Rodman & Renshaw

NAPCO Security Technologies (NSSC)

INITIATING COVERAGE

Joe Giamichael
212-920-3593
jgiamichael@rodm.com
Dmitriy Shapiro
212-430-1767
ds@rodm.com

TECHNOLOGY

March 6, 2009

Market Outperform / Speculative

NAPCO: Small Cap Security Company; Locking In Growth

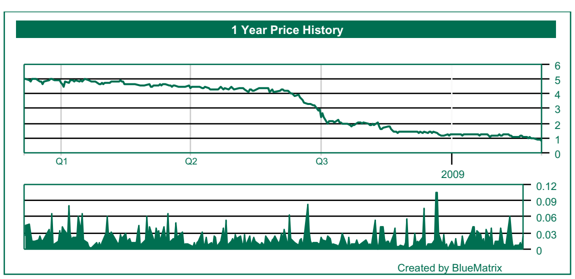
MARKET DATA	3/5/2009
Price	$0.81
Market	NASDAQ
Target Price	$2.50
52 Wk Hi - Low	$5.18 - $0.76
EV(MM)	$48.1
Market Cap(MM)	$15.4
Shares Out (MM)	19.1
Public Mkt Float (MM)	12.3
Avg. Daily Vol (000)	18.9

BALANCE SHEET METRICS	
Cash (MM)	$5.6
LTD (MM)	$34.6
Total Debt/Total Equity	70.20%
Debt/Capital	41.3%
Price/Book	$0.3
Book Value/Share	$2.85

EARNINGS DATA ($)			
FY - Dec	**2008A**	**2009E**	**2010E**
Q1 (Mar)	0.02	0.02	0.05*E*
Q2 (Jun)	0.06	0.02	0.07*E*
Q3 (Sep)	0.17	0.03*E*	0.07*E*
Q4 (Dec)	(0.06)	0.05*E*	0.08*E*
Full Year EPS	0.19	0.11*E*	0.28*E*

VALUATION METRICS			
Price/Earnings	4.3x	7.4x	2.9x
Long Term EPS Growth		NM	1.5%

INDICES	
DJIA	6,594.4
SP-500	682.6
NASDAQ	1,299.6
Russel 2000	349.5



We are initiating coverage on Napco Security Technologies (NSSC) with a Market Outperform / Speculative Risk rating and a twelve to eighteen months Price Target of $2.50

Investment Thesis

NAPCO presents small cap investors with an opportunity to own a well positioned company that dominates its niche within the overall security industry. NAPCO has a long and consistently profitable history as a public entity and has been successful in identifying and completing several accretive acquisitions, overtime, that have added incremental growth and earnings in a manner that has always proven accretive to shareholders. The recently completed acquisition of Marks USA should follow the historic pattern and support management's previous growth strategy. As significant equity owners (~36%), the company has been build largely through the use of debt to enhance its equity returns, while the current debt load should be manageable, even in a more negative environment, the equity value has suffered as a result of the overall investor flight from small cap and aversion to leverage. NAPCO continues to be the leading manufacturer and provider of intrusion and fire alarms, building access control systems, and electronic locking devices to independent distributors, wholesalers of security alarm and security hardware equipment and security integrators, on a global basis and the Company will look to improve upon its visibility in the space going forward. We believe that the well managed integration of the previous acquisitions as well as the ability to continue to show consistent profitability should lead to recognition and revaluation of the equity opportunity and should present investors with significant upside from current levels.

Valuation

At $2.50 per share, the stock would be trading at 29.4x FY 09 and 9.3x FY 10 on a P/E basis, relatively in line with the peer group. In our opinion a target price of $2.50 is easily justified by Napco's consistent profitability and significant potential growth opportunities. Napco's FCF Yield in the last twelve months is 31%, compared to peer group's average of 0%. In addition, NSSC's 2008 – 2010 CAGR is ~20%, based on our estimates, and will come from revenue growth as well as operational and financial synergies. This translates to a PEG ratio of only 0.4 using a $2.50 price target, which indicates that the stock is still cheap even at these levels, both on an absolute basis and compared to the group's average of 1.0.

Risks

1.Seasonal and cyclical Industry; 2. Fragmented and highly competitive industry; 3. Technology intensive Industry; 4. Dependence on independent distributors and wholesalers; 5. Substantial insider ownership; 6. New debt repayment schedule; 7. High fixed operating costs; 8. Customer credit risk; 9. Currency exchange risk.

Company Description

The Company is one of the world's most diversified manufacturers of security systems for intrusion and fire alarms, internet video surveillance, access control and door locking technologies. NAPCO Security Group products are sold to, and installed by tens-of-thousands of security professionals around the globe, to over 59 countries, from security dealers to locksmiths, to systems integrators and security specifiers, for commercial, industrial, institutional, residential and government applications. Headquartered in New York, and with offices in the United Kingdom, the Caribbean, and Dubai, Napco and its subsidiaries provide fully integrated solutions for airports, government facilities, military bases, factories, pharmacies, pharmaceutical and research laboratories, educational institutions, hospitals, retail. Today, millions of businesses, institutions, homes, and people around the globe are protected by products from the NAPCO Group of Companies.

Since its founding in 1969, NAPCO has enjoyed a heritage and proven track record in the professional security community for advanced technology and high quality security solutions, building many of the industry's well-known brands, such as NAPCO® Intrusion and Fire Systems, Alarm Lock®, Continental Access®, and now including Marks USA®. Napco Security Technologies is one of the leading manufacturers of a wide array of security products, developing advanced technologies for intrusion, fire, video, wireless, access control and door locking systems.

The barrage of terrorism, crime and economic uncertainty in the media continues to drive and shape the growing security industry with the overall market of security-related sales expected to reach more than $30 billion. NAPCO answers these increasing market demands by developing innovative solutions designed to protect people, property and profits through technology. Today, the synergistic NAPCO Group of Companies is well-positioned to capture a greater share of the growing global security marketplace. In summary, NAPCO is a 100% security focused manufacturer in an increasingly security-focused world.

Company Background

Napco was founded in 1969 and incorporated in December 1971 in the State of Delaware. Napco has been a public company since 1972 and its shares currently trade on the NASDAQ under the ticker NSSC. Prior to its first acquisition in 1980, Napco operated in the intrusion and fire alarm systems segment.

In January 1980, Napco acquired the wholly-owned subsidiary Raltech Logic a microcomputerization security engineering firm. Raltech's founders became lead engineers at Napco, and continue to be senior management today, as both they and their intellectual properties were merged into Napco. The transition from transistor-based alarm equipment to microcomputerized intrusion system designs, for which Napco became well known, resulted from this Raltech's acquisition.

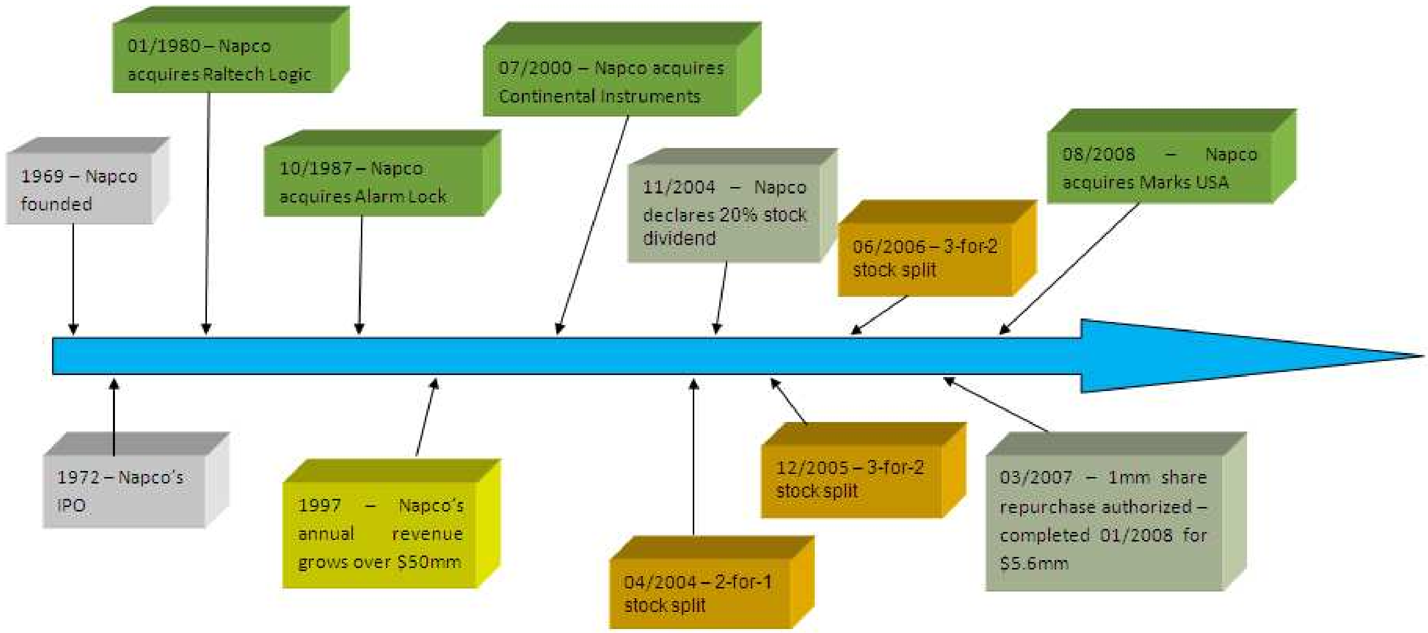
In October 1987, Napco acquired Alarm Lock for $6.6mm, which added mechanical door exit alarms and panic devices primarily used for exit doors to the Company's already existing product offerings. Today, Napco also markets access control solutions with standalone electronic pushbutton access locks, as well as a new line of networked, internet-accessible/programmable locks for every kind of locking application through this division.

In July 2000, Napco acquired Continental Instruments for a total deal value of $9.2mm, financed by an $8.25mm term loan and cash on hand. This acquisition helped Napco to further broaden its product offerings into access control systems (software and hardware) and allowed the Company to focus on commercial and governmental clients.

In August 2008, Napco acquired G. Marks Hardware for $26mm in cash, which operates in manufacturing and distribution of door-locking devices, financed by $25mm term loan and $1mm revolver. Please see Figure 1 below for Napco's timeline. This final acquisition allowed Napco to become one of the world's most diversified manufacturers of security products, encompassing intrusion, fire, video and wireless alarms, building access control systems and electronic locking devices.

Today, millions of businesses, institutions, homes, and people nationwide are protected by products from the Napco or one of its subsidiaries. Napco is headquartered in Amityville, NY and as of June 30, 2008 had 817 full-time employees, approximately 600 of which are located in a Dominican Republic based manufacturing facility.

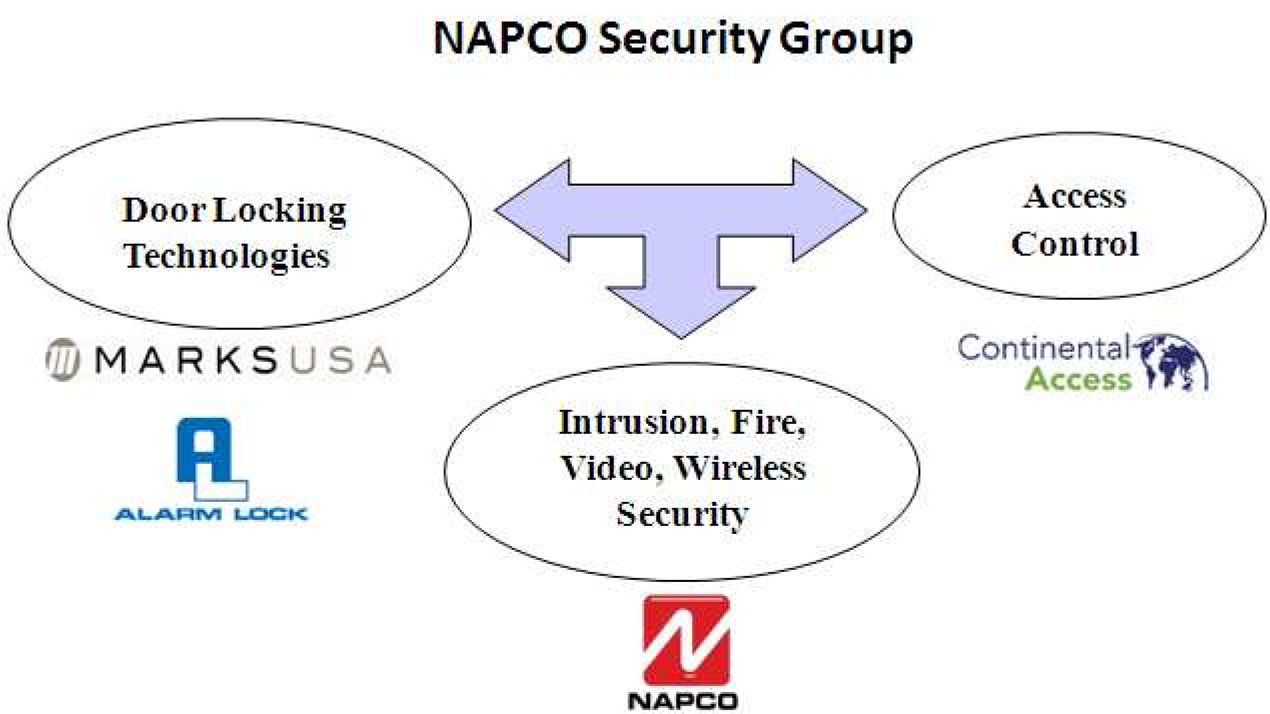
Figure 1: Napco's Timeline



"One-Stop-Shop" for Security Equipment and Technologies

The Company and its five operational divisions (wholly-owned subsidiaries) provides a sole source solution to the varied and escalating security needs of over 200 distributors and thousands of dealers, most of with which it has long-standing relationships spanning decades.

Figure 2: Napco's Divisions



NAPCO Operates 5 Divisions within these 3 Product Areas:

1. NAPCO Intrusion, Fire and Video Alarm Products:
These products have broad reach, selling into residential, commercial and government customers. Products from this division reach customers through the Company's authorized distribution network of over 200 distributors and over 8,000 dealers worldwide. Please see Figures 3, 4 and 5 below for Napco's alarm products.

Alarm Systems. Alarm systems usually consist of various detectors, a control panel, a digital keypad and signaling equipment. When a break-in occurs, an intrusion detector senses the intrusion and activates a control panel via hard-wired or wireless transmission that sets off the signaling equipment and, in most cases, causes a bell or siren to sound. Communication equipment such as a digital communicator may be used to transmit the alarm signal to a central station or another person selected by a customer. The specific products as well as several images of these products are presented below.

The Company manufactures and markets the following products for alarm systems:

Automatic Communicators: When a control panel is activated by a signal from an intrusion detector, it activates a communicator that can automatically dial one or more pre-designated telephone numbers. If programmed to do so, a digital communicator dials the telephone number of a central monitoring station and communicates in computer language to a digital communicator receiver, which prints out an alarm message.

Control Panels: A control panel is the "brain" of an alarm system. When activated by any one of the various types of intrusion detectors, it can activate an audible alarm and/or various types of communication devices. For marketing purposes, the Company refers to its control panels by the trade name, generally "Gemini(TM)" and "Magnum Alert(TM)" followed by a numerical designation.

Combination Control Panels/Digital Communicators and Digital Keypad Systems: A combination control panel, digital communicator and a digital keypad (a plate with push button numbers as on a telephone, which eliminates the need for mechanical keys) has continued to grow rapidly in terms of dealer and consumer preference. Benefits of the combination format include the cost efficiency resulting from a single microcomputer function, as well as the reliability and ease of installation gained from the simplicity and sophistication of micro-computer technology.

Door Security Devices: The Company manufactures a variety of exit alarm locks including simple dead bolt locks, door alarms and microprocessor-based electronic door locks with push button and card reader operation.

Fire Alarm Control Panel: Multi-zone fire alarm control panels, which accommodate an optional digital communicator for reporting to a central station.

Area Detectors: The Company's area detectors are both passive infrared heat detectors and combination microwave/passive infrared detectors that are linked to alarm control panels. Passive infrared heat detectors respond to the change in heat patterns caused by an intruder moving within a protected area. Combination units respond to both changes in heat patterns and changes in microwave patterns occurring at the same time.

Figure 3: Napco's Alarm Products

Figure 4: Napco's Intrusion Products

Figure 5: Napco's Smoke and Carbon Monoxide Detectors

2. Alarm Lock - Electronic Locking Products:
NAPCO manufactures and complete line of push button and ID card operated electronic locks, door exit alarms and door security hardware. These products are sold to schools, municipal institutions, military bases, airports, commercial buildings and government facilities. The electronic locking products reach these customers through 100 locking distributors and over 6,000 locksmiths and contractors.

Figure 6: Alarm Lock's Products

3. Continental Access Systems - Access Control:
The Company defines an access control systems as consisting of one or more of the following: various types of identification readers (e.g. card readers, hand scanners, etc.), a control panel, a PC-based computer and electronically activated door-locking devices. When an identification card or other identifying information is entered into the reader, the information is transmitted to the control panel/PC which then validates the data and determines whether to grant access or not by electronically deactivating the door locking device. An electronic log is kept which records various types of data regarding access activity.

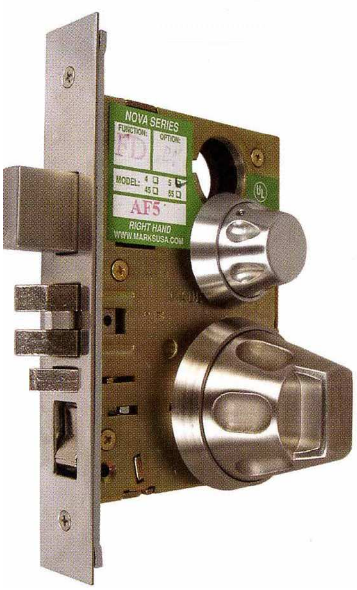
The Company designs, engineers, manufactures and markets the software and control panels discussed above. It also buys and resells various identification readers, PC-based computers and various peripheral equipment for access control systems. These products are primarily commercial and governmental structure focused. And feature video monitoring stations for security personnel while supporting an array of card and biometric readers, all operating on proprietary software. The Company targets these customers through 700 security systems integrators. These integrators then sell to Fortune 1000 companies, federal and state government agencies, office building management companies and airports. We have included several images of the access control systems, identification cards and card readers below.

Figure 7: Continental's Access Control Systems

4. Door Locking Technologies -- Marks USA:
NAPCO recently expanded its locking product portfolio through the previously discussed acquisition of Marks USA. This has allowed the Company to become a leading provider of industrial / commercial door technology products including mortise, cylindrical, electrified, tubular, electronic access and custom designed locksets, for industrial and commercial

settings. These products are primarily sold into commercial and governmental structures and have been included in a number of high profile projects including: the 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 and Reagan and Dulles airports. Images of various locking mechanisms are included below.

Figure 8: Marks's Products



5. Custom Manufacturing

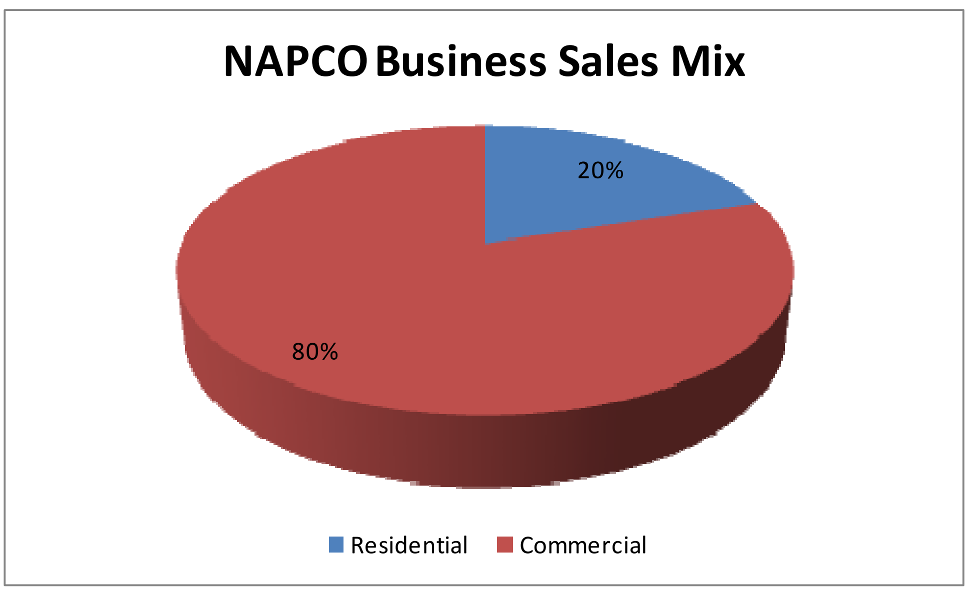
This division has been created as a result of NAPCO's manufacturing expertise and the ability to better leverage its low cost, off-shore production facilities to serve its customer base and generate incremental revenues. The Company has formed sourcing partnerships with large security firms that have special needs; these firms include: ADT and Slomin's Shield, as well as some less recognizable names. Below we have included several images of some of the various products that NAPCO produces on a private label basis for security companies.

Figure 9: Custom Manufactured Products

Revenue Mix Favors Commercial Customers

The Company utilizes a staff of ~50 sales and marketing support employees, located at the Company's Amityville, NY, United Kingdom and Dubai offices to reach independent distributors and wholesalers of security alarm and security hardware equipment. These customers account for approximately 2/3 of the current revenue. The remaining revenues are primarily from alarm installers and governmental institutions. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company Products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States and European cities. Some of the Company's products are marketed under the "private label" of certain customers.

Figure 10: Business Sales Mix:



Security Industry Overview:

Large, Growing Industry Opportunity:

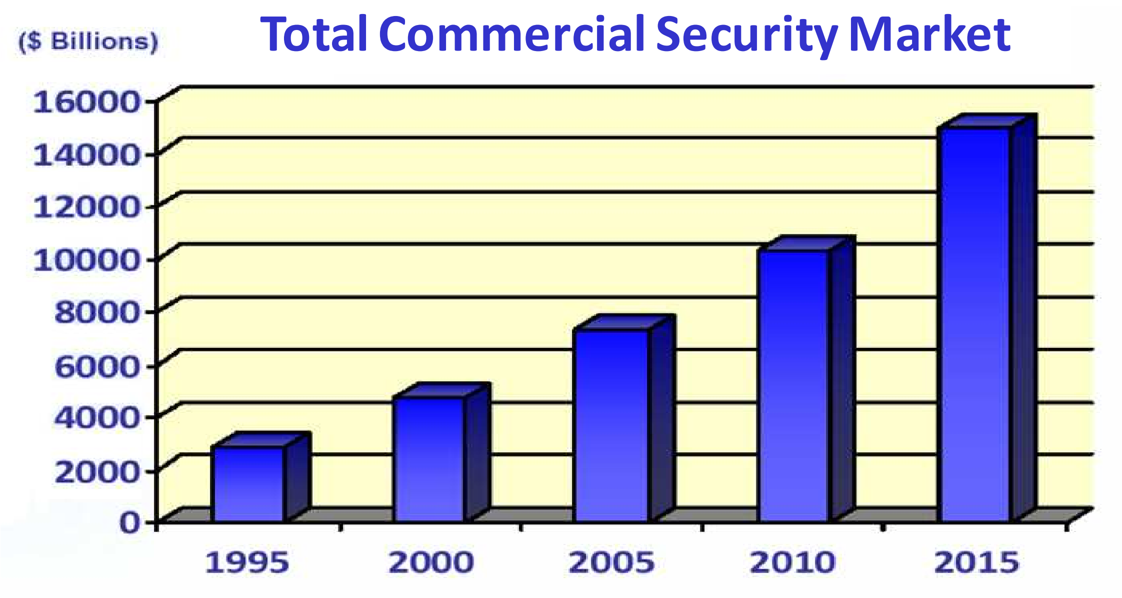
NAPCO believes that its products address markets estimated to exceed $30 billion worldwide and have shown steady growth. The heightened global level of security consciousness in Post 9/11 era coupled with the deteriorating economic climate has created a greater need and demand for security products.

The US government recently passed a $115 billion, 5 year budget by the Department of Homeland Security for security of aviation, ports, ground transport, bio-terrorism and law enforcement (per 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 (per Frost & Sullivan, JP Freeman, IMS Research and IDC).
The post-September 11 era has generally been characterized by increased demand for electronic security products and services. The Company believes the security equipment market is likely to continue to exhibit healthy growth, particularly in industrial sectors, due to ongoing concerns over the adequacy of security safeguards

The commercial market is the largest segment of the overall security industry, providing protection services for small businesses, large corporations, retail and restaurant stores, industrial buildings, universities and institutions and government facilities. Customized systems and support services are focused on finding ways to ensure the safety of employees, customers, property and profitability. Alarm monitoring and access control devices make up 60% of spending on electronic security in the U.S. with roughly 13% spent on CCTV. Major drivers of this segment are new construction, legislation and retrofit projects. The largest players in the market are Siemens (SI-NR), Honeywell (HONNR) and Johnson Controls (JCI-NR). The company provides design services to develop complete security solutions for all types of low voltage security systems, such as: CCTV, access control, door control, fire alarm, video storage, video management, sound and perimeter.

Figure 11: Commercial Security Market



Source: Freedonia Group: Electronic Security Systems 2010 - 2015

Industry is Highly Competitive and Fragmented
The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 20 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that no one of these competitors is dominant in the industry.

The video surveillance market is estimated to be a $6-$7B market with a 10-20% annual growth rate, one of the fastest growing segments within the security industry. The segment includes both digital and analog systems and storage. While this industry is dominated by large security and technology conglomerates, with less than 10 players controlling ~50% market share, no one company has a dominant share. NAPCO believes that the introduction of the price competitive iSEE Video product line should provide strong opportunities for early market acceptance.

Access control systems range from simple card entry equipment to sophisticated electronic monitoring systems; controlling access to facilities, indoor and outdoor, using biometric and electronic card IDs to operate electronically controlled locks. The estimated market size is approximately $4B, growing at 10-15% annually. The market for traditional cards, readers and locks has an expected growth rate less than 5% annually, while new access control technologies, such as biometrics, smart cards and RFIDs are growing at nearly 20% a year.

The U.S. fire detection and monitoring market segment is estimated to be roughly $6B in size. Tyco (TYC-NR) is the largest provider of fire services, with other major competitors including Honeywell (HON-NR), Siemens (SI-NR), GE (GE-NR) and Johnson Controls (JCI-NR). The fire protection industry typically grows in line with GDP, driven by overall economic strength, new construction, system integration and legislative changes. Specifically, Argyle looks to offer the intelligent detection of smoke or heat in an indoor facility with local and remote alerting capability and with optional fire suppression capability.

Global Solution Provider with Strong Distribution Network

The Company owns and operates two manufacturing plants, the first is located in Amityville, NY (also US headquarters) and the second located in Dominican Republic, Caribbean. Combined these plants offer 250,000 square feet of space with a $200+ million production capacity. There is also a European sales center located in Warrington, U.K and Middle East Sales Center & Warehouse located in Dubai, UAE. NAPCO sells its products through a network of more than 15,000 security dealers, integrators, locksmiths and contractors with reach throughout more than 59 countries. Through these contacts NAPCO has created global reach with the potential to penetrate every aspect of the security industry. All of the Company's sales originate in the United States and are shipped primarily from the Company's facilities in the United States and United Kingdom. The company has no significant geographic concentration issues outside of the US as no sales into any one foreign country in exceed 10% of total Net Sales. Below is the historic revenue breakout as well as the aforementioned facilities.

Figure 12: Historical Global Sales Mix

International Sales Mix						
	2008		2007		2006	
	MM	%	MM	%	MM	%
Domestic	56.1	82.1%	56.8	85.8%	58.5	84.2%
Foreign	12.2	17.9%	9.4	14.2%	11.0	15.8%
Total	**68.4**		**66.2**		**69.5**	

Figure 13: Napco's Facilities


US Headquarters and Plant


Dominican Republic Plant


U.K. Sales Center


Dubai Warehouse

Dominican Production Facilities Create Low Cost Advantage

Napco has created a wholly-owned manufacturing division located in the Dominican Republic. This location contains approximately 175,000 square feet of manufacturing capacity and is staffed with 600 laborers. From a capacity standpoint this location offers a tremendous amount of flexibility, it currently accounts for the majority of revenues recognized by the company, while operating with only two shifts per day. With the existing location production levels could be doubled before any meaningful capital expansion commitments would be required. Due to the significantly lower labor cost and tax incentives provided by the local government Napco is able to produce its products almost exclusively through this facility at ~1/10th the cost that would be incurred in a similar facility based in the US. The cost competitive nature of this location creates a significant competitive advantage for Napco. From the standpoint of new product introduction, engineering, design and testing are completed in the Ammityville location and then manufacturing is transferred to the Dominican. From a synergy standpoint, if the company is to identify future acquisition opportunities that can serve as an expansion of the product portfolio, the manufacturing can be shifted to the Dominican facilities to create additional cost savings witch should make a potential acquisition more accretive to NAPCO on a go forward basis.

Company has Identified and Completed Acquisitions to Expand Product Offering

The most recent acquisition of Marks USA brings NAPCO's sales to ~$100mm by adding $24 million in revenues to Napco's top line. The acquisition was completed on August 2008 and was immediately accretive to Napco's EPS. Marks's acquisition also helped Napco to achieve its status as a "total solutions" security equipment manufacturer by diversifying its product line by adding Marks's higher margin products. Other synergies from the acquisition include new distribution channels for already existing product offerings with man cross-selling opportunities. Napco acquired Marks for $26mm in cash and was funded by borrowing $25mm under the term loan and $1mm under the revolving credit facility. In the previous year Marks USA had revenues of ~$25mm and EBITDA of ~$4mm, which translates to EV/EBITDA of 6.5x and EV/Revenue of 1.0x.

Continental Instruments was acquired by Napco on July 2000 for an initial purchase price of $7.5mm with additional payments of up to $1.7mm for a total deal value of $9.2mm. This translated to an implied EV/EBITDA of 5.2x and EV/Revenues of 1.7x. Napco financed that acquisition with borrowings under a term loan of $8.25mm. After acquiring Continental, the Company added access control systems to its product offerings, which helped Napco penetrate commercial and government sectors. Now, Napco designs, engineers, manufactures and markets the software and control panels to federal and state government agencies and fortune 1000 companies.

We would expect Napco to continue to seek small, immediately accretive acquisitions in the future in order to even further diversify its product offering and realize additional operational and financial synergies.

Synergies Should Drive Margin Expansion

Finalizing the integration of Marks presents Napco with significant revenue growth and multiple opportunities for cost savings. Bringing manufacturing of Marks's products into the Dominican Republic facilities should reduce costs and help to produce efficiency. Marks's acquisition also opens up new distribution channels for other product offerings and presents the opportunity to enter new business sector with very little sales overlap with existing business. This presents the Company with many cross-selling opportunities. Finally, having a broad product offering should allow the Company to focus on higher margin products and improving product mix, as well as help to improve overhead absorption leading to higher gross and operating margins.

Consistent and Strong Organic Revenue and Cash Flow Generation

Napco has shown its ability to grow revenues organically over the last decade. At the same time, the Company managed to remain profitable every year and demonstrate strong cash flows. With the recent acquisition of Marks, which should help to diversify Napco's revenues and add approximately $25mm to the top line going forward, the Company is well positioned for continued growth (albeit inorganic) and profitability in all economic cycles. Going forward, we expect Napco to show organic growth from each of its divisions. Combined with the introduction of new products, which should generate recurring revenue streams, it should substantially improve overhead absorption, leading to an expansion of gross and operating margins.

New Products Present Significant Organic Growth Opportunities

Napco has demonstrated significant revenue growth and consistent profitability in the past and we expect these trends to continue into the future. Near term opportunities include the introduction of new products with recurring revenue streams, as well as concentrating on higher profit margin products. Please see Figure 14 below for Napco's key new products. Another way for Napco to drive its growth is to upgrade sales source for dealers by concentrating on commercial business concerned with specific security needs, such as retailers and shrinkage.

Figure 14: Key New Products

New Product Introduction Creates Recurring Revenue Model

With the introduction of two new products, iSee Video and StarInc Backup Radio, Napco is trying to diversify its revenue stream by incorporating recurring revenue component. Revenues generated by these new products should help Napco to reduce volatility of its total revenue generated by the seasonal and cyclical nature of its business. More importantly, both of these products will not require substantial expenses after installation and hence all of the post-installment recurring revenues will fall straight to the bottom line.

iSee Video

The iSee Video product is a revolutionary remote system that will allow consumers to view live video over the Internet on their computer or internet-enabled cell phone and know what is going on in their business or home at any time. This new product has multiple potential applications for keeping an eye on your home as well as monitoring your business. Some of the potential residential and business applications include: checking the status of a second home or garage; keeping an eye on pets, nannies or babysitters; monitoring for intruders; seeing who is at the door; monitoring customer traffic remotely; keeping an eye on employees; keeping track of deliveries or monitoring stockrooms. iSee Video easily integrates with most security systems and is able to automatically send an email with video of the event. In addition, iSee video works with any camera and gives you an option to save videos for later review. Please see Figure 14 below for iSee Video System.

Napco plans to charge approximately $300.00 per installation for iSee Video equipment and then receive recurring monthly service revenue of up to $2.50 per month per account. There are ~25mm consumers in USA currently monitored by alarm companies, all of whom can benefit significantly by adding the iSee Video equipment. This product presents consumers with very affordable and convenient solution: just one kit to buy, which already includes server service; no up-charges and no monthly plans; supports any cameras; no software to load on consumers' PCs and no data-port forwarding. iSee Video offers truly plug-n-play with an easy installation; password-protected video that can be viewed live, emailed on triggered events or archived with time and date stamp. This product also includes all of the most advanced features, such as scalable storage space and pixel-based motion detection.

Figure 15: iSee Video System and User Screen

StarLink & NetLink : Two Alternative Alarm Communicators

Two factors promote the widespread need for alternative alarm communicators: One is the reduction of traditional phone lines in homes and businesses nationwide. The second is an increasingly prevalent methodology of burglary - Burglars are frequently cutting phone lines before gaining entry to premises, in an attempt to disable the alarm's report to central station monitoring. To resolve these issues, Napco has introduced several universal high-speed alarm communications alternatives for use with both its intrusion and access systems, commercially and residentially. StarLink™ is Napco's line of long-range wireless communicators which send alarm signals, absent phone lines, over GSM mobile cell tower networks. The Company recently debuted its full-data StarLink Radio which can be used as either a backup radio for alarm reports or a primary wireless alarm communicator. Used as a backup to a telephone failure, StarLink can save money on reporting fees and eliminates confusion from duplicate reporting; used as a primary communicator, StarLink provides economical full data reporting for use with any alarm panel brand, where the unit will sell for under $200 and the monthly subscriber use fee will be under $7.00, paid on a recurring annual basis to Napco. NetLink™ is Napco's internet alarm communications offering and provides alarm communications via the Internet or a private LAN//WAN (intranet), for example in a campus-setting. In the latter application, this can not only provide the campus' security force fastest possible response times, given their own direct alarm monitoring capability, but it can also eliminate the need for toll-charge phone line alarm reporting and provide the facility with dramatic T1 phone charges. NetLink is also available as a UL-compliant TCP/IP UL Receiver, for UL central station operators.

Figure 16: StarLinc Backup Radio

Additional New Product Introductions: Biometric Fingerprint Reader; CardAccess 3000, a large-scale building access control system capable of monitoring 30,000 doors and includes an integrated video surveillance; Trilogy line locks, new narrow-style pushbutton and card locks designed specifically for glass and storefront doors; and Freedom 64, a 64-zone wireless / hardwire alarm system. Please see below for an example of each of these new products.

Figure 17: Biometric Fingerprint Reader

Figure 18: CardAccess 3000

Figure 19: Trilogy Line Locks

Figure 20: Freedom 64 Alarm System

Capital Structure

Napco Security Systems was founded in 1969 and incorporated in December 1971 in the State of Delaware. The Company has been publicly traded since 1972 and its shares currently trade on the NASDAQ under the ticker NSSC. At the end of Q2 FY 09 Napco had 19.1mm shares outstanding (both basic and fully diluted), which translates to a market cap of ~$15mm using the closing price of $0.81 on March 5th. At the end of Q2, Napco had $38.2mm of total debt and $5.6mm in cash. This translates to net debt to total capital of 60.8% and 35.2% using market and book values of equity, respectively.

Napco's $38.2mm debt consists of $24.1mm currently outstanding under the $25mm term loan and $14.1mm currently outstanding under the $20mm revolving line of credit. The recently amended revolver carries an interest rate of 3.5% and is secured by all the accounts receivable, inventory, the Company's headquarters in Amityville, NY and certain other assets of Napco, as well as the common stock of three of the Company's subsidiaries. The revolver was recently extended until August 2012. The entire $25mm term loan was utilized to finance the Marks's acquisition and carries an interest rate of 3.3%. The term loan is being repaid in 19 quarterly installments of $893k each, beginning in December 2008, and a final lump-sum payment of $8mm due in August 2013. The term loan imposes various restrictions and covenants on the Company, including restrictions on payment of dividends, additional borrowings and compliance with certain financial ratios. As of the end of 2Q, Napco was not in compliance with the covenants relating to the ratio of Funded Debt to EBITDA, Debt Service Coverage Ratio and a Modified Quick Ratio. The Company has received the appropriate waivers from its banks and is currently renegotiating certain terms and conditions of its covenants and expects to have amended facilities in place during the current quarter.

At the end of Q2 FY 09, the number of holders of record of Napco's common stock was under 200; however this number does not include owners of stock held in Street name. Throughout its history as a public company, Napco had a total of 9 stock splits and dividends. The most recent include: 3-for-2 stock split effective June 7, 2006, 3-for-2 stock split effective December 28, 2005, 2-for-1 stock split effective April 27, 2004 and 20% stock dividend effective November 18, 2004.

On March 16, 2007, Napco's Board of Directors authorized a share repurchase program to repurchase up to 1mm shares of its common stock. The repurchase program was completed in full on January 31, 2008 for a total cost of $5.6mm. The Company is currently digesting the Marks's acquisition and related capital needs; however, if the transition carries on well and the Company continues to be undervalued by the market, Napco's management should consider initiating another share repurchase.

Napco's consolidated financial statements include the accounts of Napco and all of its wholly-owned subsidiaries, including those of Marks USA, a newly formed subsidiary which was acquired on August 18, 2008. The Company has also consolidated a 51%-owned joint venture, with the remaining 49% interest being reflected as minority interest.

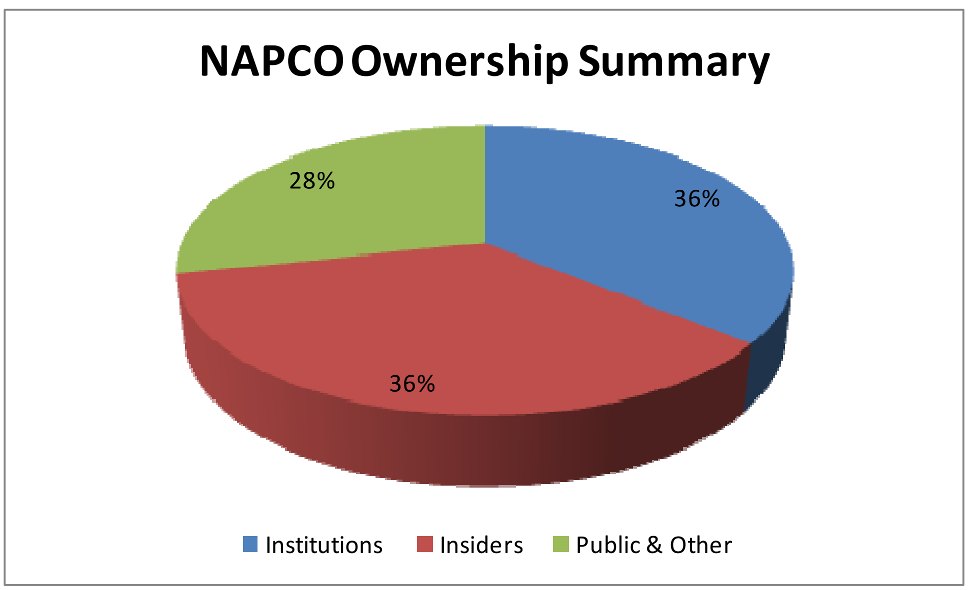
Significant Insider Ownership Aligns Management with Shareholders

According to the most recent proxy statement, all directors and executive officers as a group own ~36% of the total outstanding equity. Please see Figure 21 below for the breakdown of Napco's Ownership. This level of insider ownership ensures that management's interests remain aligned with common shareholders and that efforts remain focused on the creation of shareholder value. Owner/managers tend to have a more measured and cautious approach to building a business, even when the intention is to aggressively acquire smaller companies to rapidly capture market share. The company recently completed an acquisition of Marks, which was funded through a $25mm term loan. The fact that no equity was issued speaks to management's view of the intrinsic value of its stock and the unwillingness to use more dilutive means to complete acquisitions. In fact, there has been no shareholder dilution since the Company's IPO in 1972.

Another 36% of the Company is owned by institutions, with top institutional holders including: Rutabaga Capital Management, Epoch Investment Partners, Hodges Capital Management, Heartland Advisors, Raffles Capital Advisors, Riverbridge Partners. A high institutional ownership ensures greater visibility and orderly trading, in addition to providing an indirect proof of the company's strong fundamental position.

Figure 21: Napco's Ownership Summary

NAPCO Ownership Summary		
	Shares Held	**% of Total Shares**
Institutions	6,861,474	35.9%
Insiders	6,820,598	35.7%
Public & Othe	5,413,928	28.4%
Total	**19,096,000**	

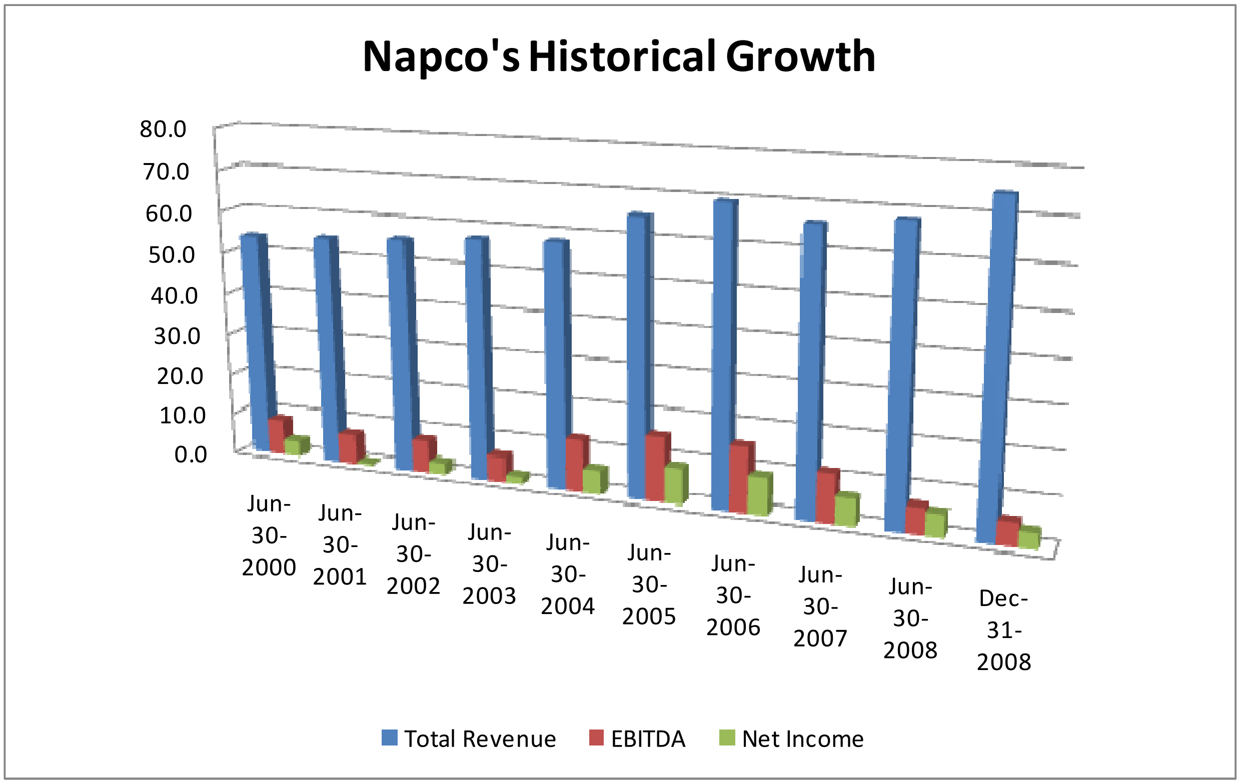


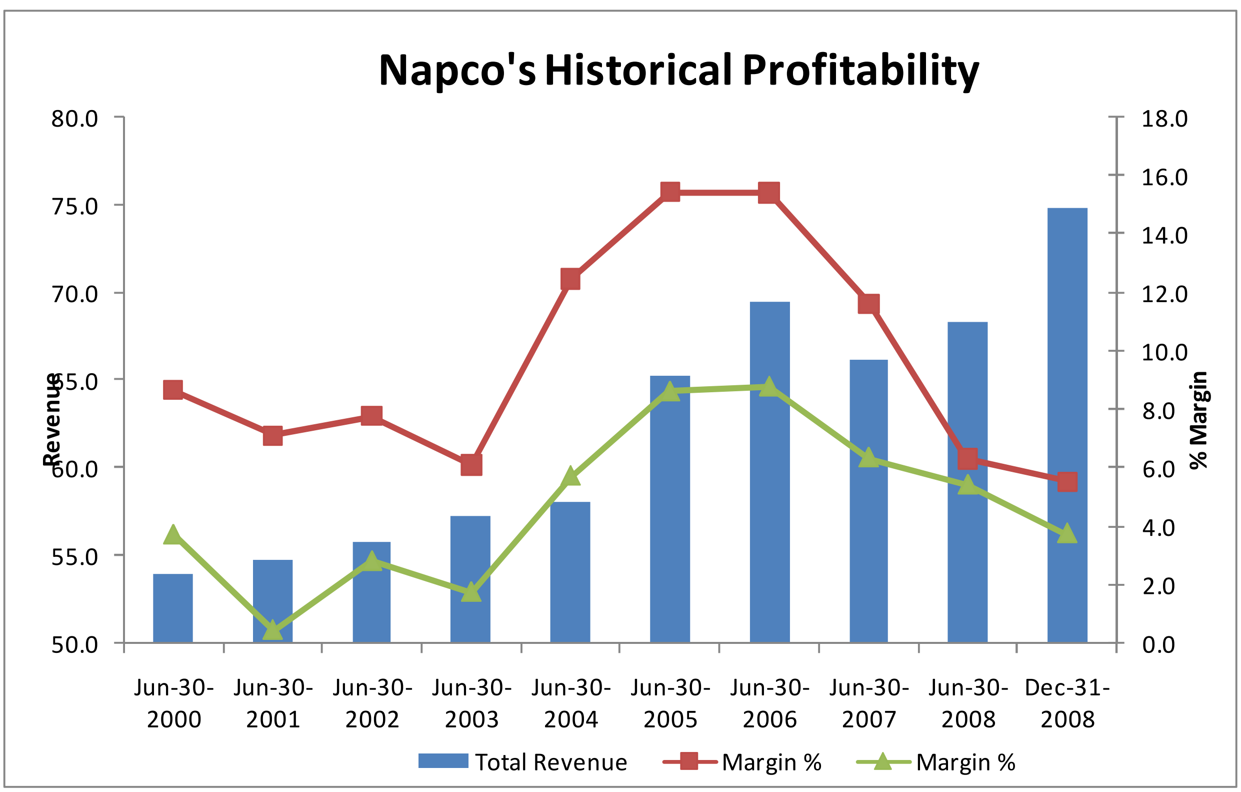
Recent Financial Performance

Napco has been able to demonstrate significant revenue growth in the last decade, showing FY 2000 through FY 2008 top line CAGR of 9%. At the same time, the Company managed to remain profitable every year and demonstrate strong cash flows. Please see Figure 22 below for Napco's historical financial performance. In August 2008, Napco acquired

Marks Hardware, which manufactures and distributes door-locking devices. This immediately accretive acquisition should add approximately $25mm to Napco's top line going forward. The company has significant operating leverage and incremental revenue growth should help Napco improve its profitability, with a substantial portion of the Company's expenses are fixed and as production levels rise and factory utilization increases, they will be spread over the increased output.

Figure 22: Napco's Historical Growth and Profitability





Napco reported sales of $19.1mm in 2Q FY 2009, an increase of 18% compared with the same period a year ago. The increase in sales was primarily due to the additional sales from the recently acquired Marks, as well as increased sales of the Company's door-locking and access control products. Sales were partially offset by a decrease in Napco's intrusion products.

Gross profit grew by 14% Y/Y to $6.2mm and corresponded to a gross margin of 32.6%, compared to a gross margin of 33.7% a year ago. The increase in gross profit on an absolute basis was mainly due to the addition of the Marks's gross profit of $1.6mm; partially offset by an increase in certain overhead expenses. The decrease in gross margin was due to a decline in production of the Company's non-Marks product lines, which resulted in the increased overhead expenses.

SG&A expenses increased by 31% to $5.4mm or 28.6% of sales, compared to 25.7% of sales a year ago. The increase was primarily due to the additional expenses of $1.1mm related to Marks and an increase in tradeshow expenses. Operating income declined by 40% Y/Y to $0.8mm. This corresponded to an operating margin of 4%, an almost 400bps decline from the same quarter last year.

Interest expense increased to $429k, compared to $224k for the same period a year ago. The increase in interest expense was due to the additional $25mm term loan utilized for the Marks acquisition in August 2008.

Net income declined by 72% Y/Y to $0.3mm or $0.02 per fully diluted share, compared to an EPS of $0.06 a year ago. This corresponded to a net margin of 1.7%, a 550bps declined from 2Q FY 08.

Balance Sheet Summary:
Napco ended the quarter with $5.6mm in cash and $38.2mm in total debt. The Company managed to reduce net debt by $2.3mm during the quarter, lowering the net debt to book value of equity by over 200bps to 35.2%. Napco received very favorable terms on its recent debt related to Marks acquisition. The interest rate on the $25mm term loan is only 3.3% while the interest rate on the recently renegotiated revolver is only 3.5%. At the end of 2Q, Napco had $14.1mm outstanding under its $20mm revolving credit facility. The Company earned $2.5mm in cash from operations during second quarter and $3.2mm during the first six months of FY 2009. Napco earned $3.8mm from operations in the FY 2008. The Company's management believes that current working capital, cash flows from operations and its revolving credit facility will be sufficient to fund Napco's operations through at least the next twelve months.

Strong Management Team

Napco has brought together a very experienced management team possessing 75 years of combined experience in the security industry. NSSC's management possesses strong industry relationships coupled with technical know-how, which should help Napco to expand its product offering in US and international markets, as well as help improve its profitability and cash flows.

Richard L. Soloway (Chairman of the Board, CEO, and President): Mr. Soloway has served as President of Napco Security Systems since 1998 and as Secretary since 1975. He also serves as Napco's CEO and has been the Chairman of the Board of Directors of Napco since October 1981 and Director since 1972. Mr. Soloway was the original founder of Napco and has over 30 years of security and electronics experience.

Kevin S. Buchel (Senior VP of Operations and Finance, Treasurer, and Director): Mr. Buchel has served as the Treasurer of Napco since 1998 and as the Senior Vice President of Operations and Finance since April 1995. Mr. Buchel also serves as the CFO and Principal Accounting Officer of Napco. He has been with Napco for the last 20 years, and worked at Coopers & Lybrand prior to that. Mr. Buchel holds a CPA certification.

Jorge Hevia (Senior VP of Corporate Sales and Marketing): Mr. Hevia has served as a Senior Vice President of Corporate Sales and Marketing of Napco since May 1999 and as a Vice President of Corporate Sales and Marketing of Napco Security Systems Inc. since October 1998. Prior to that Mr. Hevia worked as a Vice President of National Sales of Schieffelin and Somerset Company from December 1993 to October 1998.

Michael Carrieri (Senior VP of Engineering Development): Mr. Carrieri has served as a Senior Vice President of Engineering Development of Napco since May 1, 2000 and as a Vice President of Engineering Development since September, 1999. Prior to that, Mr. Carrieri was a Vice President of Engineering of Chyron Corp. from April 1998 to August 1999 and a Vice President of Engineering of Boundless Technologies from February 1990 until March 1998.

Potential Risks

Operating in Seasonal and Cyclical Industry
Historically, the end users of Napco's products want to purchase and install its products prior to the summer; therefore Napco’s sales peak in the fiscal fourth quarter and are reduced in the fiscal first quarter. Sales in Europe also decline in the Company's first fiscal quarter because of European vacation patterns, which creates substantial variability in the Company’s quarter over quarter performance.

Demand for Napco’s products is significantly affected by the housing and construction markets, which are currently in decline. Napco’s sales and profitability, particularly in the intrusion product lines, are linked to new housing starts, existing home sales and existing home renovations. In addition, delays or reductions in spending for electronic security systems, in US or internationally, could significantly lower demand for Napco’s products.

Operating in Fragmented and Highly Competitive Industry
Napco operates in the security alarm products industry, which is very competitive and fragmented. There are approximately 20 other companies that manufacture and market security equipment to distributors, dealers and OEMs that can be viewed as direct competitors. None of these companies can be viewed as dominant in the industry; however some of them have significantly greater financial and other resources than Napco. In recent years, relatively low-priced "do-it-yourself" alarm systems became available to the public at retail stores, which further increases competition for Napco’s products.

Operating in Technology Intensive Industry
The security industry is characterized by constantly improved products and technology, as well as rapidly changing customer requirements. In order to remain competitive, Napco is required to continue to develop and market products and product enhancements which will be equal or better to those of its competitors. This will require significant R&D and marketing expenditures.

Dependence on Distributors and Wholesalers to Market Company’s Products
Napco distributes its products primarily through independent distributors and wholesalers of security alarm and security hardware equipment, who also sell competitors' products. If these distributors decide to concentrate on competitors' products for any reason, they may fail to market Napco’s products as effectively. In addition, financial health of these distributors is also extremely important to Napco’s future success.

Substantial Insider Ownership
Richard L. Soloway, Napco’s CEO, together with members of the management team and the Board of Directors own ~31% of the Company’s outstanding shares. This means that they can exert significant influence over all corporate actions requiring stockholder approval, as well as practical ability to determine the election of all directors. In addition, Napco has a staggered Board of Directors, which coupled with concentrated insider ownership could discourage a third party from seeking to acquire control of Napco.

New Debt Repayment Schedule Puts Significant Pressure on Cash Flows
The Marks acquisition requires quarterly principal debt repayments of $893k plus interest on the debt. These expenses are in addition to the Company's historical cash flow requirements and could potentially place at risk Napco’s ability to repay this debt, as well as force the Company to violate certain financial covenants, in the case of a significant decline in the Company's operational cash flows.

High Fixed Operating Costs Can Add to Volatility
A significant portion of Napco’s operating costs are fixed, and therefore do not fluctuate with changes in production levels or utilization of manufacturing capacity. If production levels were to decline substantially, fixed costs would be spread over reduced levels, thereby decreasing margins and the bottom line.

Customer Credit Risk
Napco had two customers with aggregated accounts receivable balances of 29% and 34% of the Company's total accounts receivable at December 31, 2008 and June 30, 2008, respectively. At the end of Q2 FY 09 Napco had $23mm in accounts receivable and only $0.5mm in allowance for doubtful accounts. However, sales to either of these customers did not exceeded 10% of net sales in any of the past three fiscal years.

Currency Exchange Risk
Napco operates a plant in the Dominican Republic which is responsible for manufacturing majority of the Company’s products. Expenses incurred there are denominated in Dominican pesos. Changes in foreign exchange rates between the United States and the Dominican Republic could cause quarterly fluctuations in the reported financial results.

Valuation

Shares Appear to be Undervalued

We have chosen to initiate on NSSC with a Market Outperform / Speculative Risk rating and a twelve to eighteen months Price Target of $2.50. At yesterday's closing price of $0.81 the stock is trading at 9.5x FY 09 and 3.0x FY 10 on a P/E basis, significantly below the peer group averages of 16.5x and 9.6x, respectively. Our peer group consists of profitable companies in the Security, Control, Surveillance and Detection Equipment industries; however SourceFire Inc was excluded from the peer group average calculation as an outlier.

At $2.50 per share, the stock would be trading at 29.4x FY 09 and 9.3x FY 10 on a P/E basis, relatively in line with the peer group. In our opinion a target price of $2.50 is easily justified by Napco's consistent profitability and significant potential growth opportunities. Napco's FCF Yield in the last twelve months is 31%, compared to peer group's average of 0%. In addition, NSSC's 2008 – 2010 CAGR is ~20%, based on our estimates, and will come from revenue growth as well as operational and financial synergies. This translates to a PEG ratio of only 0.4 using a $2.50 price target, which indicates that the stock is still cheap even at these levels, both on an absolute basis and compared to the group's average of 1.0. Please see Figure 23 below for the comp valuation analysis.

Figure 23: Peer Comparison Valuation

Name	Ticker	Rating	Price	Market Value	EV	Net Debt/Total Cap	FCF Yield (ttm)	P/E 2008	P/E 2009	P/E 2010	PEG
ARGYLE SECURITY INC	ARGL	Outperform	$0.54	$3.2	$27.8	61.7%	-96.9%	NA	NA	1.6	NA
ITERIS INC	ITI	Outperform	$1.03	$35.2	$36.5	3.1%	20.6%	9.8	6.2	NA	NA
BRINKS CO	BCO	Not Rated	$21.75	$995.5	$900.1	-8.2%	11.4%	7.4	9.9	9.1	NA
COGENT INC	COGT	Not Rated	$9.97	$893.1	$580.8	-35.0%	9.4%	31.2	23.9	18.8	1.1
SOURCEFIRE INC	FIRE	Not Rated	$6.50	$168.1	$75.1	-55.3%	-6.1%	NA	171.1	44.8	NA
TECHWELL INC	TWLL	Not Rated	$5.16	$109.9	$47.3	-57.0%	11.8%	14.7	33.1	12.8	2.0
CHINA SECURITY & SURV TE(	CSR	Not Rated	$2.81	$128.8	$220.5	32.0%	-38.6%	1.9	1.4	1.2	0.1
ICX TECHNOLOGIES INC	ICXT	Not Rated	$3.96	$135.1	$99.0	-26.5%	-17.0%	NA	NA	12.4	NA
ELEC LINE 3000	ELN-DE	Not Rated	$0.28	$2.8	$7.8	43.1%	79.9%	NA	13.8	3.5	NA
DIGITAL ALLY INC	DGLY	Not Rated	$3.14	$49.3	$46.1	-6.5%	-0.6%	10.5	8.1	NA	NA
CHECKPOINT SYSTEMS INC	CKP	Not Rated	$6.38	$246.9	$295.0	12.4%	19.9%	7.2	10.9	7.9	NA
L-1 IDENTITY SOLUTIONS INC	ID	Not Rated	$3.69	$319.1	$766.3	56.8%	7.0%	NA	46.8	16.0	NA
OSI SYSTEMS INC	OSIS	Not Rated	$14.59	$252.1	$283.2	9.8%	13.8%	19.7	18.1	13.7	1.0
CORNELL COMPANIES INC	CRN	Not Rated	$14.48	$213.7	$530.3	59.5%	-22.9%	10.3	9.4	8.4	1.0
AVERAGE				**$253.8**	**$279.7**	**6.4%**	**-0.6%**	**12.5**	**16.5**	**9.6**	**1.0**
NAPCO SECURITY TECH INC	NSSC	Outperform	$0.81	$15.4	$47.9	60.8%	30.7%	4.3	9.5	3.0	0.2
Multiples with Price Target			**$2.50**	**47.7**	**80.3**			**13.3**	**29.4**	**9.3**	**0.4**

Financial Models

Income Statement

All Figures $MM, except per share

	FY 2006a	FY 2007a	Q1 9/07a	Q2 12/07a	Q3 3/08a	Q4 6/08a	FY 2008a	Q1 9/08a	Q2 12/08a	Q3 3/09	Q4 6/09	FY 2009E	Q1 9/09	Q2 12/09	Q3 3/10	Q4 6/10	FY 2010E	FY 2011E
Net Sales	**69.5**	**66.2**	**13.9**	**16.2**	**16.2**	**22.1**	**68.4**	**17.5**	**19.1**	**19.2**	**24.8**	**80.5**	**21.9**	**23.8**	**22.1**	**26.0**	**93.8**	**103.2**
% growth year-to-year	6.6%	-4.8%	-1%	0.6%	4.2%	7.7%	3.3%	26%	18.0%	18.5%	12.0%	17.8%	25%	25.0%	15.0%	5.0%	16.5%	10.0%
Cost of Goods Sold	42.6	42.2	8.7	10.7	10.7	18.1	48.0	11.9	12.9	13.3	17.1	55.1	14.6	16.0	14.8	17.9	63.4	68.7
% of Revenue	61.2%	63.8%	62.4%	66.3%	66.0%	81.8%	70.1%	67.9%	67.4%	69.0%	69.0%	68.4%	67.0%	67.0%	67.0%	69.0%	67.6%	66.6%
% growth year-to-year	3.1%	-0.9%	2.1%	4.6%	6.2%	29.1%	13.6%	37.3%	20.0%	24.0%	-5.5%	14.9%	23.3%	24.2%	11.7%	5.0%	15.0%	8.4%
Gross Profit	**27.0**	**24.0**	**5.2**	**5.4**	**5.5**	**4.0**	**20.4**	**5.6**	**6.2**	**6.0**	**7.7**	**25.5**	**7.2**	**7.9**	**7.3**	**8.1**	**30.4**	**34.5**
% of Revenue	38.8%	36.2%	37.6%	33.7%	34.0%	18.2%	29.9%	32.1%	32.6%	31.0%	31.0%	31.6%	33.0%	33.0%	33.0%	31.0%	32.4%	33.4%
% growth year-to-year	12.7%	-11.0%	-6.0%	-6.5%	0.5%	-38.3%	-14.9%	7.3%	14.1%	7.9%	90.7%	24.7%	28.6%	26.7%	22.4%	5.0%	19.6%	13.4%
SG&A expenses	17.4	17.5	4.4	4.2	4.0	4.5	17.3	4.8	5.4	5.5	5.9	21.6	5.5	5.5	5.1	5.7	21.8	22.7
% of Revenue	25.1%	26.4%	31.9%	25.7%	24.4%	20.6%	25.3%	27.3%	28.6%	28.5%	24.0%	26.9%	25.0%	23.0%	23.0%	22.0%	23.2%	22.0%
% growth year-to-year	16.1%	0.4%	10.6%	4.5%	-6.4%	-3.3%	-1.3%	8.0%	30.9%	38.5%	30.8%	25.3%	14.4%	0.7%	-7.2%	-3.7%	0.5%	4.2%
Operating Income	**9.5**	**6.5**	**0.8**	**1.3**	**1.6**	**(0.5)**	**3.1**	**0.8**	**0.8**	**0.5**	**1.7**	**3.8**	**1.7**	**2.4**	**2.2**	**2.3**	**8.7**	**11.9**
% of Revenue	13.7%	9.8%	5.8%	7.9%	9.7%	-2.3%	4.6%	4.7%	4.0%	2.5%	7.0%	4.7%	8.0%	10.0%	10.0%	9.0%	9.3%	11.5%
% growth year-to-year	6.9%	-31.7%	-48.6%	-30.3%	23.7%	-128.4%	-51.7%	3.4%	-40.4%	-69.4%	2.0%	21.4%	110.6%	211.3%	360.0%	35.0%	127.9%	36.5%
Interest Expenses (Net)	0.3	0.6	0.2	0.2	0.2	0.2	0.8	0.3	0.4	0.4	0.4	1.6	0.4	0.4	0.4	0.4	1.7	1.7
% of Revenue	0.4%	1.0%	1.4%	1.4%	1.3%	0.8%	1.2%	1.8%	2.2%	2.2%	1.7%	2.0%	2.0%	1.8%	1.9%	1.7%	1.8%	1.7%
% growth year-to-year	15.2%	146.9%	116.7%	88.2%	28.6%	-29.2%	28.6%	61.5%	91.5%	98.6%	133.2%	95.6%	36.2%	0.0%	0.0%	0.0%	7.1%	0.0%
Other Expense (Income)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.5%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
% growth year-to-year																		
Total non-Operating Expenses	**0.3**	**0.7**	**0.2**	**0.2**	**0.2**	**0.2**	**0.9**	**0.4**	**0.4**	**0.4**	**0.4**	**1.6**	**0.4**	**0.4**	**0.4**	**0.4**	**1.7**	**1.7**
% of Revenue	0.4%	1.0%	1.5%	1.5%	1.4%	0.9%	1.3%	2.3%	2.0%	2.2%	1.7%	2.0%	2.0%	1.8%	1.9%	1.7%	1.8%	1.7%
% growth year-to-year	-3.5%	140.4%	114.9%	89.5%	32.6%	-25.8%	31.7%	95.0%	59.6%	88.2%	NA	89.0%	8.9%	14.4%	0.0%	0.0%	5.5%	0.0%
Income Before Minority Interest and Taxes	**9.3**	**5.8**	**0.6**	**1.1**	**1.3**	**(0.7)**	**2.3**	**0.4**	**0.4**	**0.1**	**1.3**	**2.2**	**1.3**	**2.0**	**1.8**	**1.9**	**7.0**	**10.1**
% of Revenue	13.3%	8.8%	4.3%	6.5%	8.3%	-3.2%	3.3%	2.5%	2.0%	0.3%	5.3%	2.7%	6.0%	8.2%	8.1%	7.3%	7.4%	9.8%
% growth year-to-year	7.2%	-36.8%	-59.0%	-39.0%	22.3%	-145.7%	-61.1%	-27.5%	-62.8%	-96.2%	-282.4%	-4.1%	202.6%	400.2%	3354.4%	47%	219.2%	45.5%
Minority Interest	0.1	0.3	0.0	0.0	0.0	(0.1)	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	0.2%	0.4%	0.3%	0.1%	0.2%	-0.3%	0.0%	0.2%	0.4%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income Before Taxes	**9.4**	**6.1**	**0.6**	**1.1**	**1.4**	**(0.8)**	**2.3**	**0.5**	**0.5**	**0.1**	**1.3**	**2.3**	**1.3**	**2.0**	**1.8**	**1.9**	**7.0**	**10.1**
% of Revenue	13.5%	9.3%	4.6%	6.6%	8.5%	-3.5%	3.4%	2.7%	2.4%	0.3%	5.3%	2.8%	6.0%	8.2%	8.1%	7.3%	7.4%	9.8%
% growth year-to-year	6.0%	-34.6%	-56.8%	-39.2%	20.8%	-143.9%	-62.4%	-25.2%	-56.9%	-96.2%	-268.7%	-0.7%	176.0%	324.3%	3354.4%	47%	203.7%	45.5%
Income Tax Benefit (Expense)	(3.3)	(1.9)	(0.3)	0.1	1.9	(0.3)	1.4	(0.2)	(0.1)	(0.0)	(0.4)	(0.7)	(0.4)	(0.5)	(0.4)	(0.5)	(1.8)	(2.3)
Tax Rate %	34.8%	31.3%	41.5%	-9.5%	-138.7%	-43.1%	-61.0%	32.6%	28.0%	28.0%	28.0%	29.0%	27.0%	27.0%	25.0%	25.0%	25.9%	22.5%
Net Income	**6.1**	**4.2**	**0.4**	**1.2**	**3.3**	**(1.1)**	**3.7**	**0.3**	**0.3**	**0.0**	**0.9**	**1.6**	**1.0**	**1.4**	**1.3**	**1.4**	**5.2**	**7.9**
% of Revenue	8.8%	6.4%	2.7%	7.2%	20.2%	-5.0%	5.4%	1.8%	1.7%	0.2%	3.8%	2.0%	4.4%	6.0%	6.0%	5.5%	5.5%	7.6%
% growth year-to-year	8.7%	-31.1%	-60.7%	2.4%	189.5%	-211.8%	-11.8%	-13.9%	-71.7%	-98.9%	-184.9%	-56.2%	199.1%	330.1%	3498.3%	52.6%	216.6%	52.3%
Proforma EPS - fd	**0.30**	**0.20**	**0.02**	**0.06**	**0.17**	**(0.06)**	**0.19**	**0.02**	**0.02**	**0.00**	**0.05**	**0.08**	**0.05**	**0.07**	**0.07**	**0.08**	**0.27**	**0.41**
% growth year-to-year	7.1%	-31.1%	-59.5%	6.5%	203.5%	-220.3%	-8.3%	-10.9%	-70.6%	-98.8%	-181.8%	-54.8%	205.1%	330.1%	3498.3%	52.6%	218.2%	52.3%
Weighted Avg. S/O (mil)-fd	20.6	20.6	20.2	19.8	19.6	18.4	19.8	19.5	19.1	19.1	19.1	19.2	19.1	19.1	19.1	19.1	19.1	19.1
adjusted EBITDA	**10.7**	**7.7**	**1.1**	**1.6**	**1.9**	**(0.2)**	**4.3**	**1.2**	**1.3**	**1.0**	**2.2**	**5.7**	**2.2**	**2.9**	**2.7**	**2.8**	**10.7**	**13.9**
% of Revenue	15.4%	11.6%	7.8%	9.7%	11.5%	-0.8%	6.3%	6.9%	6.7%	5.1%	9.0%	7.1%	10.3%	12.1%	12.3%	10.9%	11.4%	13.4%
% growth year-to-year	6.4%	-28.1%	-41.3%	-26.3%	18.9%	-108.4%	-43.8%	11.9%	-18.7%	-47.3%	-1326.9%	31.6%	86.1%	126.1%	176.4%	27.2%	87.5%	29.7%
Depreciation & Amortization	1.2	1.2	0.3	0.3	0.3	0.3	1.2	0.4	0.5	0.5	0.5	1.9	0.5	0.5	0.5	0.5	2.0	2.0
% of Revenue	1.7%	1.8%	2.0%	1.8%	1.8%	1.5%	1.7%	2.2%	2.7%	2.6%	2.0%	2.3%	2.3%	2.1%	2.3%	1.9%	2.1%	1.9%
% growth year-to-year	3.1%	0.8%	-0.4%	-0.7%	-1.3%	-0.9%	-0.8%	36.5%	79.6%	70.6%	48.4%	58.5%	32.3%	-2.0%	0.0%	0.0%	5.9%	0.0%

Balance Sheet

All Figures $MM, except per share	FY 2006a	FY 2007a	Q1 9/07a	Q2 12/07a	Q3 3/08a	Q4 6/08a	FY 2008a	Q1 9/08a	Q2 12/08a	Q3 3/09	Q4 6/09	FY 2009E	Q1 9/09	Q2 12/09	Q3 3/10	Q4 6/10	FY 2010E	FY 2011E
Assets																		
Cash and Cash Equivalents	2.7	1.7	1.9	1.0	2.1	2.8	2.8	4.3	5.6	6.7	8.5	8.5	2.4	6.2	3.2	5.0	5.0	4.9
Accounts Receivables	**25.2**	**25.6**	**22.1**	**21.3**	**21.8**	**25.8**	**25.8**	**26.5**	**23.0**	**23.5**	**25.4**	**25.4**	**26.8**	**26.5**	**27.9**	**29.6**	**29.6**	**32.5**
Incomes Taxes Receivable	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inventories	**18.6**	**20.4**	**23.1**	**24.5**	**26.1**	**19.5**	**19.5**	**26.9**	**27.6**	**26.0**	**21.9**	**21.9**	**27.4**	**24.3**	**27.3**	**24.0**	**24.0**	**26.4**
Deferred Income Taxes	1.0	1.1	1.1	1.2	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Prepaid Expenses and Other Current Assets	0.8	1.2	1.2	1.2	1.3	1.1	1.1	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Other										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Assets	**48.2**	**49.9**	**49.4**	**49.2**	**52.4**	**50.0**	**50.0**	**60.0**	**58.3**	**58.2**	**57.7**	**57.7**	**58.6**	**59.0**	**60.5**	**60.6**	**60.6**	**65.9**
Property, Plant and Equipment	**9.0**	**9.1**	**9.2**	**9.0**	**9.0**	**9.0**	**9.0**	**9.6**	**9.5**	**9.4**	**9.4**	**9.4**	**9.4**	**9.4**	**9.4**	**9.4**	**9.4**	**9.4**
Deferred Income Taxes	-	-					0.0	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6	10.6
Goodwill-net	9.7	9.7	9.7	9.7	9.7	9.7	9.7	8.4	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1	9.1
Inventories-noncurrent, Net	4.1	7.8	7.6	8.2	8.6	7.7	7.7	0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other Assets	0.2	0.2	0.3	0.4	0.3	0.3	0.3	16.0	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2	16.2
Total Assets	**71.2**	**76.8**	**76.1**	**76.4**	**80.0**	**76.7**	**76.7**	**105.5**	**104.0**	**103.9**	**103.4**	**103.4**	**104.3**	**104.7**	**106.1**	**106.3**	**106.3**	**111.5**
Liabilities																		
Accounts Payable	**6.1**	**5.0**	**5.4**	**5.0**	**6.2**	**4.9**	**4.9**	**5.9**	**5.7**	**6.3**	**5.7**	**5.7**	**6.4**	**6.1**	**7.0**	**6.5**	**6.5**	**7.1**
Accrued: Salaries and Wages	2.6	2.6	2.2	2.4	2.1	2.5	2.5	2.4	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Accrued Expenses	1.4	1.6	1.7	1.1	1.1	1.3	1.3	2.0	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Current Portion of Long-term Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Income Taxes Payable	1.9	0.1	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	**11.9**	**9.4**	**9.6**	**8.8**	**9.4**	**8.7**	**8.7**	**13.9**	**12.8**	**13.4**	**12.7**	**12.7**	**13.4**	**13.2**	**14.1**	**13.6**	**13.6**	**14.1**
Long-term Debts, Net of Current Portion	4.7	10.9	10.9	12.4	13.9	12.4	12.4	35.5	34.6	33.7	32.8	32.8	32.0	31.1	30.2	29.3	29.3	25.7
Deferred Income Taxes	1.4	1.2	1.0	1.0	1.7	1.6	1.6	1.6	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Minority Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Accrued Income Taxes	2.2	1.8	2.6	2.7	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Total Liabilities	**20.3**	**23.5**	**24.3**	**25.0**	**25.4**	**23.2**	**23.2**	**51.5**	**49.6**	**49.3**	**47.8**	**47.8**	**47.6**	**46.4**	**46.4**	**45.0**	**45.0**	**42.0**
Shareholders' Equity																		
Common Stock-par Value	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Additional Paid in Capital	12.6	13.1	13.2	13.3	13.4	13.4	13.4	13.5	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6	13.6
Treasury Stock-common	-	(2.4)	(3.8)	(5.5)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)	(5.6)
Retained Earnings	38.1	42.3	42.2	43.4	46.6	45.5	45.5	45.9	46.2	46.3	47.4	47.4	48.5	50.0	51.4	53.0	53.0	61.3
Unearned Stock based Compensation																		
Total Shareholders' Equity	**50.9**	**53.3**	**51.8**	**51.4**	**54.6**	**53.5**	**53.5**	**54.0**	**54.4**	**54.6**	**55.6**	**55.6**	**56.7**	**58.2**	**59.7**	**61.2**	**61.2**	**69.5**
Total Liabilities & Shareholders' Equity	**71.2**	**76.8**	**76.1**	**76.4**	**80.0**	**76.7**	**76.7**	**105.5**	**104.0**	**103.9**	**103.4**	**103.4**	**104.3**	**104.7**	**106.1**	**106.3**	**106.3**	**111.5**

Cash Flow

	FY 2006a	FY 2007a	Q1 9/07a	Q2 12/07a	Q3 3/08a	Q4 6/08a	FY 2008a	Q1 9/08a	Q2 12/08a	Q3 3/09	Q4 6/09	FY 2009E	Q1 9/09	Q2 12/09	Q3 3/10	Q4 6/10	FY 2010E	FY 2011E
Operating Activities																		
Net Income	**6.1**	**4.2**	**0.4**	**1.2**	**3.3**	**(1.1)**	**3.7**	**0.3**	**0.3**	**0.0**	**0.9**	**1.6**	**1.0**	**1.4**	**1.3**	**1.4**	**5.2**	**7.9**
Depreciation and Amortization	1.2	1.2	0.3	0.3	0.3	0.3	1.2	0.4	0.5	0.5	0.5	1.9	0.5	0.5	0.5	0.5	2.0	2.0
Non-cash Stock based Compensation Expense	0.4	0.4	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.4	0.4
Tax (benefit) Expense from Exercise Stock Options	(0.2)	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for (Recovery of) Doubtful A/R	0.0	(0.1)	(0.0)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.2	0.2
Charge (recovery) to Obsolescence Reserve	(0.5)	0.2	-	-	0.2	(0.2)	-	-	(0.0)	(0.0)	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)
Deferred Income Taxes	0.1	(0.2)	(0.3)	(0.1)	1.1	(0.1)	0.7	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Assets	0.0	(0.0)	(0.1)	(0.1)	0.1	0.0	(0.1)	-	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Account receivable	**(3.3)**	**(0.4)**	**3.5**	**0.9**	**(0.6)**	**(4.0)**	**(0.3)**	**1.1**	**3.4**	**(0.5)**	**(1.9)**	**2.2**	**(1.4)**	**0.3**	**(1.4)**	**(1.7)**	**(4.2)**	**(3.0)**
Inventory	**(5.9)**	**(5.8)**	**(2.5)**	**(1.9)**	**(2.2)**	**7.6**	**1.0**	**(1.3)**	**(1.3)**	**1.6**	**4.1**	**3.1**	**(5.6)**	**3.1**	**(3.0)**	**3.3**	**(2.2)**	**(2.4)**
Accounts payable & accrued liab	**1.8**	**(2.9)**	**0.5**	**(0.8)**	**(1.8)**	**(0.6)**	**(2.7)**	**0.3**	**(1.1)**	**0.6**	**(0.6)**	**(0.8)**	**0.7**	**(0.2)**	**0.9**	**(0.5)**	**0.9**	**0.5**
Income Tax Receivable	-	-	-	-	(0.4)	0.4		-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid Expenses and Other Current Assets	0.0	(0.4)	0.0	(0.1)	(0.0)	0.2	0.1	(0.4)	0.3	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0
Other										0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash from Operating Activities	**(0.2)**	**(3.7)**	**1.9**	**(0.6)**	**(0.1)**	**2.6**	**3.8**	**0.6**	**2.5**	**2.4**	**3.2**	**8.7**	**(4.7)**	**5.2**	**(1.5)**	**3.1**	**2.1**	**5.5**
Aqusition of property & equipments	**(1.7)**	**(1.3)**	**(0.3)**	**(0.1)**	**(0.2)**	**(0.4)**	**(1.0)**	**(0.1)**	**(0.2)**	**(0.4)**	**(0.5)**	**(1.2)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(2.0)**	**(2.0)**
Cash Used in Business Acquisitions	-	-	-	-	-	-	-	(24.6)	(0.0)	0.0	0.0	(24.6)	0.0	0.0	0.0	0.0	0.0	0.0
Other												0.0					0.0	0.0
Net Cash from Investing Activities	**(1.7)**	**(1.3)**	**(0.3)**	**(0.1)**	**(0.2)**	**(0.4)**	**(1.0)**	**(24.7)**	**(0.2)**	**(0.4)**	**(0.5)**	**(25.8)**	**(0.5)**	**(0.5)**	**(0.5)**	**(0.5)**	**(2.0)**	**(2.0)**
Financing Activities																		
Principal Payments on Long-term Debt	-	(1.1)	-	(2.0)	0.0	(1.5)	(3.5)	(1.5)	(0.9)	(0.9)	(0.9)	(4.2)	(0.9)	(0.9)	(0.9)	(0.9)	(3.6)	(3.6)
Proceeds from Long-term Debts	2.8	7.3	-	3.5	1.5	0.0	5.0	2.2	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Exercise of Employees Stock Options	0.4	0.2	-	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of Treasury Stock	-	(2.4)	(1.4)	(1.7)	(0.1)	0.0	(3.2)	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Excess Tax Benefit from Exercise of Stock Options	0.2	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan Costs Paid	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Proceeds from Acquisition Financing	-	-	-	-	-	-	-	25.0	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Paid for Deferred Financing Cost	-	-	-	-	-	-	-	(0.2)	(0.0)	0.0	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Other												0.0					0.0	0.0
Net Cash from Financing Activities	**3.4**	**4.0**	**(1.4)**	**(0.2)**	**1.4**	**(1.5)**	**(1.7)**	**25.5**	**(0.9)**	**(0.9)**	**(0.9)**	**22.8**	**(0.9)**	**(0.9)**	**(0.9)**	**(0.9)**	**(3.6)**	**(3.6)**
Net Change in Cash	**1.6**	**(1.0)**	**0.2**	**(0.9)**	**1.1**	**0.7**	**1.0**	**1.5**	**1.4**	**1.1**	**1.8**	**5.7**	**(6.1)**	**3.8**	**(2.9)**	**1.7**	**(3.5)**	**(0.1)**
Cash - Beginning Balance	1.2	2.7	1.7	1.9	1.0	2.1	1.7	2.8	4.3	5.6	6.7	2.8	8.5	2.4	6.2	3.2	8.5	5.0
Cash - Ending Balance	**2.7**	**1.7**	**1.9**	**1.0**	**2.1**	**2.8**	**2.8**	**4.3**	**5.6**	**6.7**	**8.5**	**8.5**	**2.4**	**6.2**	**3.2**	**5.0**	**5.0**	**4.9**

RODMAN & RENSHAW RATING SYSTEM: Rodman & Renshaw employs a three tier rating system for evaluating both the potential return and risk associated with owning common equity shares of rated firms. The expected return of any given equity is measured on a RELATIVE basis of other companies in the same sector, as defined by First Call. The price objective is calculated to estimate the potential movement in price a given equity could achieve given certain targets are met over a defined time horizon. Price objectives are subject to exogenous factors including industry events and market volatility. The risk assessment evaluates the company specific risk and accounts for the following factors, maturity of market, maturity of technology, maturity of firm, cash utilization, and valuation considerations. Potential factors contributing to risk: relatively undefined market, new technologies, immature firm, high cash burn rates, intrinsic value weighted toward future earnings or events.

RETURN ASSESSMENT

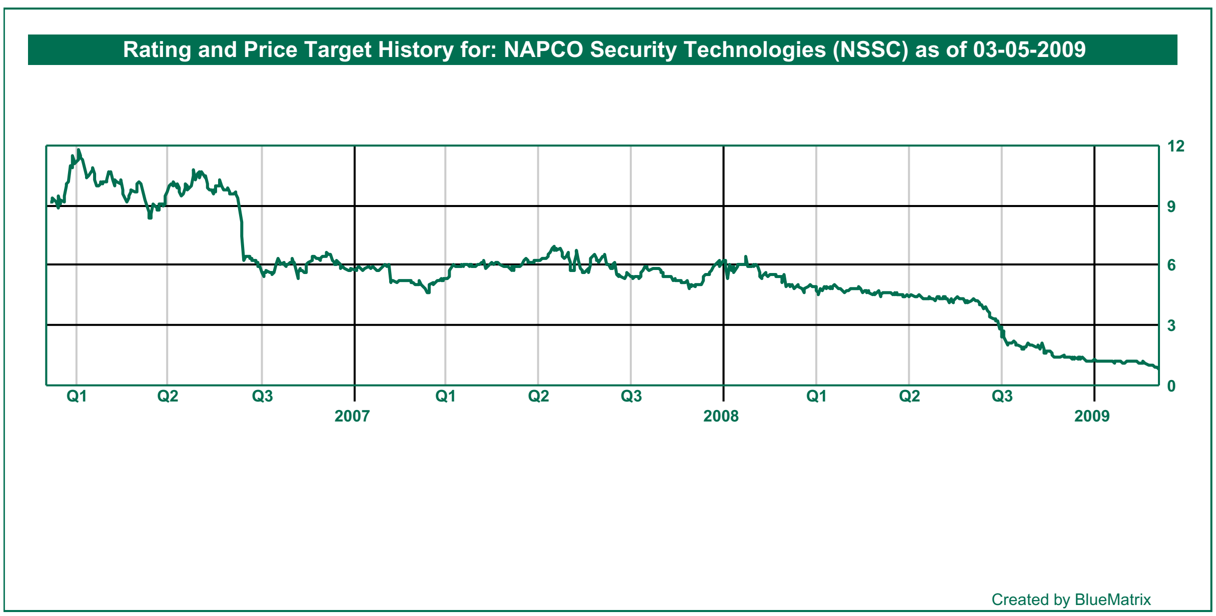
- Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Perform (Hold): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.

RISK ASSESSMENT

- 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.

Rated Companies mentioned in this report

Company	Ticker	R&R Rating	Price	Mkt Cap ($ MM)	12 Month Price Target
Argyle Security Inc	ARGL	Market Outperform	$0.54	$3.22	$5.00
Iteris Inc.	ITI	Market Outperform	$1.03	$35.21	$2.00



RATING SUMMARY

Distribution of Ratings Table

Rating	Count	Percent	IB Serv./Past 12 Mos Count	IB Serv./Past 12 Mos Percent
Market Outperform(MO)	78	67.20%	8	10.26%
Market Perform(MP)	26	22.40%	5	19.23%
Market Underperform(MU)	0	0.00%	0	0.00%
Under Review(UR)	12	10.30%	2	16.67%
Total	116	100%	15	100%

Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.

ADDITIONAL DISCLOSURES

Rodman & Renshaw, LLC. (the "Firm") is a member of FINRA and SIPC and a registered U.S. Broker-Dealer.

ANALYST CERTIFICATION

I, Joe Giamichael, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities.

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