

May 17, 2011

Market Outperform / Speculative Risk

Results beat estimates. Growth catalysts in place

MARKET DATA 5/16/2011

Price	2.20
Exchange	NASDAQ
Target Price	\$2.60
52 Wk Hi - Low	2.40 - 1.55
EV(MM)	64.5
Market Cap(MM)	42.0
Shares Out (MM)	19.1
Public Mkt Float (MM)	12.1
Avg. Daily Vol	10,515

BALANCE SHEET METRICS

Cash (MM)	5.5
LTD (MM)	\$0.0
Total Debt/Total Equity	163.91%
Debt/Capital	NA
Price/Book Value	1.2x
Book Value/Share	1.78

EARNINGS DATA (\$)

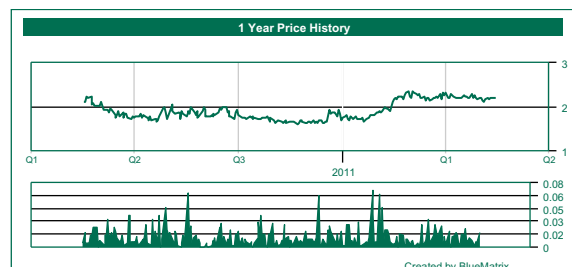
FY - Jun	2010A	2011E	2012E
Q1 (Sep)	(0.10)	(0.06)A	--
Q2 (Dec)	(0.05)	0.01A	--
Q3 (Mar)	(0.10)	0.04A	--
Q4 (Jun)	(0.10)	0.05	--
Full Year EPS	(0.34)	0.03	0.20

VALUATION METRICS

Price/Earnings	NM	NM	11.0x
Y/Y EPS Growth	NM	NM	566.7%

INDICES

DJIA	12,548.4
SP-500	1,329.5
NASDAQ	2,337.8
Russell 2000	822.9



3QFY11 results: Napco (NSSC, Market Outperform) reported revenues up 11% Y/Y and 1% Q/Q to \$17.8M, in-line with our estimates of \$17.7M. Seasonal trends peak in June. Revenue growth was strong in intrusion and door locking products. Net income of \$0.70M (EPS \$0.04) was ahead of our estimates of \$0.3M (EPS \$0.02). Increased flow through was driven by margin expansions and a favorable tax benefit of \$0.38M. Cash & equivalents improved to \$3.6M as compared to \$2.8M in the last quarter. DSO increased sequentially by 8 to 78.

Margins Improved: Profitability continues to improve. Gross margins expanded by 440 bps Q/Q to 31.0%. Despite a 17% increase in SG&A expenses (27.3% of revs), operating margins improved 70 basis points to 3.7%. Management attributed the consolidation benefits from Marks operation to margin improvement.

New product launches: In a major strategic initiative to drive incremental recurring service revenues (currently 10% of revs), the company has launched *iBridge*, an online remote services product. Accessible from iPhones, iPads, Tablet or PC, *iBridge* has the capability of remotely viewing video cameras and recordings and control the security systems at home or work place. Management is also optimistic on its next product launch, *Starlink Wireless*, a GSM communicator that delivers two way uploading and downloading of alarm reporting sans fixed telephone lines. Revenues from these new products are expected to ramp up in 2012-13. We believe that revenue from these new products will not only drive additional recurring revenues but also help Napco reduce volatility of the revenues generated by the seasonal and cyclical nature of its business.

Napco recently won the "Best of Show" award for its Gemini C-Series Combination product, from its commercial product platform. The Company's new combination control panel for commercial fire has seen strong initial orders from banks, hospitals, office buildings, retail outlets and other commercial venues. It opens up opportunities in the \$1 billion fire industry.

Debt repayment: Napco paid down \$1.0M of debt. Management intends to repay another \$3-4M by end of fiscal 2011.

Key Takeaway: The compelling need for security has expanded the market opportunity for security products, especially high-security applications in the network and video surveillance domains. We believe that the company is well positioned to capitalize on this opportunity with the launch of new products with recurring revenue streams, as well as products with higher profit margins. Operating leverage reflects the increase in sales and improved efficiencies brought in by Marks integration.

Our 4QFY11 revenue and NI estimates are \$21.8M and \$0.89M. For FY12, we expect revenue and NI of \$80.0M and \$3.8M, respectively. Our DCF based price target assumes terminal revenue growth and EBITDA margins of 10%.

Napco Security Technologies, Inc.

Income Statement

FYE: Jun (\$ in million, except per share data)	FY2008	Sep-08 1Q09	Dec-08 2Q09	Mar-09 3Q09	Jun-09 4Q09	FY2009	Sep-09 1Q10	Dec-09 2Q10	Mar-10 3Q10	Jun-10 4Q10	FY2010	Sep-10 1Q11	Dec-10 2Q11	Mar-11 3Q11	Jun-11 4Q11E	FY2011E	FY2012E
Total Revenue	68.4	17.5	19.1	14.0	19.0	69.6	14.5	16.6	16.0	20.6	67.8	15.3	17.6	17.8	21.8	72.5	80.0
Cost of Goods Sold	(48.1)	(11.9)	(12.9)	(13.1)	(15.5)	(53.4)	(11.1)	(12.6)	(11.9)	(17.6)	53.2	(11.9)	(12.9)	(12.2)	(15.7)	(52.7)	(56.0)
SG&A	(17.1)	(4.8)	(5.4)	(4.9)	(5.0)	(20.2)	(4.7)	(4.4)	(5.0)	(4.7)	18.8	(4.1)	(4.2)	(4.9)	(4.6)	(17.8)	(17.6)
Restructuring & Impairment	-	-	-	(1.3)	(9.7)	(11.0)	-	-	(0.9)	-	0.9	-	-	-	-	-	-
Operating Income	3.1	0.8	0.8	(5.3)	(11.3)	(14.9)	(1.4)	(0.4)	(1.8)	(1.7)	(5.2)	(0.7)	0.5	0.7	1.5	2.0	6.4
Interest Income (Expense)	(0.8)	(0.3)	(0.4)	(0.4)	(0.5)	(1.6)	(0.6)	(0.6)	(0.6)	(0.6)	2.4	(0.6)	(0.4)	(0.3)	(0.4)	(1.7)	(1.6)
Other income (Expense)	(0.0)	(0.1)	0.1	(0.1)	(0.0)	(0.1)	(0.0)	0.0	(0.0)	(0.0)	0.0	(0.0)	(0.0)	(0.0)	-	(0.0)	-
Minority Interest	0.0	0.0	0.1	(0.1)	-	0.0	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	2.3	0.5	0.5	(5.9)	(11.7)	(16.7)	(1.9)	(1.0)	(2.4)	(2.3)	(7.6)	(1.3)	0.1	0.3	1.1	0.2	4.8
Provision for Income Taxes	1.4	(0.2)	(0.1)	0.9	2.7	3.3	0.1	0.1	0.5	0.4	1.1	0.2	0.1	0.4	(0.2)	0.4	(1.0)
Net Income	3.7	0.3	0.3	(5.0)	(9.0)	(13.4)	(1.8)	(0.9)	(1.9)	(1.9)	(6.5)	(1.1)	0.2	0.70	0.89	0.6	3.8
EPS	\$ 0.18	\$ 0.02	\$ 0.02	\$ (0.26)	\$ (0.48)	\$ (0.71)	\$ (0.10)	\$ (0.05)	\$ (0.10)	\$ (0.10)	\$ (0.34)	\$ (0.06)	\$ 0.01	\$ 0.04	\$ 0.05	\$ 0.03	\$ 0.20
Shares Outstanding	19.5	19.5	19.1	19.1	18.7	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.1	19.2	19.2	19.1	19.1
Margin Analysis																	
Gross Margin	29.6%	32.1%	32.6%	6.5%	18.3%	23.3%	23.1%	24.0%	25.9%	14.7%	178.6%	22.3%	26.6%	31.0%	28.2%	27.3%	30.0%
SG&A	25.0%	27.3%	28.6%	35.1%	26.5%	29.0%	32.4%	26.5%	31.1%	23.0%	-27.8%	27.0%	23.6%	27.3%	21.3%	24.5%	22.0%
Operating Margin	4.6%	4.7%	4.0%	-37.5%	-59.3%	-21.4%	-9.4%	-2.5%	-10.9%	-8.2%	-7.7%	-4.7%	3.0%	3.7%	6.9%	2.7%	8.0%
Pretax Margin	3.4%	2.7%	2.4%	-41.9%	-61.9%	-24.0%	-13.4%	-5.8%	-14.7%	-11.2%	-11.2%	-8.6%	0.6%	1.8%	5.1%	0.3%	6.0%
Tax Rate	-61.0%	32.6%	28.0%	14.6%	23.2%	19.8%	6.2%	6.3%	20.8%	17.8%	14.3%	14.4%	-48.1%	-119.9%	20.0%	192.8%	20.0%
Net Margin	5.4%	1.8%	1.7%	-35.8%	-47.5%	-19.2%	-12.6%	-5.5%	-11.6%	-9.2%	-9.6%	-7.4%	0.9%	3.9%	4.1%	0.8%	4.8%
Ann. Growth Analysis																	
Revenues	3%	26%	18%	-14%	-14%	2%	-17%	-13%	14%	9%	-3%	6%	6%	11%	6%	7%	10%
Gross Profit	-16%	-15%	-3%	-81%	0%	-21%	-28%	-26%	298%	-19%	667%	-3%	11%	20%	92%	-85%	10%
Operating Income	-52%	3%	-40%	-435%	2068%	-576%	-263%	-154%	-67%	-85%	-65%	-47%	-230%	-138%	-189%	-138%	223%
Net Income	-12%	-14%	-72%	-253%	716%	-460%	-665%	-375%	-63%	-79%	-51%	-38%	-117%	-137%	-147%	-109%	534%
Seq. Growth Analysis																	
Revenues		-21%	9%	-26%	35%		-24%	15%	-4%	29%		-19%	15%	1%	23%		
Gross Profit		76%	2%	-80%	181%		26%	4%	8%	-43%		52%	19%	17%	-9%		
Operating Income		-260%	-8%	-787%	114%		-88%	-70%	327%	-3%		-94%	-174%	24%	130%		
Net Income		-129%	3%	-1611%	80%		-80%	-50%	104%	2%		-87%	-114%	343%	28%		

Source: Company Reports and Rodman & Renshaw Estimates

4.4%

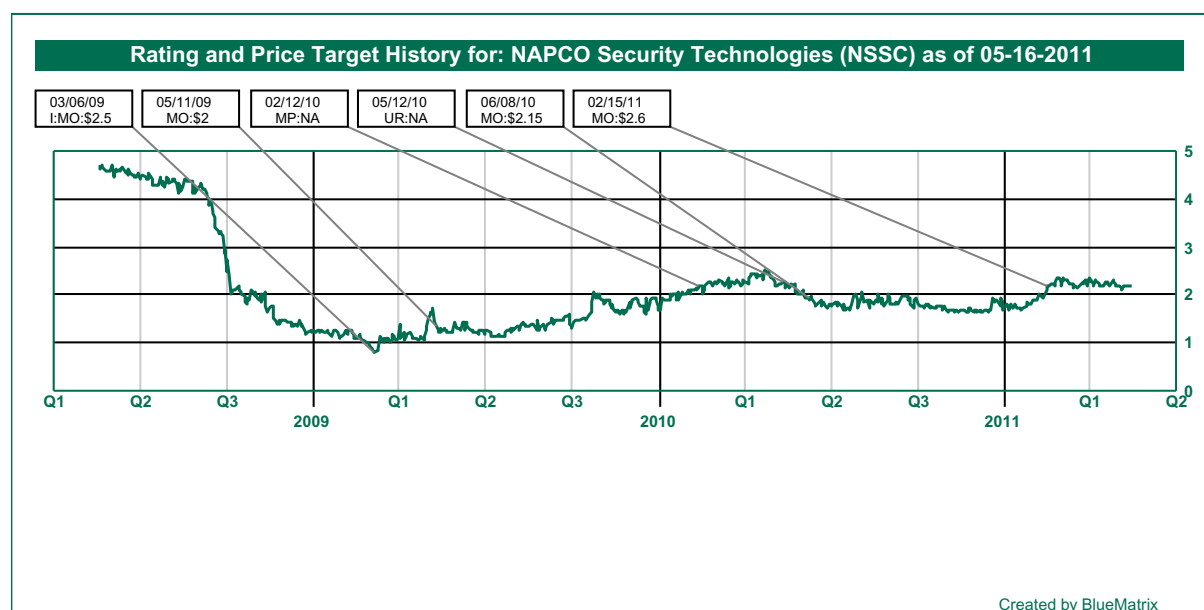
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- **Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Perform (Hold):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- **Speculative -** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- **Aggressive -** The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- **Moderate -** The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Distribution of Ratings Table				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	147	59.50%	37	25.17%
Market Perform(MP)	42	17.00%	4	9.52%
Market Underperform(MU)	8	3.20%	0	0.00%
Under Review(UR)	50	20.20%	14	28.00%
Total	247	100%	55	100%

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