

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934 [Fee Required]  
For the fiscal year ended June 30, 1996

or

☐ Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934 [No Fee Required]  
For the Transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 0-10004

NAPCO SECURITY SYSTEMS, INC.  
(Exact name of Registrant as specified in its charter)

Delaware 11-2277818  
(State or other jurisdiction of (I.R.S. Employer I.D. Number)  
incorporation or organization)

333 Bayview Avenue, Amityville, New York 11701  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:  
(516) 842-9400

Securities registered pursuant to Section 12(b) of the  
Act: None Securities registered pursuant to Section  
12(g) of the Act:  
Common Stock, par value \$.01 per share  
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No

As of September 20, 1996, 4,367,727 shares of Common Stock were  
outstanding, and the aggregate market value of the stock (based upon the last  
sale price of the stock on such date) held by non-affiliates was approximately  
\$17,470,908.

Documents Incorporated by Reference: Portions of the Registrant's Proxy  
Statement in connection with its 1996 Annual Meeting of Stockholders are  
incorporated by reference in Part III.

Indicate by check mark if disclosure of delinquent filers pursuant to  
Item 405 of Regulation S-K is not contained herein, and will not be contained,  
to the best of Registrant's knowledge, in definitive proxy or information  
statements incorporated by reference in Part III of this Form 10-K or any  
amendment to this Form 10-K. ☐

## ITEM 1. BUSINESS.

NAPCO Security Systems, Inc. ("NAPCO") was incorporated in December 1971 in the State of Delaware for the purpose of acquiring National Alarm Products Co., Inc., a New Jersey corporation founded in 1969 ("National"). In December 1971, NAPCO issued an aggregate of 300,000 shares of its common stock, par value \$.01 per share ("Common Stock"), to the stockholders of National in exchange for all of the issued and outstanding capital stock of National, after which National was merged into NAPCO.

NAPCO and its subsidiaries (collectively, the "Company") are engaged in the development, manufacture, distribution and sale of security alarm products and door security devices (the "Products") for commercial and residential installations.

#### 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 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 predesignated 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 "Magnum Alert™" followed by a numerical designation.

**Combination Control Panels/Digital Communicators and Digitkey 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 micro-computer 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 ranging from simple dead bolt locks to door alarms.

Fire Alarm Control Panel. Multi-zone fire alarm control panels which accommodate an optional digital communicator for reporting to a central station are also manufactured by the Company.

Area Detectors. The Company's area detectors are both passive infra-red heat detectors and combination microwave/ passive infra-red detectors that are linked to alarm control panels. Passive infra-red 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.

#### Peripheral Equipment

The Company also markets peripheral and related equipment manufactured by other companies. Revenues from peripheral equipment have not been significant.

#### Research and Development

The Company's business involves a high technology element. A substantial amount of the Company's efforts are expended to develop and improve the Products. During the fiscal years ended June 30, 1996, 1995, and 1994, the Company expended approximately \$3,296,000, \$3,252,000, and \$2,883,000, respectively, on Company- sponsored research and development activities conducted by its engineering department and outside consultants. Substantially all of the Company's research and development activities during fiscal 1996, 1995 and 1994 were conducted by its engineering department. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

#### Employees

As of June 30, 1996, the Company had approximately 990 full-time employees.

#### Marketing and Major Customers

The Company's staff of approximately 36 sales and marketing support employees located at the Company's headquarters sells and

markets the Products directly to independent distributors and wholesalers of security alarm and security hardware equipment. Management estimates that these channels of distribution represented approximately 85% of the Company's total sales for the fiscal year ended June 30, 1996. 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 cities. Some of the Company's products are marketed under the "private label" of certain customers.

Sales to A.D.T., Ademco Distribution (A.D.I.), and King Alarm, each unaffiliated with the Company, together accounted for approximately 42% and 39% of the Company's total sales for the fiscal years ended June 30, 1996 and 1995 (see footnote 10 to Notes to Consolidated Financial Statements as to percentage breakdown). The loss of any of these customers could have a material adverse effect on the Company's business.

#### Competition

The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 30 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. Certain of these companies may have substantially greater financial and other resources than the Company.

The Company competes primarily on the basis of the features, quality, reliability and price of, and the incorporation of the latest innovative and technological advances into, its Products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, reputation and its ability to provide Products to customers without delay. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business. Relatively low-priced "do-it-yourself" alarm system products have become available in past years and are available to the public at retail stores. The Company believes that these products compete with the Company only to a limited extent because they appeal primarily to the "do-it-yourself" segment of the market. Purchasers of such systems do not receive professional consultation, installation, service or the sophistication that the Company's Products provide.

## Raw Materials and Backlog

The Company prepares specifications for component parts used in the Products and purchases the components from outside sources or fabricates the component part itself. These components, if standard, are generally readily available; if specially designed for the Company, there is usually more than one alternative source of supply available to the Company on a competitive basis. The Company generally maintains inventories of all critical components. The Company for the most part is not dependent on any one source for its raw materials.

In general, orders for the Products are processed by the Company from inventory. A backlog of approximately \$5,300,000 existed as of June 30, 1996, partially due to several large orders received during the fourth quarter. This compared to a backlog of approximately \$5,152,000 a year ago.

## Government Regulation

The Company's telephone dialers, microwave transmitting devices utilized in its motion detectors and any new communication equipment that may be introduced from time to time by the Company must comply with standards promulgated by the Federal Communications Commission ("FCC") in the United States and similar agencies in other countries where the Company offers such products, specifying permitted frequency bands of operation, permitted power output and periods of operation, as well as compatibility with telephone lines. Each new Product of the Company that is subject to such regulation must be tested for compliance with FCC standards or the standards of such similar governmental agencies. Test reports are submitted to the FCC or such similar agencies for approval.

## Patents

The Company has been granted several patents and trademarks relating to the Products. While the Company obtains patents and trademarks as it deems appropriate, the Company does not believe that its current or future success is dependent on its patents.

## Foreign Sales

The revenues, operating income and identifiable assets attributable to the foreign and domestic operations of the Company for its last three fiscal years, and the amount of export sales in the aggregate, are summarized in the following tabulation.

Financial Information Relating to Foreign  
and Domestic Operations and Export Sales(1)

	1996 ----	1995 ----	1994 ----
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$49,088	\$48,078	\$46,873
Foreign	0	0	0
Operating income:			
United States	\$ 2,928	\$2,331	\$ 2,216
Foreign	0	0	0
Sales or transfers between geographic areas:	\$28,588	\$36,023	\$36,507
Identifiable assets:			
United States	\$33,084	\$36,031	\$31,297
Foreign	\$24,235	\$19,708	\$22,513
Export sales:			
United States(2)	\$ 8,915	\$ 8,865	\$ 7,795

ITEM 2. PROPERTIES.

The Company has executive offices and production and warehousing facilities at 333 Bayview Avenue, Amityville, New York. This facility consists of a fully-utilized 90,000 square foot building on a six acre plot. This six acre plot provides the Company with space for expansion of office, manufacturing and storage capacities. The Company constructed this facility with the proceeds from an industrial revenue bond financing in 1985.

The Company's foreign subsidiary, NSS Caribe, S.A., is located in the Dominican Republic where it owns a building of approximately 167,000 square feet of production and warehousing space. That subsidiary also leases the land associated with this building under a 99 year lease expiring in the year 2092.

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(1) Certain prior year amounts have been reclassified to conform to current year presentation.

(2) Export sales from the United States in fiscal year 1996 included sales of approximately \$4,888,000 and \$2,224,000 to Europe and North America, respectively. Export sales from the United States in fiscal year 1995 included sales of approximately \$5,038,000 and \$1,523,000 to Europe and North America, respectively.

As of June 30, 1996, most of the Company's sales related to labor on assemblies, goods and subassemblies at these sites, utilizing U.S. quality control standards.

Management believes that these facilities are more than adequate to meet the needs of the Company in the foreseeable future.

ITEM 3. LEGAL PROCEEDINGS.

There are no pending or threatened material legal proceedings to which NAPCO or its subsidiaries or any of their property is subject, other than as follows:

In May, 1995 the Company was advised of an unexpected Chapter 7 bankruptcy filing of one of its customers. As a result of anticipated cash recoveries, management is confident that the Company's allowance for doubtful accounts at June 30, 1996 is sufficient and that this bankruptcy filing will not have a material adverse effect on the Company's financial position or results of operations.

In August 1995, the Internal Revenue Service informed the Company that it had completed the audit of the Company's Federal tax returns for fiscal years 1987 through 1992. The Internal Revenue Service has issued a report to the Company proposing adjustments that would result in taxes due of approximately \$4.3 million, excluding interest charges. The primary adjustments presented by the Internal Revenue Service relate to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagrees with the IRS and intends to vigorously appeal this assessment using all remedies and procedural actions available under the law. The Company believes that it has provided adequate reserves at June 30, 1996 to address the ultimate resolution of this matter, so that it will not have a material impact on the Company's consolidated financial statements. (See Note 4 to Consolidated Financial Statements.)

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

## PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK  
AND RELATED SECURITY HOLDER MATTERS.

## Principal Market

NAPCO's Common Stock became publicly traded in the over-the-counter ("OTC") market in 1972. In December 1981, the Common Stock was approved for reporting by the National Association of Securities Dealers Automated Quotation System ("NASDAQ") under the symbol "NSSC", and in November 1984 the Common Stock was designated by NASDAQ as a National Market System Security, which has facilitated the development of an established public trading market for the Common Stock. The tables set forth below reflect the range of high and low sales of the Common Stock in each quarter of the past two fiscal years as reported by the NASDAQ National Market System.

	Quarter Ended Fiscal 1996			
	Sept. 30 -----	Dec. 31 -----	March 31 -----	June 30 -----
Common Stock				
High	\$3.13	\$4.00	\$4.13	\$4.50
Low	\$2.00	\$2.25	\$3.00	\$3.38

	Quarter Ended Fiscal 1995			
	Sept. 30 -----	Dec. 31 -----	March 31 -----	June 30 -----
Common Stock				
High	\$4.00	\$4.00	\$2.95	\$4.75
Low	\$3.00	\$2.63	\$2.25	\$3.13

## Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 23, 1996 was 272 (such number does not include beneficial owners of stock held in nominee name).

## Dividend Information

NAPCO has declared no cash dividends during the past three years with respect to its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future.



## ITEM 6. SELECTED FINANCIAL DATA.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

	Year Ended June 30				
	1996	1995	1994	1993	1992
	----	----	----	----	----
	(in thousands, except for per share data)				
OPERATIONS					
Revenue	\$49,088	\$48,078	\$46,873	\$46,560	\$38,816
Gross Profit	11,302	11,325	11,068	11,925	9,623
Provision for (recovery of)					
Income Taxes	515	532	37	(32)	(796)
Net Income	1,014	512	1,254	2,317	1,406
Net Income per share	.23	.12	.29	.53	.32
Cash Dividends per Share	0	0	0	0	0

	As of June 30				
	1996	1995	1994	1993	1992
	----	----	----	----	----
	(in thousands, except for per share data)				
FINANCIAL CONDITION					
Total Assets	\$57,319	\$55,739	\$53,810	\$51,233	\$45,475
Long-term Debt	14,150	16,275	13,690	6,567	7,950
Working Capital	28,676	28,660	28,033	19,936	19,038
Stockholders' Equity	29,574	28,560	28,048	26,793	24,474
Stockholders' Equity per Outstanding Share	6.77	6.54	6.42	6.14	5.60

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's cash on hand combined with proceeds from operating activities during fiscal 1996 were adequate to meet the Company's capital expenditure needs and short and long-term debt obligations. The primary source of financing related to borrowings under \$2,000,000 short-term line of credit and an \$11,000,000 secured revolving credit and term loan facility with two banks. The Company expects that cash generated from operations and cash available under the Company's bank line of credit will be adequate to meet its short-term liquidity requirements. The Company's primary internal source of liquidity is the cash flow

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(1) The Company has never declared or paid a cash dividend on its common stock. It is the policy of the Board of Directors to retain earnings for use in the Company's business.

generated from operations. As of June 30, 1996, the Company's unused sources of funds consisted principally of \$426,000 in cash and approximately \$425,000 (after direct borrowings, commercial letters of credit and stand-by letters of credit) which represent the unused portion of its secured short-term borrowing facility.

On July 27, 1994, the Company entered into an \$11,000,000 secured revolving credit and term loan facility with two banks, with the Company's primary bank acting as agent. The revolving credit loan, which bears interest based upon a number of options available to the Company and does not require principal payments until conversion, converts to a term loan on June 30, 1997 payable in sixteen (16) equal quarterly installments beginning on September 30, 1997.

In addition, a subsidiary of the Company maintains a \$4,500,000 line of credit with another bank, \$3,375,000 of which was outstanding as of June 30, 1996 (see Note 6 to the Consolidated Financial Statements).

The Company takes into consideration a number of factors in measuring its liquidity, including the ratios set forth below:

	1996 ----	1995 ----	1994 ----
Current Ratio	3.2 to 1	3.5 to 1	3.3 to 1
Sales to Receivables	3.6 to 1	3.5 to 1	3.2 to 1
Total Debt to Equity	.9 to 1	1 to 1	.9 to 1

In fiscal 1988, the Company completed construction of a new manufacturing and administrative facility financed by a \$3.9 million industrial revenue bond issue bearing interest at a variable rate determined weekly by the underwriting bank based upon market conditions. During fiscal 1996, the average interest rate was approximately 3.45% per annum. The bonds have a maturity date of April 1, 2000, subject to quarterly sinking fund payments.

On April 26, 1993, the Company's foreign subsidiary entered into a 99-year land lease of approximately 4 acres of land near its former facility in the Dominican Republic, at an annual cost of approximately \$272,000.

As of June 30, 1996, the Company had no material commitments for purchases or capital expenditures.

Working Capital. Working capital increased by \$16,000 to \$28,676,000 at June 30, 1996 from \$28,660,000 at June 30, 1995. This was primarily due to an increase in accounts payable and accrued expenses, which was a result of increased inventories on new product lines. This was partially offset by reductions in short term debt and increased accounts receivable.

Accounts Receivable. Accounts receivable increased by \$112,000 to \$13,759,000 at June 30, 1996 from \$13,647,000 at June 30, 1995. This increase is primarily the result of higher sales in June 1996 as compared to June 1995 as partially offset by improved collection procedures.

Inventory. Inventory increased by \$1,766,000 to \$25,944,000 at June 30, 1996 as compared to \$24,178,000 at June 30, 1995. This increase is due primarily to the effect of the Company's building up of inventory levels in conjunction with the introduction of several new product lines, including the wireless program, the new Digital Lock product line and wireless product related to a large contract the Company received.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased by \$2,927,000 to \$7,700,000 at June 30, 1996 from \$4,773,000 at June 30, 1995. This increase is primarily the result of increased inventories as described above as well as more favorable credit terms negotiated with the Company's vendors.

#### Results of Operations

##### Fiscal 1996 Compared to Fiscal 1995

Revenue. Revenue in fiscal 1996 increased approximately \$1,010,000 or 2.1% to \$49,088,000 from \$48,078,000 in fiscal 1995. This increase was achieved despite a continued general price erosion in the marketplace.

Gross Profits. The Company's gross profits remained relatively flat at \$11,302,000 or 23% of sales in fiscal 1996 as compared to \$11,325,000 or 23.6% of sales in fiscal 1995. The decrease in gross margin as a percentage of sales was primarily due to the aforementioned general price erosion in the marketplace, as partially offset by improvements in the Company's manufacturing efficiency.

Expenses. Selling, general and administrative expenses in fiscal 1996 decreased 6.9% or \$620,000 to \$8,374,000 or 17.1% of sales from \$8,994,000 or 18.7% of sales in fiscal 1995. This decrease is primarily the result of reductions in professional

fees from those incurred in fiscal 1995. In addition, further decreases in expenses were achieved as a result of the continuation of general cost control procedures established by management.

Other Expenses. Other Expenses in fiscal 1996 increased 8.7% or \$112,000 to \$1,399,000 from \$1,287,000 in fiscal 1995. This increase is primarily the result of an unfavorable shift in the UK Pounds Sterling exchange rates.

Income Taxes. Provision for income taxes decreased \$17,000 to \$515,000 or approximately 34% of income before provision for income taxes during fiscal 1996. This compared to a provision of \$532,000 or approximately 51% of income before provision for income taxes during fiscal 1995. The higher effective income tax rate in 1995 was primarily due to the recording of additional income taxes related to DISC earnings that no longer qualify for tax deferral.

#### Fiscal 1995 Compared to Fiscal 1994

Revenue. Revenue in fiscal 1995 increased approximately \$1,205,000, or 2.6%, to \$48,078,000 from \$46,873,000 in fiscal 1994. This increase is primarily the result of increased export sales. In addition, the Company was able to achieve this increase despite the Chapter 7 bankruptcy filing of one of its major customers.

Gross Profits. The Company's gross profits increased \$257,000 to \$11,325,000 or 23.6% of the sales in fiscal 1995 from \$11,068,000 or 23.6% of sales in fiscal 1994. The increase in gross profit is primarily due to the higher sales, as previously discussed.

Expenses. Selling, general and administrative expenses in fiscal 1995 increased 1.6% or \$142,000 to \$8,994,000 or 18.7% of sales from \$8,852,000 or 18.9% of sales in fiscal 1994. This increase is the result of additional legal fees associated with the litigation and settlement between the Company and C&K and additional bad debt expense related to the bankruptcy of one of the Company's major customers. Offsetting these additional expenses were decreases resulting from general cost control procedures established by management.

Other Expenses. Other expenses in fiscal 1995 increased 39.2% to \$1,287,000 from \$925,000 in fiscal 1994. This increase is principally the result of increased interest expense due to increased borrowings attributable to the construction of the Company's manufacturing facility in the Dominican Republic, as well as higher interest rates.

Income Taxes. Provision for income taxes increased \$495,000 to \$532,000 or approximately 51% of income before provision for income taxes during fiscal 1995. This compared to

a provision of \$37,000 or 3% of income before provision for income taxes during fiscal 1994. This increase is primarily attributable to the accrual of taxes on previously deferred DISC earnings. (See Item 3 and Note 4 to the Consolidated Financial Statements).

#### Effects of Inflation

During the three-year period ended June 30, 1996, inflation and changing prices did not have a significant impact on the Company's operations.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

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NAPCO SECURITY SYSTEMS, INC.  
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS  
AS OF JUNE 30, 1996 AND 1995  
TOGETHER WITH AUDITORS' REPORT

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Napco Security Systems, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Napco Security Systems, Inc. (a Delaware corporation) and subsidiaries as of June 30, 1996 and 1995, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1996. These consolidated financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Napco Security Systems, Inc. and subsidiaries as of June 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1996 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the index to consolidated financial statements are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Melville, New York  
September 20, 1996



CONSOLIDATED BALANCE SHEETS  
AS OF JUNE 30, 1996 AND 1995

ASSETS	1996 (in thousands, except share data)	1995
CURRENT ASSETS:		
Cash	\$ 426	\$ 368
Accounts receivable, less reserve for doubtful accounts of \$864 and \$662, respectively	13,759	13,647
Inventories, net	25,944	24,178
Prepaid expenses and other current assets	489	445
Deferred income taxes	911	1,278
	-----	-----
Total current assets	41,529	39,916
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization of approximately \$9,137 and \$8,013, respectively	12,549	12,503
GOODWILL, net of accumulated amortization of approximately \$935 and \$828, respectively	2,806	2,913
OTHER ASSETS	435	407
	-----	-----
	\$57,319	\$55,739
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,500	\$ 2,182
Notes payable to bank	-	500
Accounts payable	5,986	4,001
Accrued expenses	1,714	772
Accrued salaries and wages	502	593
Accrued taxes	3,151	3,208
	-----	-----
Total current liabilities	12,853	11,256
LONG-TERM DEBT	14,150	15,275
DEFERRED INCOME TAXES	742	648
	-----	-----
Total liabilities	27,745	27,179
	=====	=====
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; authorized 21,000,000 shares; issued 5,896,602 shares; outstanding 4,367,727 shares	59	59
Additional paid-in capital	719	719
Retained earnings	28,797	27,783
Less: Treasury stock, at cost (1,528,875 shares)	(1)	(1)
	-----	-----
Total stockholders' equity	29,574	28,560
	-----	-----
	\$57,319	\$55,739
	=====	=====

The accompanying notes are an integral part of these consolidated balance sheets.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30, 1996, 1995 AND 1994

	1996 (in thousands, except share data)	1995	1994
NET SALES	\$ 49,088	\$ 48,078	\$ 46,873
COST OF SALES	37,786	36,753	35,805
Gross profit	11,302	11,325	11,068
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,374	8,994	8,852
Operating income	2,928	2,331	2,216
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,278)	(1,398)	(803)
Other, net	(121)	111	(122)
	(1,399)	(1,287)	(925)
Income before provision for income taxes	1,529	1,044	1,291
PROVISION FOR INCOME TAXES	515	532	37
Net income	\$ 1,014	\$ 512	\$ 1,254
EARNINGS PER SHARE	\$ .23	\$ .12	\$ .29
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	4,373,000	4,390,000	4,395,000

The accompanying notes are an integral part of these consolidated statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 1996, 1995 AND 1994

	Common Stock Number of Shares	Amount	Additional Paid-in Capital (Dollars in thousands)	Retained Earnings (thousands)	Treasury Stock	Total
BALANCE AT JUNE 30, 1993	5,896,002	\$59	\$718	\$26,017	\$(1)	\$26,793
Net income for the year ended June 30, 1994	--	--	--	1,254	--	1,254
Exercise of stock options	600	--	1	--	--	1
	-----	---	----	-----	---	-----
BALANCE AT JUNE 30, 1994	5,896,602	59	719	27,271	(1)	28,048
Net income for the year ended June 30, 1995	--	--	--	512	--	512
	-----	---	----	-----	---	-----
BALANCE AT JUNE 30, 1995	5,896,602	59	719	27,783	(1)	28,560
Net income for the year ended June 30, 1996	--	--	--	1,014	--	1,014
	-----	---	----	-----	---	-----
BALANCE AT JUNE 30, 1996	5,896,602	\$59	\$719	\$28,797	\$(1)	\$29,574
	=====	===	====	=====	===	=====

The accompanying notes are an integral part of these consolidated statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 1996, 1995 AND 1994

	1996	1995 (in thousands)	1994
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 1,014	\$ 512	\$ 1,254
Adjustments to reconcile net income to net cash provided by operating activities-			
Depreciation and amortization	1,425	1,357	1,482
Provision for bad debts	202	212	77
Deferred income taxes	351	(320)	-
Changes in operating assets and liabilities resulting from increases and decreases in:			
Accounts receivable	(314)	828	(2,676)
Inventories	(1,766)	(565)	795
Prepaid expenses and other current assets	(44)	25	(28)
Other assets	(112)	(97)	(134)
Accounts payable and accrued liabilities	2,779	(1,259)	612
	-----	-----	-----
Net cash provided by operating activities	3,535	693	1,382
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	(1,170)	(3,332)	(1,629)
	-----	-----	-----
Net cash used in investing activities	(1,170)	(3,332)	(1,629)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from short-term notes payable to bank	-	500	1,650
Principal payments on notes payable to bank	(500)	(8,100)	-
Principal payments on capital lease obligation	(7)	(21)	(28)
Principal payments on long-term debt	(1,800)	(1,925)	(2,325)
Proceeds from long-term debt	-	11,218	1,413
Proceeds from issuance of common stock	-	-	1
	-----	-----	-----
Net cash (used in) provided by financing activities	(2,307)	1,672	711
	-----	-----	-----
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>58</b>	<b>(967)</b>	<b>464</b>
<b>CASH, beginning of year</b>	<b>368</b>	<b>1,335</b>	<b>871</b>
	-----	-----	-----
<b>CASH, end of year</b>	<b>\$ 426</b>	<b>\$ 368</b>	<b>\$ 1,335</b>
	=====	=====	=====
<b>CASH PAID DURING THE YEAR FOR:</b>			
Interest	\$ 1,155	\$ 1,388	\$ 914
	=====	=====	=====
Income taxes	\$ 144	\$ 61	\$ 42
	=====	=====	=====

The accompanying notes are an integral part of these consolidated statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1996, 1995 AND 1994

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Napco Security Systems, Inc. and subsidiaries (the "Company") is engaged principally in the development, manufacture and distribution of security devices for commercial and residential use.

Principles of Consolidation

The consolidated financial statements include the accounts of Napco Security Systems, Inc. and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories

Inventories are valued at the lower of cost (using the FIFO, first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment is carried at cost. Depreciation is recorded over the estimated service lives of the related assets using primarily the straight-line method. Amortization of leasehold improvements is calculated by using the straight-line method over the estimated useful life of the asset or lease term, whichever is shorter.

Goodwill

Goodwill is being amortized on a straight-line basis over 35 years. The recoverability of the carrying value of intangible assets is evaluated on a recurring basis. The primary indicators of recoverability are current and forecasted profitability of the acquired business. In the years ended June 30, 1996 and 1995, there were no adjustments to the carrying value of goodwill.

Deferred Financing Costs

Deferred financing costs associated with the issuance of the Industrial Revenue Bonds (see Note 6 (c)), and from obtaining the revolving credit and term loan facility (see Note 6(a)) are being amortized over the respective terms of the related debt.

Revenue is recognized upon shipment of the Company's products to its customers.

#### Income Taxes

Deferred income taxes are recognized for the expected future tax consequences of temporary differences between the amounts reflected for financial reporting and tax purposes. The provision for income taxes represents U.S. Federal and state taxes on income generated from U.S. operations. Income generated by the Company's foreign subsidiary is non-taxable. The Company accounts for the research and development credit as a reduction of income tax expense in the year in which such credits are allowable for tax purposes.

In prior years, the Company did not provide for income taxes on the undistributed earnings of its Domestic International Sales Corporation ("DISC") subsidiary because it was the Company's intent to continue the subsidiary's qualification for tax deferral. Due to the shifting of manufacturing outside the U.S., management determined in fiscal 1995 that the DISC no longer qualified for continued tax deferral. As a result, previously deferred earnings of the DISC totalling \$2,031,000 must now be reported as taxable income over a ten-year period in the Company's future tax returns. The respective tax liability was recorded in fiscal 1995.

The Company does not provide for income taxes on the undistributed earnings of its foreign subsidiary because such earnings are reinvested abroad and it is the intention of management that such earnings will continue to be reinvested abroad. As of June 30, 1996 and 1995, approximately \$17,206,000 and \$16,441,000 in cumulative earnings of the foreign subsidiary are included in consolidated retained earnings.

#### Earnings Per Share

Earnings per share is computed based upon the weighted average number of common shares and common stock equivalents (options) outstanding. Fully diluted earnings per share does not materially differ from the earnings per share presented in the consolidated statements of income.

#### Reclassifications

Certain prior year balances have been reclassified to conform with the current year presentation.

#### 2. INVENTORIES:

Inventories, net, at June 30, 1996 and 1995, consist of the following:

	1996	1995
	(in thousands)	
Component parts	\$17,908	\$16,616
Work-in-process	4,449	2,320
Finished products	3,587	5,242
	-----	-----
	\$25,944	\$24,178
	=====	=====

## 3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consists of the following:

	June 30,		Depreciation/ amortization- annual rates
	1996	1995	
	(in thousands)		
Land	\$ 904	\$ 904	-
Building	8,807	8,595	3%
Molds and dies	2,339	1,971	20%
Furniture and fixtures	942	1,005	10% to 20%
Machinery and equipment	8,268	7,633	10% to 33%
Leasehold improvements	426	408	Shorter of the lease term or life of asset
	-----	-----	
	21,686	20,516	
Less: Accumulated depreciation and amortization	9,137	8,013	
	-----	-----	
	\$12,549	\$12,503	
	=====	=====	

Depreciation and amortization expense on property, plant and equipment was approximately \$1,222,000, \$1,189,000 and \$1,304,000 for fiscal 1996, 1995 and 1994, respectively.

## 4. INCOME TAXES:

In August 1995, the Internal Revenue Service informed the Company that it had completed the audit of the Company's Federal tax returns for fiscal years 1987 through 1992. The Internal Revenue Service has issued a report to the Company proposing adjustments that would result in taxes due of approximately \$4.3 million, excluding interest charges. The primary adjustments presented by the Internal Revenue Service relate to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagrees with the IRS and intends to vigorously appeal this assessment using all remedies and procedural actions available under the law. The Company believes that it has provided an adequate reserve to address the ultimate resolution of this matter, so that it will not have a material adverse effect on the Company's consolidated financial statements.

The deferred tax assets and deferred tax liabilities at June 30, 1996 and 1995 are as follows (in thousands):

	Deferred Tax Assets		Deferred Tax Liabilities		Net Deferred Tax Asset (Liabilities)	
	1996	1995	1996	1995	1996	1995
Current:						
Accounts receivable	\$346	\$ 265	\$ -	\$ -	\$346	\$ 265
Inventories	495	930	-	-	495	930
Accrued liabilities	97	127	-	-	97	127
Other	54	64	81	108	(27)	(44)
	-----	-----	-----	-----	-----	-----
	992	1,386	81	108	911	1,278
Noncurrent:						
Fixed assets	-	-	742	648	(742)	(648)
	-----	-----	-----	-----	-----	-----
Total deferred taxes	\$992	\$1,386	\$823	\$756	\$169	\$ 630
	====	=====	====	====	====	=====

As a result of the U.S. operations generating income in fiscal 1996 and 1995, management now believes it is more likely than not that the Company will realize the benefit of the net deferred tax assets existing at June 30, 1996 and 1995. Accordingly, the Company has not reflected any valuation allowance against the deferred tax assets at June 30, 1996 and 1995. Furthermore, management believes that the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. There can be no assurance, however, that the Company will generate taxable earnings or any specific level of continuing earnings in the future.

Provision for income taxes consists of the following:

	1996	For the Years Ended June 30, 1995 (in thousands)	1994
Taxes currently payable:			
Federal	\$104	\$ 35	\$ -
State	19	48	37
	-----	-----	---
	123	83	37
Taxable DISC earnings and other	41	769	-
Deferred income tax provision (benefit)	351	(320)	-
	-----	-----	---
Provision for income taxes	\$515	\$ 532	\$37
	=====	=====	===

The difference between the statutory United States Federal income tax rate and the Company's effective tax rate as reflected in the consolidated statements of income is as follows:

	1996	% of pre-tax income	1995	% of pre-tax income	1994	% of pre-tax income
	Amount		Amount		Amount	
	(in thousands, except percentages)					
Tax at Federal statutory rate	\$520	34.0%	\$355	34.0%	\$439	34.0%
Increases (decreases) in taxes resulting from:						
State income taxes, net of Federal income tax benefit	44	2.9	32	3.1	24	1.9
Amortization of excess goodwill	36	2.4	36	3.6	36	2.8
Non-taxable foreign source income	(260)	(17.0)	(177)	(17.0)	(356)	(27.6)
Taxes on previously deferred DISC earnings, net	-	-	563	53.9	-	-
Utilization of net operating loss carryforward	-	-	(348)	(33.3)	(70)	(5.4)
Other, net	175	11.4	71	6.7	(36)	(2.8)
	-----	----	-----	-----	-----	-----
Provision for income taxes	\$515	33.7%	\$532	51.0%	\$ 37	2.9%
	=====	=====	=====	=====	=====	=====

Foreign income taxes are not provided on income generated by the Company's subsidiary in the Dominican Republic, as such income is presently exempt from local income tax.

#### 5. NOTES PAYABLE TO BANK:

On March 31, 1995, the Company amended its existing revolving credit and term loan facility to provide for an additional \$2,000,000 secured line of credit. As of June 30, 1995, outstanding borrowings under this line amounted to \$500,000. At June 30, 1995, the interest rate on this line was approximately 11.0%. In 1995, the maximum month end borrowings outstanding under this line of credit was \$500,000 and the weighted average interest rate was 10.6%. The balance under this line was fully paid in October 1995.



## 6. LONG-TERM DEBT:

Long-term debt consists of the following:

	June 30,	
	1996	1995
	(in thousands)	
Revolving credit and term loan facility (a)	\$11,000	\$11,000
Notes payable to banks (b)	3,375	4,950
Industrial revenue bonds (c)	1,275	1,500
Capital lease obligation	-	7
	-----	-----
	15,650	17,457
Less: Current portion	1,500	2,182
	-----	-----
	\$14,150	\$15,275
	=====	=====

(a) On July 27, 1994, the Company entered into an \$11,000,000 secured revolving credit and term loan facility with two banks, with the Company's primary bank acting as an agent. In conjunction with this agreement, the banks received as collateral all accounts receivable and inventory located in the United States. Under the terms of this agreement, the Company used the proceeds, among other things, to refinance notes payable to its primary bank, finance a temporary increase of inventory and finance the completion of the construction of a manufacturing facility in the Dominican Republic. The revolving credit loan, which bears interest based on a number of options available to the Company (weighted average rate of approximately 8.7% and 8.3% for the years ended June 30, 1996 and 1995, respectively) and does not require principal payments until conversion, converts to a term loan on June 30, 1997 payable in (16) sixteen equal quarterly installments beginning on September 30, 1997. The agreement contains various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings, restrictions on capital expenditures, the maintenance of minimum amounts of tangible net worth, and compliance with other certain financial ratios, as defined in the agreement. As of June 30, 1996, the Company was not in compliance with certain of these financial covenants for which it has received appropriate waivers from the banks.

(b) In November 1991, the Company renegotiated the terms of its \$6,000,000 unsecured note payable to the Company's primary bank. The note was paid in full in fiscal 1996. Interest on the note was payable monthly at a rate determined periodically based on a number of options available to the Company. At June 30, 1995, the interest rate on the note was 9.52%.

In addition, in November 1991, a subsidiary of the Company entered into a \$4,500,000 line of credit agreement with another bank in connection with the Company's international operations. The line is secured by a letter of credit from the Company's primary bank. Interest on amounts outstanding under this line is payable quarterly at a rate determined periodically based on a number of options available to the Company. The balance outstanding under the line as of December 31, 1994 automatically converted to a term loan payable in 20 equal quarterly installments commencing on that date. At June 30, 1996 and 1995, the amounts outstanding under this line were \$3,375,000 and \$4,050,000 at interest rates of 5.73% and 6.27%, respectively.

Under the terms of the agreement, all advances under the line must be used to pay for certain specified costs incurred by this subsidiary. In addition, the terms of the agreement limit, among other things, the amount of additional debt or liens that may be incurred and prohibit the payment of dividends by this subsidiary.

On August 27, 1993, the Company entered into an agreement with its primary bank to increase an existing \$2,500,000 letter of credit agreement to \$4,500,000 for the purpose of providing additional collateral for the construction of a manufacturing facility in the Dominican Republic. In conjunction with this agreement, the bank received as collateral a first priority perfected security interest in all accounts receivable of the Company and a second mortgage on the Company's facility located in Amityville, New York with a lien of up to \$1,500,000. This agreement expires on February 28, 1997.

- (c) In 1985, the Company received \$3,900,000 in proceeds from Industrial Revenue Bonds issued by the Town of Babylon (the "Town") to be used for the purchase of land and the construction of a new office and manufacturing facility. Title to the land and building will be held by the Town as security for the bonds, and the Town leases the facility to the Company under an agreement which provides for the purchase of the facilities by the Company for \$1 at the completion of the lease term. The lease has been accounted for as a capital lease. The bonds bear interest at a variable rate which is determined weekly by the underwriting bank based upon market conditions. At June 30, 1996 and 1995, the interest rate was approximately 3.1% and 3.7%, respectively.

The bonds have a maturity date of April 1, 2000; however, principal repayment is to be accomplished through quarterly payments of \$75,000 made to a sinking fund held by a trustee. On each July 1 through and including July 1, 1999, the bonds shall be redeemed, in part, prior to their maturity, in the amount of \$300,000 from the sinking fund at a price equal to 100% of the principal amount so redeemed.

The Company's primary bank has issued an irrevocable letter of credit, covering the outstanding balance of the bonds plus 50 days of interest cost to the trustee of the bonds as security for the Company's obligations under the various arrangements.

The bonds may be tendered, at any time, at the election of the holder, at a price of 100% of the unpaid principal balance. At the time of notice of tender, the remarketing agent will use its best efforts to remarket the tendered bonds. The bank, as part of the letter of credit arrangement, is obligated through April 12, 2000 to purchase any of the bonds which are not remarketed.

Under the terms of the bond indenture the Company is required, among other things, to maintain certain levels of working capital and tangible net worth, is restricted in the amount of acquisitions of fixed assets and other investments it may make and must maintain certain financial ratios. The Company was not in compliance with certain of these financial covenants at June 30, 1996 for which it has received appropriate waivers.

Maturities of long-term debt (including sinking fund payments) are as follows (in thousands):

Year ending June 30,	
1997	\$ 1,500
1998	3,950
1999	3,950
2000	3,500
2001	2,750
	-----
	\$15,650
	=====

## 7. STOCK OPTIONS:

In November 1992, the stockholders approved a 10-year extension of the already existing 1982 incentive stock option plan. Shares of common stock are reserved for issuance upon exercise of options granted to officers and key employees under the extended 1982 plan. The plan provides that the exercise price of each option shall equal 100% of the fair market value of the stock at the date of grant. Options are exercisable 20% per year and expire five years after the date of grant. Transactions and other information relating to the plan for the three years ended June 30, 1996 are summarized as follows:

	Shares available for grant	Shares under option Shares	Price
Outstanding at June 30, 1993	697,833	117,500	\$2.25 to \$2.625
Granted	(26,500)	26,500	4.375
Lapsed and terminated	22,400	(22,400)	2.50 to 2.625
Exercised	-	(600)	2.50
	-----	-----	-----
Outstanding at June 30, 1994	693,733	121,000	2.25 to 4.375
Granted	(3,000)	3,000	2.50
Lapsed and terminated	43,000	(43,000)	2.50 to 4.375
	-----	-----	-----
Outstanding at June 30, 1995	733,733	81,000	2.25 to 4.375
Granted	(35,000)	35,000	2.50 to 3.125
Lapsed and terminated	40,000	(40,000)	2.50 to 4.375
	-----	-----	-----
Outstanding at June 30, 1996	738,733	76,000	\$2.25 to \$4.375
	=====	=====	=====

Options representing 35,100 shares were exercisable at June 30, 1996.

Effective October 1990, the Company established a non-employee stock option plan to encourage non-employee directors and consultants of the Company to invest in the Company's stock. The plan provides that the option price shall not be less than 100% of the fair market value of the stock at the date of grant. Options are exercisable at 20% per year and expire five years after the date of grant. At June 30, 1996, 50,000 shares of common stock are reserved for issuance under the Plan.

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). This Statement is effective for fiscal years that begin after December 15, 1995, with earlier application permitted. Although the statement encourages entities to adopt the fair value based method of accounting for employee stock options, the Company intends to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Adoption of SFAS 123 will require the Company to disclose additional information relating to the stock option plan and the Company's pro forma net income and earnings per share, as if the fair value of the options granted were expensed over the period in which the related employees' services were rendered.

## 8. RESEARCH AND DEVELOPMENT COSTS:

Research and development costs charged to cost of sales were approximately \$3,296,000, \$3,252,000 and \$2,883,000 for the years ended June 30, 1996, 1995 and 1994, respectively.

## 9. 401(k) PLAN:

Effective August 31, 1985, the Company established a 401(k) plan covering all employees with one or more years of service. The plan is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. The Company provides for matching contributions of 50% of the first 2% of employee contributions. Company contributions to the plan totaled approximately \$48,000, \$56,000 and \$59,000 for the years ended June 30, 1996, 1995 and 1994, respectively.

## 10. BUSINESS AND CREDIT CONCENTRATIONS:

The Company is engaged in one major line of business - the development, manufacture, distribution and sale of security alarm products and door security devices for commercial and residential installations. Most of the Company's sales to unaffiliated customers are shipped from the United States. Most of the Company's customers are located throughout the United States and Europe. Identifiable assets (net of intercompany receivables and payables) relating to the Company's foreign operations were approximately \$24,235,000, \$19,708,000 and \$22,513,000 at June 30, 1996, 1995 and 1994, respectively.

Export sales amounted to \$8,915,000, \$8,865,000 and \$7,795,000 for the years ended June 30, 1996, 1995 and 1994, respectively. At June 30, 1996 and 1995, the Company had three customers with accounts receivable balances that aggregated 58% and 51% of the Company's accounts receivable, respectively. Revenues from the three largest customers are summarized as follows:

	Percentage of Net Sales For the Years Ended June 30,		
	1996	1995	1994
Customer 1	21%	22%	18%
Customer 2	9%	6%	12%
Customer 3	12%	11%	7%

## 11. COMMITMENTS AND CONTINGENCIES:

## Leases

The Company is committed under various operating leases which do not extend beyond fiscal 2001. Minimum lease payments through the expiration dates of these leases, with the exception of the land lease referred to below, are as follows (in thousands):

Year ending June 30,	
1997	\$236
1998	213
1999	120
2000	54
2001	28
	----
	\$652
	=====

Rent expense totaled approximately \$389,000, \$369,000 and \$357,000 for the years ended June 30, 1996, 1995 and 1994, respectively.

#### Land Lease and Construction Contract

On April 26, 1993, the Company's foreign subsidiary entered into a 99 year land lease of approximately four acres of land in the Dominican Republic, at an annual cost of approximately \$272,000. The foreign subsidiary relocated its operations to this site upon completion of a new facility during fiscal 1995.

#### Letters of Credit

At June 30, 1996, the Company was committed for approximately \$394,000 under open commercial letters of credit and steamship guarantees.

#### Litigation

In the normal course of business, the Company is a party to claims and/or litigation. Management believes that the settlement of such claims and/or litigation, considered in the aggregate, will not have a material adverse effect on the Company's financial position and results of operations.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

## SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY

## CONDENSED BALANCE SHEETS

ASSETS -----	As of June 30,	
	1996 -----	1995 -----
	(in thousands)	
CASH	\$ 427	\$ 262
ACCOUNTS RECEIVABLE, net	12,053	11,497
INVENTORIES, net	8,755	11,222
PREPAID EXPENSES AND OTHER CURRENT ASSETS	324	343
DUE FROM SUBSIDIARIES	1,551	-
DEFERRED INCOME TAXES	911	1,278
Total current assets	24,021	24,602
INVESTMENT IN SUBSIDIARIES, on equity basis	23,223	23,412
PROPERTY, PLANT AND EQUIPMENT, net	5,956	5,842
OTHER ASSETS	317	299
	----- \$53,517 =====	----- \$54,155 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES	\$11,301	\$10,510
DUE TO SUBSIDIARIES	-	2,312
LONG-TERM DEBT, including capital lease obligation	11,900	12,125
DEFERRED INCOME TAXES	742	648
Total liabilities	23,943	25,595
STOCKHOLDERS' EQUITY	29,574	28,560
	----- \$53,517 =====	----- \$54,155 =====

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

## SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY

CONDENSED STATEMENTS OF INCOME - - - - -	For the Years Ended June 30,		
	1996 -----	1995 ----- (in thousands)	1994 -----
NET SALES	\$40,482	\$38,547	\$35,954
COST OF SALES	30,319 -----	27,938 -----	27,464 -----
Gross profit	10,163	10,609	8,490
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,277 -----	7,808 -----	7,562 -----
Operating income	2,886	2,801	928
EQUITY IN (LOSS) EARNINGS OF SUBSIDIARIES	(184)	(561)	1,226
OTHER EXPENSE, net	(1,173) -----	(1,196) -----	(863) -----
Income before provision for income taxes	1,529	1,044	1,291
PROVISION FOR INCOME TAXES	515 -----	532 -----	37 -----
Net income	\$ 1,014 =====	\$ 512 =====	\$ 1,254 =====

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

## NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

## SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)

Column A	Column B	Column C	Column D	Column E
Description	Balance at	Charged to	Deductions	Balance
-----	Beginning	Costs and	Describe (1)	at End of
	of Period	Expenses		Period
	-----	-----	-----	-----
For the year ended June 30, 1994:				
Allowance for doubtful accounts				
(deducted from accounts receivable)	\$452	\$ 77	\$ 75 (1)	\$454
	=====	=====	=====	=====
For the year ended June 30, 1995:				
Allowance for doubtful accounts				
(deducted from accounts receivable)	\$454	\$212	\$ 4 (1)	\$662
	=====	=====	=====	=====
For the year ended June 30, 1996:				
Allowance for doubtful accounts				
(deducted from accounts receivable)	\$662	\$202	\$ -	\$864
	=====	=====	=====	=====

(1) Deductions relate to uncollectible accounts charged off to valuation accounts, net of recoveries.

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

## PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

ITEM 11. EXECUTIVE COMPENSATION.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND  
MANAGEMENT.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Part III (Items 10, 11, 12 and 13) is incorporated herein by reference from the Company's definitive proxy statement for the 1996 annual meeting of stockholders which the Company intends to file with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Company's 1996 fiscal year, and, accordingly, items 10, 11, 12 and 13 are omitted pursuant to General Instruction G(3).

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)1. Financial Statements

The following consolidated financial statements of Napco Security Systems, Inc. and its subsidiaries are included in Part II, Item 8:

	Page
Report of Independent Public Accountants as of June 30, 1996 and 1995 and for the 3 Year Period Ended June 30, 1996 . . . . .	15
Consolidated Balance Sheets as of June 30, 1996 and 1995 . . . . .	16
Consolidated Statements of Income for the Years Ended June 30, 1996, 1995 and 1994 . . . . .	17
Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 1996, 1995 and 1994 . . . . .	18
Consolidated Statements of Cash Flows for the Years Ended June 30, 1996, 1995 and 1994 . . . . .	19
Notes to Consolidated Financial Statements, June 30, 1996, 1995 and 1994 . . . . .	20

(a)2. Financial Statement Schedules

The following consolidated financial statement schedules of Napco Security Systems, Inc. and its subsidiaries are included in Part II, Item 8:

I: Condensed Financial Information on Parent Company . . . . .	29
II: Valuation and Qualifying Accounts . . . . .	31

Schedules other than those listed above are omitted because of the absence of the conditions under which they are required or because the required information is shown in the consolidated financial statements and/or notes thereto.

Exhibit No.	Title	
Ex-3.(i)	Articles of Incorporation, as amended. .	Exhibit 3a to Report on Form 10-K for fiscal year ended June 30, 1988
Ex-3.(ii)	By-Laws . . . . .	Exhibit 3b to Report on Form 10-K for fiscal year ended June 30, 1988
Ex-10.A	1982 Amended and Restated Incentive Stock Option Plan (extended 1992) . . .	Exhibit 10b to Report on Form 10-K for fiscal year ended June 30, 1991
Ex-10.B	1990 Non-Employee Stock Option Plan . .	Exhibit 10c to Report on Form 10-K for fiscal year ended June 30, 1991
Ex-10.C	Defined Contribution Pension Plan Basic Plan Document . . . . .	Exhibit 10d to Report on Form 10-K for fiscal year ended June 30, 1989
Ex-10.D	Defined Contribution Pension Plan 401(k) Profit Sharing Plan Adoption Agreement . . . . .	Exhibit 10e to Report on Form 10-K for fiscal year ended June 30, 1989

Ex-10.E	Indenture of Mortgage and Trust . . . .	Exhibit 10h to Report on Form 10-K for fiscal year ended June 30, 1990
Ex-10.F	Credit Agreement dated as of November 21, 1991 among the Company, certain subsidiaries and Chemical Bank, as agent . . . . .	Exhibit 10-h to Report on Form 10-K for fiscal year ended June 30, 1992
Ex-10.G	Promissory Note dated as of November 8, 1991 between Citibank, N.A. and the Company . . . . .	Exhibit 10-i to Report on Form 10-K for fiscal year ended June 30, 1992
Ex-10.H	Credit Agreement dated November 8, 1991 between N.S.S. Caribe S.A. and Citibank, N.A. . . . .	Exhibit 10-j to Report on Form 10-K for fiscal year ended June 30, 1992
Ex-10.I	Amendment and Waiver Agreement dated as of August 27, 1993 between Chemical Bank and the Company . . . . .	Exhibit 10-j to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.J	Construction Contract dated June 5, 1993 . . . . .	Exhibit 10-l to Report on Form 10-K for fiscal year ended June 30, 1993

Ex-10.K	Amendment dated July 27, 1994 to Credit Agreement dated November 21, 1991 . . . . .	Exhibit 10-m to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.L	Loan Agreement dated as of July 27, 1994 with Chemical Bank and The Bank of New York . . . . .	Exhibit 10-n to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.M	First Amendment dated as of November 5, 1993 to Credit Agreement dated as of November 8, 1991 with Citibank, N.A. . . . .	Exhibit 10-o to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.N	Amendment and Waiver dated as of September 14, 1993 to Credit Agreement dated as of November 21, 1991. . . . .	Exhibit 10-N to Report on Form 10-K for fiscal year ended June 30, 1995
Ex-10.O	Amendment dated as of December 7, 1993 to the Credit Agreement dated as of November 21, 1991. . . . .	Exhibit 10-0 to Report on Form 10-K for fiscal year ended June 30, 1995
Ex-10.P	Fifth Amendment and Waiver dated as of October 11, 1994 to the Credit Agreement dated as of November 21, 1991. . . . .	Exhibit 10-P to Report on Form 10-K for fiscal year ended June 30, 1995

Ex-10.Q	Sixth Amendment and Waiver dated as of March 31, 1995 to the Credit Agreement dated as of November 21, 1991. . . . .	Exhibit 10-Q to Report on Form 10-K for fiscal year ended June 30, 1995
Ex-10.R	First Amendment and Waiver dated as of October 11, 1994 to Loan Agreement dated as of July 27, 1994. . . . .	Exhibit 10-R to Report on Form 10-K for fiscal year ended June 30, 1995
Ex-10.S	Second Amendment and Waiver dated as of March 31, 1995 to the Loan Agreement dated as of July 27, 1994. . . . .	Exhibit 10-S to Report on Form 10-K for fiscal year ended June 30, 1995
Ext-10.T	Seventh Amendment and Waiver dated as of October 13, 1995 to Credit Agreement dated as of November 21, 1991. . . . .	E-1
Ex.-10	Third Amendment and Waiver dated as of October 13, 1995 to the Loan Agreement dated as of July 27, 1994. . . . .	E-4
Ex-11	Computation of earnings per share . . .	E-8
Ex-12	Computation of ratios . . . . .	E-9
Ex-21	Subsidiaries of the Registrant . . . .	E-10
Ex-27	Financial Data Schedule . . . . .	E-11

Exhibits have been included in copies of this Report filed with the Securities and Exchange Commission. Stockholders of the registrant will be provided with copies of these exhibits upon written request to the Company.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended June 30, 1996.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

September 26, 1996

NAPCO SECURITY SYSTEMS, INC.  
(Registrant)

By: /s/ RICHARD SOLOWAY

-----  
Richard Soloway  
Chairman of the Board of  
Directors and Secretary  
(Co-Principal Executive Officer)

By: /s/ KENNETH ROSENBERG

-----  
Kenneth Rosenberg  
President and Treasurer  
(Co-Principal Executive  
Officer)

By: /s/ KEVIN S. BUCHEL

-----  
Kevin S. Buchel  
Senior Vice President of  
Operations and Finance  
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and the dates indicated.

Signature	Title	Date
/s/RICHARD SOLOWAY ----- Richard Soloway	Chairman of the Board of Directors	September 26, 1996
/s/KENNETH ROSENBERG ----- Kenneth Rosenberg	Director	September 26, 1996
/s/RANDY B. BLAUSTEIN ----- Randy B. Blaustein	Director	September 26, 1996
/s/ANDREW J. WILDER ----- Andrew J. Wilder	Director	September 26, 1996



FORM 10-K

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

FOR FISCAL YEAR ENDING JUNE 30, 1996

COMMISSION FILE NUMBER : 0-10004

NAPCO SECURITY SYSTEMS, INC.

EXHIBITS

## Index to Exhibits

Ex-10.T	Seventh Amendment and Waiver dated as of October 13, 1995 to Credit Agreement dated as of November 21, 1991 . . . . .	E-1
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Ex-11	Computation of earnings per share . . . . .	E-8
Ex-12	Computation of ratios . . . . .	E-9
Ex-21	Subsidiaries of the Registrant. . . . .	E-10
Ex-27	Financial Data Schedule . . . . .	E-11

SEVENTH AMENDMENT and WAIVER dated as of October 13, 1995 to the CREDIT AGREEMENT dated as of November 21, 1991 (as the same has been amended by the Amendment and Waiver dated as of August 27, 1993, the Amendment and Waiver dated as of September 14, 1993, the Amendment dated as of December 7, 1993, the Fourth Amendment Agreement dated as of July 27, 1994, the Fifth Amendment and Waiver dated as of October 11, 1994, the Sixth Amendment and Waiver dated as of March 31, 1995 and as the same may be further amended, supplemented or modified from time to time in accordance with its terms, the "Credit Agreement"), among NAPCO SECURITY SYSTEMS, INC., a Delaware corporation (the "Borrower"), the guarantors signatory hereto (collectively, the "Guarantors"), the lenders named in Schedule 2.01 and 2.06 of the Credit Agreement (collectively, the "Lenders") and CHEMICAL BANK, as agent for the Lenders (in such capacity, the "Agent").

WHEREAS, the Borrower and the Guarantors wish to amend and waive certain provisions of the Credit Agreement;

WHEREAS, the Agent and the Lenders have consented to amend and waive the Credit Agreement to reflect the requests herein set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows;

1. WAIVER OF ARTICLE VII, NEGATIVE COVENANTS, SECTION 7.08. TANGIBLE NET WORTH.

Compliance with Article VII, Section 7.08. of the Credit Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Tangible Net Worth plus Subordinated Indebtedness of the Borrower and its Consolidated subsidiaries to be less than \$26,971,000 as of the fiscal year ended June 30, 1995 provided, however, Tangible Net Worth plus Subordinated Indebtedness of the Borrower and its Consolidated subsidiaries was not less than \$25,455,000 as of such fiscal year end.

2. AMENDMENT TO ARTICLE VII, NEGATIVE COVENANTS, Section 7.08. TANGIBLE NET WORTH.

Article VII. Section 7.08. of the Credit Agreement is hereby amended by deleting sub-section (iii) in its entirety and substituting therefor the following:

"(iii) \$25,455,000 from June 30, 1995 until June 29, 1996;"

3. WAIVER OF ARTICLE VII, NEGATIVE COVENANTS, SECTION 7.18. DEBT SERVICE COVERAGE RATIO.

Compliance with Article VII, Section 7.18. of the Credit Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Debt Service Coverage Ratio of the Borrower and its Consolidated subsidiaries to be less than .94 to 1.0 as of the fiscal year ended June 30, 1995 provided, however, such ratio was not less than .91 to 1.0 as of such fiscal year end.

4. WAIVER OF ARTICLE VII, NEGATIVE COVENANTS, SECTION 7.19. INVENTORY RELIANCE.

Compliance with Article VII Section 7.19. of the Credit Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Inventory Reliance of the Borrower and its Consolidated subsidiaries to be more than 34% as of the fiscal year ended June 30, 1995 provided, however, the Inventory Reliance of the Borrower and its Consolidated subsidiaries was not greater than 36% as of such fiscal year end.

This SEVENTH AMENDMENT and WAIVER shall be construed and enforced in accordance with the laws of the State of New York.

Except as expressly amended, waived or consented to hereby, the Credit Agreement shall remain in full force and effect in accordance with the original terms thereof.

This SEVENTH AMENDMENT and WAIVER herein contained is limited specifically to the matters set forth above and does not constitute directly or by implication an amendment or waiver of any other provision of the Credit Agreement or any default which may occur or may have occurred under the Credit Agreement.

The Borrower hereby represents and warrants that, after giving effect to this SEVENTH AMENDMENT and WAIVER, no Event of Default or Default exists under the Credit Agreement or any other related document.

Please be advised that should there be a need for further amendments or waivers with respect to these covenants or any other covenants, those requests shall be evaluated by the Agent and the Lenders when formally requested, in writing, by the Borrower and the Guarantors.

This SEVENTH AMENDMENT and WAIVER may be executed in one or more counterparts, each of which shall constitute an original, but all of which when, taken together shall constitute but one SEVENTH AMENDMENT and WAIVER. The SEVENTH AMENDMENT and WAIVER shall become effective when (i) duly executed counterparts hereof which, when taken

together, bear the signatures of each of the parties hereto shall have been delivered to the Agent and (ii) the Agent shall have received copies of executed waivers and amendments (as appropriate) to (a) the Chemical/BNY Loan Agreement and (b) the Letter of Credit and Bond Purchase Agreement dated as of April 1, 1985 between the Borrower and Chemical Bank.

Capitalized terms used herein and not otherwise defined herein shall have the same meanings as defined in the Credit Agreement.

IN WITNESS WHEREOF, the Borrower, the Guarantors and the Agent have caused this SEVENTH AMENDMENT and WAIVER to be duly executed by their duly authorized officers, all as of the day and year first above written.

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchal

\_\_\_\_\_  
Name:

Title: Senior Vice President

Guarantors:

NAPCO SECURITY SYSTEMS

INTERNATIONAL INC.

UMI MANUFACTURING CORP.

RALTECH LOGIC, INC.

E.E. ELECTRONIC

COMPONENTS, INC.

ALARM LOCK SYSTEMS, INC.

DERRINGER SECURITY

SYSTEMS, INC.

By: /s/ Kevin S. Buchal

\_\_\_\_\_  
Name:

Title: Senior Vice President

CHEMICAL BANK, as Agent and Lender

By: /s/ Robert F. Eisen

\_\_\_\_\_  
Name:

Title: Vice President

THIRD AMENDMENT and WAIVER dated as of October 13, 1995 to the LOAN AGREEMENT dated as of July 27, 1994 (as the same may be further amended, supplemented or modified from time to time in accordance with its terms, the "Loan Agreement"), among NAPCO SECURITY SYSTEMS, INC., a Delaware corporation (the "Borrower"), NAPCO SECURITY SYSTEMS INTERNATIONAL, INC., UMI MANUFACTURING CORP., RALTECH LOGIC, INC., E.E. ELECTRONIC COMPONENTS, INC., ALARM LOCK SYSTEMS, INC. and DERRINGER SECURITY SYSTEMS, INC. (individually, each a "Guarantor" and collectively, the "Guarantors"), CHEMICAL BANK, a New York banking corporation ("Chemical"), THE BANK OF NEW YORK ("BONY" and collectively with Chemical, the "Banks") and CHEMICAL BANK, as Agent (the "Agent").

WHEREAS, the Borrower and the Guarantors wish to amend and waive certain provisions of the Loan Agreement;

WHEREAS, the Banks and the Agent have consented to amend and waive the Loan Agreement to reflect the requests herein set forth;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

1. Waiver of ARTICLE V. COVENANTS OF THE BORROWER, SECTION 5.03 Financial Requirements. (a) Minimum Consolidated Tangible Net Worth.

Compliance with ARTICLE V. SECTION 5.03. (a) of the Loan Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Consolidated Tangible Net Worth plus Consolidated Subordinated Debt of the Borrower to be less than \$26,971,000 as of the fiscal year ended June 30, 1995 provided, however, the Consolidated Tangible Net Worth plus Consolidated Subordinated Debt of the Borrower was not less than \$25,455,000 as of such fiscal year end.

2. Amendment to ARTICLE V. COVENANTS OF THE BORROWER, SECTION 5.03. Financial Requirements.(a) Minimum Consolidated Tangible Net Worth.

ARTICLE V. SECTION 5.03.(a) of the Loan Agreement is hereby amended by deleting sub-section (iii) in its entirety and substituting therefor the following:

"(iii) \$25,455,000 from June 30, 1995 until June 29, 1996;"

3. Waiver of ARTICLE V. COVENANTS OF THE BORROWER, SECTION 5.03. Financial Requirements. (e) Debt Service Ratio.

Compliance with Section 5.03(e) of the Loan Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Debt Service Coverage Ratio of the Borrower to be less than .94 to 1.00 as of the fiscal year ended June 30, 1995 provided, however, the Debt Service Coverage Ratio of the Borrower was not less than .91 to 1.00 as of such fiscal year end.

4. Waiver of ARTICLE V. COVENANTS OF THE BORROWER, SECTION 5.03. Financial Requirements. (g) Inventory Reliance.

Compliance with Section 5.03(g) of the Loan Agreement is hereby waived for the fiscal year ended June 30, 1995 to permit the Inventory Reliance of the Borrower to be greater than 34% as of the fiscal year ended June 30, 1995 provided, however, the Inventory Reliance of the Borrower was not greater than 36% as of such fiscal year end.

This THIRD AMENDMENT and WAIVER shall be construed and enforced in accordance with the laws of the State of New York.

Except as expressly amended or consented to hereby, the Loan Agreement shall remain in full force and effect in accordance with the original terms thereof.

The THIRD AMENDMENT and WAIVER herein contained is limited specifically to the matters set forth above and does not constitute directly or by implication an amendment or waiver of any other provision of the Loan Agreement or any default which may occur or may have occurred under the Loan Agreement.

The Borrower and the Guarantors hereby represent and warrant that, after giving effect to this THIRD AMENDMENT and WAIVER, no Event of Default or Default exists under the Loan Agreement or any other related document.

Please be advised that should there be a need for further amendments or waivers with respect to these covenants or any other covenants, those requests shall be evaluated by the Agent and the Lenders when formally requested, in writing, by the Borrower and the Guarantors.

This THIRD AMENDMENT and WAIVER may be executed in one or more counterparts, each of which shall constitute an original, but all of which when, taken together shall constitute but one THIRD AMENDMENT and WAIVER. The THIRD AMENDMENT and WAIVER shall become effective when (i) duly executed counterparts hereof which, when taken together, bear the signatures of each of the parties hereto shall have been delivered to the Agent and (ii) the Agent shall have received copies of (a) the executed Tenth Amendment and Waiver to the Letter of Credit and Bond Purchase Agreement dated as of April 1, 1985 between the Borrower and Chemical Bank, in the form attached hereto as Exhibit A and (b) the executed Seventh Amendment and Waiver to the Credit Agreement dated as of November 21, 1991 among the Borrower, the Guarantors named therein and Chemical Bank, in the form attached hereto as Exhibit B.

Capitalized terms used herein and not otherwise defined herein shall have the same meanings as defined in the Loan Agreement.

IN WITNESS WHEREOF, the Borrower, the Guarantors, the Banks and the Agent have caused this THIRD AMENDMENT and WAIVER to be duly executed by their duly authorized officers, all as of the day and year first above written.

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

NAPCO SECURITY SYSTEMS  
INTERNATIONAL INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

UMI MANUFACTURING CORP.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

RALTECH LOGIC, INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

E.E. ELECTRONIC COMPONENTS, INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President



ALARM LOCK SYSTEMS, INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

DERRINGER SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchal  
-----  
Name:  
Title: Senior Vice President

CHEMICAL BANK, as Agent and Bank

By: /s/ Robert F. Eisen  
-----  
Name:  
Title: Vice President

THE BANK OF NEW YORK, as Bank

By: /s/ Adam Ostrach  
-----  
Name: Adam Ostrach  
Title: Vice President

## NAPCO SECURITY SYSTEMS, INC.

## COMPUTATION OF EARNINGS PER SHARE

	1996 ----	1995 ----	1994 ----	1993 ----	1992 ----
Weighted average number of shares outstanding	4,367,727	4,367,727	4,367,577	4,366,827	4,366,527
Add common stock equivalents	5,396 -----	21,904 -----	27,053 -----	39,077 -----	13,472 -----
Adjusted weighted average shares outstanding	4,373,123 =====	4,389,631 =====	4,394,630 =====	4,405,904 =====	4,379,999 =====
Net Income:	\$1,014,000 =====	\$ 512,000 =====	\$1,254,000 =====	\$2,317,000 =====	\$1,406,000 =====
Earnings per share: primary and fully diluted:	\$ .23 =====	\$ .12 =====	\$ .29 =====	\$ .53 =====	\$ .32 =====

Earnings per common and common equivalent shares are based upon the weighted average number of shares of common stock and common stock equivalents outstanding during the respective periods. Stock options have been considered to be the equivalent of common stock. Shares issuable upon exercise of stock options, to the extent appropriate, have been added to the average common shares actually outstanding for purposes of this computation, and shares assumed to be purchased at the average market price during the respective periods, with proceeds from the exercise of such options, have been deducted from the average shares outstanding.

## NAPCO SECURITY SYSTEMS, INC.

## COMPUTATION OF RATIOS

	1996 ----	1995 ----	1994 ----
	(In thousands, except for ratios)		
A. Current Assets	\$41,529	\$39,916	\$40,105
B. Current Liabilities	12,853	11,256	12,072
Current Ratio (Line A / Line B)	3.2 to 1	3.5 to 1	3.3 to 1
C. Sales	\$49,088	\$48,078	\$46,873
D. Receivables	13,759	13,647	14,687
Ratio (Line C / Line D)	3.6 to 1	3.5 to 1	3.2 to 1
E. Total Current			
Liabilities	\$12,853	\$11,256	\$12,072
F. Long Term Debt	14,150	15,275	13,690
G. Deferred Income Taxes	742	648	0
H. Total Liabilities	27,745	27,179	25,762
I. Equity	29,574	28,560	28,048
Ratio (Line H / Line I)	.9 to 1	1 to 1	.9 to 1

## SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 1996. All beneficial interests are wholly-owned, directly or indirectly, by the Company and are included in the Company's consolidated financial statements.

Name	State or Jurisdiction of Organization
Alarm Lock Systems, Inc.	Delaware
Derringer Security Systems, Inc.	New York
E.E. Electronic Components Inc.	New York
Napco Security Systems International, Inc.	New York
NSS Caribe, S.A.	Dominican Republic
Raltech Logic, Inc.	New York
UMI Manufacturing Corp.	New York

YEAR	
	JUN-30-1996
	JUN-30-1996
	426
	0
	13,759
	864
	25,944
	41,529
	21,686
	9,137
	57,319
	12,853
	0
	0
	59
	29,515
57,319	
	49,088
	49,088
	37,786
	37,786
	8,374
	0
	1,278
	1,529
	515
	1,014
	0
	0
	0
	1,014
	.23
	.23