

NAPCO Announces Results for Second Quarter Ended December 31, 2015

-Record Second Quarter Revenue of \$20.5. Million-

-Net Income of \$1.0 Million-

-Alarm Division Recurring Revenues Grew 36% in Second Quarter-

AMITYVILLE, N.Y., Feb. 1, 2016 /PRNewswire/ -- NAPCO Security Technologies, Inc. (NASDAQ: NSSC), one of the world's leading solutions providers and manufacturers of high-technology electronic intrusion security (including recurring, service fee revenue), connected home, video and fire systems, as well as enterprise-class access control and door locking products, today announced its financial results for the three and six month periods ended December 31, 2015.

Highlights:

- Net sales were a second quarter record at \$20.5 million, up 5% from the same quarter last year.
- Sales of the Company's door-locking products increased 7% in the second quarter as compared to the same quarter a year ago.
- Alarm Division recurring revenue for the second quarter increased 36% and grew sequentially by 8%.
- Reduced outstanding debt by 15% to \$7.9 million during the second quarter.

Richard Soloway, Chairman and President of NAPCO, said, "Our results in the second quarter mark the third straight period we have generated quarterly record sales. This building revenues momentum is predominantly being driven by our continued success in offering innovative security solutions in the school and college safety systems vertical and growing market share of the recurring monthly revenue-generating alarm communicator category. We delivered these topline results while also optimizing our supply chain management. During the quarter, we reduced inventory by \$1.3 million. While the inventory reduction had the short term effect of causing an increase in cost of goods sold and impacting our gross margins, we believe it will benefit the Company over the long term by maximizing our already strong cash flows."

Mr. Soloway added: "In schools and colleges, we are seeing a push by local and state lawmakers to increase school safety requirements. We believe schools and colleges are drawn to the advanced technologies embedded in our suite of LockDown™ access control systems that enable wireless access on- and off-site, including video monitoring and activating a lockdown in seconds. During the quarter, we added new functionality to our Continental access control product that includes an app which enables a teacher or administrator to initiate a lockdown from their smartphone, receive texts messages of a lockdown in progress, and alert early responders. We believe this offering provides an additional layer of protection for students, teachers, administrators and responders."

Mr. Soloway concluded: "In the recurring revenue side of our business, StarLink™ 3G/4G and Verizon CDMA alarm communicators continue to be a hit product. Recurring revenues for the product line increased by 36% this quarter, as alarm dealers replace outdated 2G radios. Overall, our focus on innovation is paying off as we continue to introduce market-leading security technologies that customers and dealers crave. By increasing our investment in R&D, paying down debt and buying back stock, we are maximizing long-term shareholder value."

Financial Results

Net Sales for the three months ended December 31, 2015 increased 5% to a quarterly record \$20.5 million, as compared to \$19.6 million for the same period one year ago. Net sales for the six months ended December 31, 2015 increased 5% to \$38.6 million, a record for the first six months of the fiscal year, as compared to \$36.9 million for the same period a year ago. Selling, general and administrative expenses for the quarter were \$5.2 million, or 25.2 % of sales, as compared to \$5.0 million, or 25.6% of sales, for the same period last year. Selling, general and administrative expenses for the six months ended December 31, 2015 were \$10.5 million or 27.1% of sales as compared to \$10.0 million or 27.1% of sales for the same period a year ago. The increase in dollars for the three months was due primarily from increased advertising. The increase in dollars for the six months was due primarily from increased advertising and the addition of selling personnel.

Operating income for the three months ended December 31, 2015 decreased 6% to \$1,026,000 as compared to \$1,096,000 for the same quarter a year ago. Operating income for the six months ended December 31, 2015 remained relatively constant at \$1,350,000 as compared to \$1,342,000 for the same period a year ago. Operating income for the three months was affected by the inventory reduction described above. Adjusted EBITDA* for the three months ended December 31, 2015 decreased 7% to \$1.4 million or \$0.08 per diluted share as compared to \$1.5 million or \$0.08 per diluted share for the same quarter last year. Adjusted EBITDA for the six months ended December 31, 2015 decreased 3% to \$2.1 million or \$0.11 per diluted share as compared to \$2.2 million or \$0.11 per diluted share for the same period a year ago (*see table attached).

Net income for the three months ended December 31, 2015 increased 3%, to \$976,000 or \$0.05 per share as compared to \$951,000 or \$0.05 per share for the same quarter last year. Net income for the six months ended December 31, 2015 increased 16% to \$1.3 million or \$0.07 per diluted share as compared to \$1.1 million or \$0.06 per diluted share for the same period a year ago.

Balance Sheet Summary

At December 31, 2015, the Company had \$1.9 million in cash and cash equivalents, a decrease of \$0.4 million compared to \$2.3 million at June 30, 2015. NAPCO had working capital of \$33.5 million as compared with working capital of \$35.6 million at June 30, 2015. Current ratio was 5.4:1 at December 31, 2015 and 4.8:1 at June 30, 2015. Debt, net of cash, was \$6.0 million at December 31, 2015 and \$8.4 at June 30, 2015.

Conference Call Information

Management will conduct a conference call at 11 a.m. today, February 1, 2016. Interested parties may participate in the call by dialing 1-877-407-4018 or for international callers, 1-201-689-8471, about 5-10 minutes prior to the start time of 11 a.m. ET. The conference call will also be available on replay starting at 2 p.m. ET on February 1, 2016 and ending on February 8, 2016 at 11:59 p.m. ET. For the replay, please dial 1-877-870-5176 domestically, or 1-858-384-5517 for international callers, and use the replay access code 13629423. In addition, the call will be webcast and will be available on the Company's website at www.napcosecurity.com or by visiting <http://public.viavid.com/player/index.php?id=118083>.

About NAPCO Security Technologies, Inc.

NAPCO Security Technologies, Inc. is one of the world's leading solutions providers and manufacturers of high-technology electronic security, including recurring revenue, connected home, video, fire alarm, access control and door locking systems. The Company consists of four Divisions: [NAPCO](#), its [security and connected home segment](#), plus three wholly-owned subsidiaries: [Alarm Lock](#), [Continental Instruments](#), and [Marks USA](#). Headquartered in Amityville, New York, its products are installed by tens of thousands of security professionals worldwide in commercial, industrial, institutional, residential and government applications. NAPCO products have earned a reputation for innovation, technical excellence and reliability, positioning the Company for growth in the multi-billion dollar and rapidly expanding electronic security market. For additional information on NAPCO, please visit the Company's web site at <http://www.napcosecurity.com>.

Safe Harbor Statement

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, 2015 (unaudited)	June 30, 2015 (audited)
	(in thousands, except for share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,881	\$ 2,321
Accounts receivable, net of reserves and allowances	15,639	17,911
Inventories	21,723	22,711
Prepaid expenses and other current assets	976	1,000
Deferred income taxes	890	1,000
Total Current Assets	41,109	45,943
Inventories - non-current	4,734	4,734
Deferred income taxes	745	1,000
Property, plant and equipment, net	6,091	6,091
Intangible assets, net	8,618	8,618
Other assets	163	163
TOTAL ASSETS	\$ 61,460	\$ 65,549
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long term debt	\$ 1,250	\$ 1,250

Accounts payable	2,891	3,9
Accrued expenses	1,574	1,0
Accrued salaries and wages	1,807	2,0
Accrued income taxes	89	
Total Current Liabilities	<u>7,611</u>	<u>9,0</u>
Long-term debt, net of current maturities	6,650	9,0
Total Liabilities	<u>14,261</u>	<u>18,0</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock, par value \$0.01 per share; 40,000,000 shares authorized; 21,116,743 and 21,049,243 shares issued; and 18,863,436 and 18,966,028 shares outstanding, respectively	211	0
Additional paid-in capital	16,611	16,0
Retained earnings	41,690	40,0
	<u>58,512</u>	<u>56,0</u>
Less: Treasury Stock, at cost (2,253,307 and 2,083,215 shares, respectively)	(11,313)	(10,0
TOTAL STOCKHOLDERS' EQUITY	<u>47,199</u>	<u>46,0</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 61,460</u>	<u>\$ 65,0</u>

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ended December 31,		Six Months ended December 31,	
	2015	2014	2015	2014
Net Sales	\$ 20,497	\$ 19,571	\$ 38,646	\$ 36,907
Cost of sales	14,296	13,468	26,808	25,549
Gross Profit	<u>6,201</u>	<u>6,103</u>	<u>11,838</u>	<u>11,358</u>
Selling, general and administrative expenses	5,175	5,007	10,488	10,016
Operating income	<u>1,026</u>	<u>1,096</u>	<u>1,350</u>	<u>1,342</u>
Other expense (income):				
Interest	45	54	94	109
Other, net	3	3	7	(2)
Income before taxes	<u>978</u>	<u>1,039</u>	<u>1,249</u>	<u>1,235</u>
Income tax expense (benefit)	2	88	(42)	125
Net income	<u>\$ 976</u>	<u>\$ 951</u>	<u>\$ 1,291</u>	<u>\$ 1,110</u>
Net Income per share:				
Basic	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.06
Diluted	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.06
Weighted average number of shares outstanding:				
Basic	18,931,000	19,188,000	18,948,000	19,304,000
Diluted	18,957,000	19,189,000	18,971,000	19,304,000

NAPCO SECURITY TECHNOLOGIES, INC.
NON-GAAP MEASURES OF PERFORMANCE* (Unaudited)
(in thousands)

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Net income (GAAP)	\$ 976	\$ 951	\$ 1,291	\$ 1,110
Add back provision (benefit) for income taxes	2	88	(42)	125
Add back interest and other expense	48	57	101	107
Operating Income (GAAP)	1,026	1,096	1,350	1,342
Adjustments for non-GAAP measures of performance:				
Add back amortization of acquisition-related intangibles	137	167	274	333
Add back stock-based compensation expense	60	68	92	101
Adjusted non-GAAP operating income	1,223	1,331	1,716	1,776
Add back depreciation and other amortization	207	211	414	417
Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization)	\$ 1,430	\$ 1,542	\$ 2,130	\$ 2,193
Adjusted EBITDA* per Diluted Share	\$ 0.08	\$ 0.08	\$ 0.11	\$ 0.11
Weighted average number of Diluted Shares outstanding	18,957,000	19,189,000	18,971,000	19,304,000

* 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, 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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