased with installations of Starlink2™ radios up 22% sequentially-
    - Orders for LocDown ™ classroom intruder locks increased during the quarter
    - The Marks brand of products showed continued revenue growth in Q2 after the increases in Q1. Management expects this trend to continue after bottoming out in fiscal 2012.
    - Sales of NAPCO's high-margin commercial locking division and recurring revenue products continued to show steady, solid results versus a year ago.
    - 30% temporary increase in R&D expenditure to accelerate development and launch of new high margin, commercial recurring revenue products. Management expects R&D levels to normalize by the end of FY Q4
    - Launched iBridge™, a new, high margin, recurring revenue product, cloud-based services platform for remote operation of door locks, thermostats, lighting, video cameras and security systems from any smart phone, tablet or PC.
- Gross margins for the six months increased to 27.1% compared to 26.8%, on $1.4 million less in revenue year over year. This is a direct reflection of increased sales from higher margin commercial locking and recurring revenue products and lower costs resulting from increased efficiencies in the timing of materials and production runs.
- Cash generated by operating activities increased 155% to $3.0 million for the six months ended December 31, 2012, compared to $1.2 million for the same six month period last year.
- Debt, net of cash, has been reduced by $21.1 million from $35.9 million to $14.8 million since acquiring Marks in August of 2008. $2.5 million of this reduction occurred in the in the past six months.
- As a result of the lower debt levels and reductions in interest rates, net interest expense for the six months decreased by $284,000 or 47% to $318,000 as compared to $602,000 for the same period a year ago.

Richard Soloway, Chairman and President, stated, "During the second quarter of fiscal 2013, the devastation caused in the Northeast United States by "Super-storm" Sandy interrupted the operations of many of NAPCO's customers. In particular, the demand for residential intrusion products slowed as residents recovered from the storm and focused on structural, heating and electrical supply damages before addressing their intrusion systems. Management expects the effects of the storm to lessen in the coming months as residents complete their rebuilding processes. While the residential markets were challenged, the commercial and industrial lock markets remained solid. We achieved sequential growth in our Marks brand for the first half of this fiscal year after a disappointing fiscal 2012. Also of note is the 22% sequential increase in installations of our Starlink2 radios this quarter, which allow for alarm signal reporting even when telephone service is interrupted and provides high-margin monthly recurring revenue to NAPCO."

"We have deployed additional resources in order to accelerate the launch of several new and advanced products and support recently released technologies with ancillary products," continued Mr. Soloway. "As a result, our Research and Development investments have increased from $2,040,000 to $2,655,000 so far this fiscal year after being held steady over the last few years. In addition, we have invested additional resources in project support personnel in our sales staff to improve the penetration of the new and existing products into new construction and renovation projects. Particular focus is on school districts and other institutional facilities that require advanced lock-down and surveillance capabilities. These investments negatively impacted NAPCO's profitability in the current period. However, these investments are important to deliver sustained growth in the high-margin commercial locking and recurring revenue product offerings. While investing more in developing and rolling out our new products, NAPCO continues to maintain a healthy balance sheet and strengthen its liquidity. The first half of the fiscal year is typically not as strong as the second half, yet we generated 155% more cash from operations this year compared to last year. We used this cash to continue reductions in our revolving line of credit and term loans, which were reduced by $3.1 million over just the past six months."

Mr. Soloway stated, "Orders for our LocDown™, classroom intruder lock increased at the end of the quarter, in response to the tragic events in Newton, Connecticut. Our LocDown product enables a school official to manually lock-down a door from the inside of a classroom or office. Interest has also been heightened for two of our Company's education, vertical market solutions, namely Continental Access Control's enterprise class, card-access systems and Alarm Lock's Networx™ wireless locking systems. Both systems offer schools the security capability of totally locking-down all access points to a building or campus, in minutes."

Mr. Soloway continued, "NAPCO's StarLink2™ wireless GSM alarm communicator grew substantially in sales and installations. This innovative wireless communicator bypasses the need for a home or business to subscribe to dial-up phone lines or VOIP Internet phone service, to report critical alarm signals to the alarm central station. This product enables alarm dealers to provide the highest level of security for alarm notifications, while also providing a significant cost savings to the consumer. Additionally, this product entry provides NAPCO with a recurring revenue income stream."

Mr. Soloway added, "This past quarter saw the launch of our breakthrough iBridge™ remote services platform. This unique, easy-to-install, cloud-based product line enables our dealers to offer their customers a host of new, value-added services, in addition to traditional security and fire alarm monitoring. Consumers can remotely operate their door locks, thermostats, lighting, video cameras and security systems, from any smart phone, tablet or PC, by paying a modest subscriber fee. iBridge is expected to build a substantial recurring revenue income base for both NAPCO and our dealers."

Fiscal Second Quarter 2013 Results

Revenue for the three months ended December 31, 2012 decreased 2% to $17.2 million, compared to $17.6 million for the same period a year ago. Revenue for the six months ended December 31, 2012 decreased 4% to $32.4 million, compared to $33.8 million for the same period a year ago.

Gross profit for the three months ended December 31, 2012 decreased by $254,000 to $4,641,000 or 27.0% of net sales from $4,895,000 or 27.8% for the same period a year ago. Gross profit for the six months ended December 31, 2012 decreased by $274,000 to $8,777,000 or 27.1% of net sales from $9,051,000 or 26.8% for the same period a year ago. Our gross margin, which reflects these increased R&D expenditures, also reflects the positive results of increases in our recurring revenues and sales of our higher-margin locking products.

Operating income for the three months ended December 31, 2012 decreased by $541,000 to $354,000 as compared to $895,000 for the same period a year ago. Operating income for the six months ended December 31, 2012 decreased by $798,000 to a loss of ($45,000) as compared to income of $753,000 for the same period a year ago.

Selling, general and administrative expenses for the quarter increased by $287,000 to $4.3 million as compared to $4.0 million for the same period a year ago. Selling, general and administrative expenses for the six months ended December 31, 2012 increased by $524,000 to $8.8 million as compared to $8.3 million for the same period a year ago. The increases were due primarily to additional sales staff , tradeshow and advertising expenditures.

Adjusted EBITDA* for the three months ended December 31, 2012 decreased $594,000, or 41%, to $843,000 as compared to $1,437,000 for the same period a year ago (*see table attached). Adjusted EBITDA* for the six months ended December 31, 2012 decreased $913,000, or 50%, to $928,000 as compared to $1,841,000 for the same period a year ago (*see table attached). Net income for the three months ended December 31, 2012 decreased by $174,000, or 56%, to $135,000 or $0.01 per share as compared to $309,000 or $0.02 per share for the same period a year ago. Net income for the six months ended December 31, 2012 decreased by $441,000 to a loss of $(299,000) or $(0.02) per share as compared to $142,000 or $0.01 per share for the same period a year ago.

Mr. Soloway concluded, "We are looking forward to another highly productive and successful year in fiscal 2013. Our strong balance sheet and cash flows allow us the flexibility to continue to bring innovative, state-of-the-art security products from concept to market at a rapid pace. As the economy, particularly the construction markets, improve, we feel that NAPCO is well positioned to take advantage of opportunities ahead."

Conference Call Information

Management will conduct a conference call at 11 a.m. today, February 11, 2013 to discuss second quarter results. Interested parties may participate in the call by dialing 877-407-8291; international callers dial 201-689-8345 about 5-10 minutes prior to 11 a.m. ET. The conference call will also be available on replay starting at 1 p.m. ET on February 11, 2013 and ending on February 25, 2013. For the replay, please dial 877-660-6853 (replay conference #408332). The access number for the replay for international callers is 201-612-7415 (replay conference #408332).

About NAPCO Security Technologies, Inc.

NAPCO Security Technologies, Inc. is one of the world's leading manufacturers of technologically advanced electronic security equipment including intrusion and fire alarm systems, access control and door locking systems. The Company consists of NAPCO plus three wholly-owned subsidiaries: Alarm Lock, Continental Instruments, and Marks USA. The products are installed by security professionals worldwide in commercial, industrial, institutional, residential and government applications. NAPCO products have earned a reputation for technical excellence, reliability and innovation, poising the Company for growth in the rapidly expanding electronic security market, a multi-billion dollar market.

For additional information on NAPCO, please visit the Company's web site at www.napcosecurity.com.

This press release contains 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 SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (unaudited)	June 30, 2012 (audited)
ASSETS	(in thousands, except for share data)	
CURRENT ASSETS		
Cash and cash equivalents	$ 2,377	$ 2,979
Accounts receivable, net of reserves and allowances	13,888	16,408
Inventories	17,909	19,448
Prepaid expenses and other current assets	1,045	964
Income tax receivable	214	--
Deferred income taxes	671	650
Total Current Assets	36,104	40,449
Inventories - non-current	5,317	3,834
Deferred income taxes	1,670	1,762
Property, plant and equipment, net	6,963	7,247
Intangible assets, net	10,792	11,251
Other assets	181	207
TOTAL ASSETS	$ 61,027	$ 64,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long term debt	$ 1,600	$ 1,600
Accounts payable	3,712	3,163
Accrued expenses	1,472	1,814
Accrued salaries and wages	1,409	1,589
Accrued income taxes	--	78
Total Current Liabilities	8,193	8,244
Long-term debt, net of current maturities	15,600	18,657
Accrued income taxes	126	126
Total Liabilities	23,919	27,027
COMMITMENTS AND CONTINGENCIES		

STOCKHOLDERS' EQUITY		
Common Stock, par value $0.01 per share; 40,000,000 shares authorized; 20,796,813 and 20,095,713 shares issued; and 19,296,335 and 19,095,713 shares outstanding, respectively	208	201
Additional paid-in capital	15,449	14,080
Retained earnings	28,758	29,057
	44,415	43,338
Less: Treasury Stock, at cost (1,500,478 and 1,000,000 shares, respectively)	(7,307)	(5,615)
TOTAL STOCKHOLDERS' EQUITY	37,108	37,723
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 61,027	$ 64,750

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
	(In thousands, except share and per share data)			
Net sales	$ 17,212	$ 17,617	$ 32,428	$ 33,820
Cost of sales	12,571	12,722	23,651	24,769
Gross Profit	4,641	4,895	8,777	9,051
Selling, general, and administrative expenses	4,287	4,000	8,822	8,298
Operating Income (Loss)	354	895	(45)	753
Other expense:				
Interest expense, net	141	298	318	602
Other, net	4	13	7	27
	145	311	325	629
Income (Loss) before Provision for Income Taxes	209	584	(370)	124
Provision (benefit)for income taxes	74	275	(71)	(18)
Net Income (Loss)	$ 135	$ 309	$ (299)	$ 142
Income (Loss) per share:				
Basic	$ 0.01	$ 0.02	$ (0.02)	$ 0.01
Diluted	$ 0.01	$ 0.02	$ (0.02)	$ 0.01
Weighted average number of shares outstanding:				
Basic	19,154,000	19,096,000	19,125,000	19,096,000
Diluted	19,496,000	19,256,000	19,125,000	19,176,000

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
NON-GAAP MEASURES OF PERFORMANCE* (unaudited)

	Three months ended December 31,		Six months ended December 31,	
	2012	2011	2012	2011
	(In thousands)			
Net income (loss)	$ 135	$ 309	$ (299)	$ 142
Add back provision (benefit) for income taxes	74	275	(71)	(18)
Add back interest and other expense	145	311	325	629
Operating income (loss) (GAAP)	354	895	(45)	753
Adjustments for non-GAAP measures of performance:				
Add back amortization of acquisition-related intangibles	229	267	459	533
Add back stock-based compensation expense	--	1	--	8
Adjusted non-GAAP operating income (loss)	583	1,163	414	1,294
Add back depreciation and other amortization	260	274	514	547
Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization)	$ 843	$ 1,437	$ 928	$ 1,841

* Non-GAAP Information. Certain non-GAAP measures are included in this press release, including EBITDA, non-GAAP operating income and Adjusted EBITDA. We define EBITDA as GAAP net income plus income tax expense (benefit), net interest expense and depreciation and amortization expense. Non-GAAP operating income does not include impairment of goodwill, amortization of intangibles, changes to inventory reserves, restructuring charges, stock-based compensation expense and other infrequent or unusual charges. These non-GAAP measures are provided to enhance the user's overall understanding of our financial performance. By excluding these charges our non-GAAP results provide information to management and investors that is useful in assessing NAPCO's core operating performance and in comparing our results of operations on a consistent basis from period to period. The presentation of this information is not meant to be a substitute for the corresponding financial measures prepared in accordance with generally accepted accounting principles. Investors are encouraged to review the reconciliation of GAAP to non-GAAP financial measures included in the above.

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