

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 [No Fee Required]
For the fiscal year ended June 30, 1999
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 ☒ No ☐

As of September 16, 1999, 3,495,351 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
\$12,233,729.

Documents Incorporated by Reference: Portions of the Registrant's Proxy
Statement in connection with its 1999 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 pre-designated telephone numbers. If programmed to do so, a digital communicator dials the telephone number of a central monitoring station and communicates in computer language to a digital communicator receiver, which prints out an alarm message.

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

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

Door Security Devices. The Company manufactures a variety of exit alarm locks 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 infrared heat detectors and combination microwave/passive infrared detectors that are linked to alarm control panels. Passive infrared heat detectors respond to the change in heat patterns caused by an intruder moving within a protected area. Combination units respond to both changes in heat patterns and changes in microwave patterns occurring at the same time.

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, 1999, 1998, and 1997, the Company expended approximately \$4,008,000, \$3,817,000, and \$3,340,000, 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 1999, 1998 and 1997 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, 1999, the Company had approximately 940 full-time employees.

Marketing and Major Customers

The Company's staff of 37 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 80% of the Company's total sales for the fiscal year ended June 30, 1999. 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 one customer unaffiliated with the Company accounted for approximately 27%, 23% and 21% of the Company's total sales for the fiscal years ended June 30, 1999, 1998 and 1997, respectively (see Note 9 to Consolidated Financial Statements). The loss of this customer 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 recent 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 Sales Backlog

The Company prepares specifications for component parts used in the Products and purchases the components from outside sources or fabricates the components 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 sales backlog of approximately \$918,500 existed as of June 30, 1999. This compared to a sales backlog of approximately \$1,240,000 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 and Trademarks

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 or trademarks.

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)

	1999 ----	1998 ----	1997 ----
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$50,573	\$50,269	\$53,302
Foreign	0	0	0
Identifiable assets:			
United States	\$33,067	\$39,783	\$41,242
Foreign	22,720	18,780	16,002
Export sales:			
United States(2)	\$10,713	\$12,101	\$10,355

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 completed construction on this facility in 1988 with the proceeds from industrial revenue bonds that have since been retired.

The Company's foreign subsidiary, NAPCO/Alarm Lock Grupo International, S.A. (formerly known as 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. As of June 30, 1999, most of the Company's sales related to labor on assemblies, goods and subassemblies produced 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.

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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 1999 included sales of approximately \$6,730,000, \$869,000, \$1,653,000 and \$1,461,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 1998 included sales of approximately \$6,966,000, \$1,070,000, \$2,094,000, and \$1,971,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 1997 included sales of approximately \$6,046,000, \$1,608,000, \$1,127,000, and \$1,574,000 to Europe, North America, South America and other areas, respectively.

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 August 1995, the Internal Revenue Service (the "IRS") informed the Company that it had completed the audit of the Company's Federal tax returns for fiscal years 1986 through 1993. The IRS had 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 IRS related to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagreed with the IRS and began the process of vigorously appealing this assessment using all remedies and procedural actions available under the law. The Company had provided a reserve to reflect its estimate of the ultimate resolution of this matter, so that the outcome of this matter would not have a material adverse effect on the Company's consolidated financial statements.

During fiscal 1998, the Company continued to discuss the assessment with the IRS Appeals Office and in July 1998 received a revised audit report, which was subject to final government administrative approval, and which reduced the original assessment for the years covered by the IRS audit. The Company accepted the revised audit report and the final government approval was pending as of June 30, 1998. Accordingly, the Company determined that \$900,000 of previously recorded reserves should be reversed through the 1998 income tax provision to reflect the expected final settlement with respect to this IRS audit.

In fiscal 1999, the Company received the final government approval on the IRS audit related to fiscal years 1986 through 1993. In addition, the IRS completed its audits of fiscal years 1994 through 1997. As a result of the favorable outcome from the audits, the Company reversed an additional \$1,896,000 of previously recorded reserves through the income tax provision in fiscal 1999.

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 1999			
	Sept. 30	Dec. 31	March 31	June 30
	-----	-----	-----	-----
Common Stock				
High	\$5.88	\$4.63	\$4.38	\$4.13
Low	\$4.00	\$4.00	\$2.56	\$2.50

	Quarter Ended			

	Fiscal 1998			
	Sept. 30	Dec. 31	March 31	June 30
	-----	-----	-----	-----
Common Stock				
High	\$6.88	\$6.75	\$6.25	\$8.25
Low	\$3.75	\$5.50	\$5.25	\$4.75

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 16, 1999 was 196 (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

	Years Ended June 30				
	1999	1998	1997	1996	1995
	(in thousands, except for per share data)				
Operations					
Net Sales	\$ 50,573	\$ 50,269	\$ 53,302	\$ 49,088	\$ 48,078
Gross Profit	12,059	11,785	12,778	11,302	11,325
(Benefit) Provision for Income Taxes	(1,925)	(525)	605	515	532
Net Income	2,493	2,038	1,639	1,014	512
Earnings per Share:					
Basic	.71	.48	.38	.23	.12
Diluted	.71	.48	.37	.23	.12
Cash Dividends per Share(3)	0	0	0	0	0

	As of June 30				
	1999	1998	1997	1996	1995
	(in thousands, except for per share data)				
Financial Condition					
Total Assets	\$55,787	\$58,563	\$57,244	\$57,319	\$55,739
Long-term Debt	17,241	18,644	13,313	14,150	15,275
Working Capital	34,920	33,942	30,136	28,676	28,660
Stockholders' Equity	31,328	28,833	31,218	29,574	28,560
Stockholders' Equity Per Outstanding Share	8.98	8.26	7.14	6.77	6.54

(3) 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.

Quarterly Results and Seasonality

The following table sets forth unaudited financial data for each of the Company's last eight fiscal quarters (in thousands except for per share data):

	Year Ended June 30, 1999			
	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
Net Sales	\$11,090	\$10,860	\$11,672	\$16,951
Gross Profit	2,708	2,601	2,722	4,028
Income from Operations	480	106	(525)	1,850
Net Income	272	132	343	1,746
Net Income Per Share				
Basic	.08	.04	.10	.49
Diluted	.08	.04	.10	.49

	Year Ended June 30, 1998			
	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
Net Sales	\$12,253	\$11,411	\$12,023	\$14,582
Gross Profit	3,172	2,798	2,822	2,993
Income from Operations	809	552	545	590
Net Income	382	206	121	1,329
Net Income Per Share				
Basic	.09	.05	.03	.31
Diluted	.09	.05	.03	.31

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 1999 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 a \$16,000,000 secured revolving credit facility. 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 generated from operations. As of June 30, 1999, the Company's unused sources of funds consisted principally of \$2,230,000 in cash and approximately \$1,487,000, which represents the unused portion of its secured revolving credit facility.

In fiscal 1988, the Company completed construction of a new manufacturing and administrative facility in Amityville, New York 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. The bonds had a maturity date of April 1, 2000, subject to quarterly sinking fund payments. Such bonds were retired in May 1997 as part of the Company's debt refinancing with its new primary bank as discussed below.

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

On May 13, 1997, the Company refinanced the majority of its bank debt with a new primary bank and entered into a \$16,000,000 secured revolving credit agreement and a \$3,000,000 line of credit to be used in connection with commercial and standby letters of credit, and replaced the \$2,500,000 standby letter of credit securing an earlier loan from another bank in connection with the Company's international operations. The Company restructured its debt to allow for future growth and expansion as well as to obtain terms more favorable to the Company. As part of the debt restructuring, the Company retired the outstanding industrial revenue bonds relating to the financing of the construction of the Company's Amityville, New York facility. The revolving credit agreement will expire in November 2000 and any outstanding borrowings are to be repaid on or before that time.

In addition, a subsidiary of the Company maintains a \$4,500,000 line of credit with another bank, \$450,000 of which was outstanding as of June 30, 1999 (see Note 5 to Consolidated Financial Statements).

In May of 1998 the Company repurchased 889,576 shares of Napco common stock for \$5.00 per share from one of its co-founders, Kenneth Rosenberg. \$2.5 million was paid at closing with the balance of the purchase price to be paid over a four (4) year period pursuant to an interest-bearing note. The portion of the purchase price paid at closing was financed by the Company's primary bank and is to be repaid over a five (5) year period. At the closing, Mr. Rosenberg retired as President and Director of the Company but will be available to the Company pursuant to a consulting agreement. The repurchase agreement also provides that Mr. Rosenberg will not compete with the Company for a ten (10) year period.

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

	1999 ----	1998 ----	1997 ----
Current Ratio	6.2 to 1	4.3 to 1	3.5 to 1
Sales to Receivables	3.1 to 1	3.4 to 1	3.8 to 1
Total Debt to Equity	.8 to 1	1.0 to 1	.8 to 1

As of June 30, 1999, the Company had no material commitments for purchases or capital expenditures.

Working Capital. Working capital increased by \$978,000 to \$34,920,000 at June 30, 1999 from \$33,942,000 at June 30, 1998. The additional working capital was generated primarily from the increase in accounts receivable and the decrease in Income Taxes Payable resulting from the benefit from income taxes, which was partially offset by the Company's reduction in its inventory, all as discussed below.

Accounts Receivable. Accounts receivable increased by \$1,686,000 to \$16,446,000 at June 30, 1999 from \$14,760,000 at June 30, 1998. This increase resulted primarily from the 16% increase in sales during the fourth quarter as compared to the fourth quarter in fiscal 1998.

Inventory. Inventory was reduced by \$3,943,000 to \$21,495,000 at June 30, 1999 as compared to \$25,438,000 at June 30, 1998. The Company generated a significant reduction in its inventory during the year ended June 30, 1999 due in part to its efforts at improving various planning and forecasting techniques as well as the high sales levels achieved in the fourth quarter of fiscal 1999.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses decreased by \$408,000 to \$4,479,000 at June 30, 1999 from \$4,887,000 at June 30, 1998. This decrease was due primarily to the decrease in component part purchases, which was a direct result of the improved planning and forecasting as discussed above.

Results of Operations

Fiscal 1999 Compared to Fiscal 1998

Net Sales. Net sales in fiscal 1999 increased by 1% to \$50,573,000 from \$50,269,000 in fiscal 1998. The Company achieved this sales level in fiscal 1999 mainly through the increased sales in the fourth quarter as compared to the same quarter of fiscal 1998. Sales in the fourth quarter of fiscal 1999 were \$16,951,000 as compared to \$14,582,000 in 1998. This increase was due primarily to a significant increase in the demand of the Company's door locking products as well as increased orders from a major customer who returned to a more normal inventory position of the Company's products after tightening these levels during their acquisition of another company. These increases more than offset the decrease in sales during the first three quarters of fiscal 1999 which were affected, in part, by the major customer as discussed above.

Gross Profit. The Company's gross profit increased \$274,000 to \$12,059,000 or 23.8% of net sales in fiscal 1999 as compared to \$11,785,000 or 23.4% of net sales in fiscal 1998. The increase in gross profit margin was primarily due to the company's improvement in its component costs.

Expenses. Selling, general and administrative expenses in fiscal 1999 increased 9% to \$10,148,000 or 20% of net sales from \$9,289,000 or 19% of net sales in fiscal 1998. This increase is primarily due to the increased selling and marketing expenses relating to the increased sales of the Company's door security products as well as the introduction of the Company's new fire and access control products.

Other Expenses. Other Expenses in fiscal 1999 increased by \$360,000 to \$1,343,000 as compared to \$983,000 in fiscal 1998. This increase was primarily due to increased interest expense resulting from increased borrowings related to the repurchase of common shares at the end of fiscal 1998.

Income Taxes. The benefit for income taxes increased \$1,400,000 to a benefit of \$1,925,000 during fiscal 1999. This compared to a benefit of \$525,000 during fiscal 1998. The increase in the benefit for fiscal 1999 is primarily attributable to the favorable outcome of the IRS audits of fiscal years 1986 through 1997 and the resulting impact on related reserve requirements.

Effects of Inflation. During the three-year period ended June 30, 1999, inflation and changing prices did not have a significant impact on the Company's operations.

Fiscal 1998 Compared to Fiscal 1997

Net Sales. Net sales in fiscal 1998 decreased approximately \$3,033,000 or 5.7% to \$50,269,000 from \$53,302,000 in fiscal 1997. This decrease was primarily the result of pricing pressures and the decreased sales to one major customer, as previously disclosed. These decreases were offset, in part, by increased export sales as well as the markets continued favorable reception of the Company's hybrid hard-wired/wireless products and digital locks.

Gross Profit. The Company's gross profit decreased \$993,000 to \$11,785,000 or 23.4% of net sales in fiscal 1998 as compared to \$12,778,000 or 24.0% of net sales in fiscal 1997. The decrease in gross profit was primarily due to the pricing pressures and reduction in net sales as discussed above as partially offset by reduced material and freight costs.

Expenses. Selling, general and administrative expenses in fiscal 1998 increased slightly to \$9,289,000 or 18.5% of net sales from \$9,133,000 or 17.1% of net sales in fiscal 1997. This increase was primarily due to the Company's expansion of its international sales operations and related informational systems as partially offset by continuing cost saving efforts.

Other Expenses. Other Expenses in fiscal 1998 decreased by \$418,000 to \$983,000 as compared to \$1,401,000 in fiscal 1997. This decrease was primarily due to decreased interest expense resulting from more favorable interest rates available to the Company as well as more favorable foreign currency transaction rates realized by the Company during the year as partially offset by increased borrowings.

Income Taxes. Provision for income taxes decreased \$1,130,000 to a benefit of \$525,000 during fiscal 1998. This compared to a provision of \$605,000 or approximately 27% of income before provision for income taxes during fiscal 1997. The decrease in the provision for fiscal 1998 was primarily attributable to the reversal of \$900,000 of reserves no longer required with respect to an IRS audit of fiscal years 1986 through 1993.

Effects of Inflation. During the three-year period ended June 30, 1998, inflation and changing prices did not have a significant impact on the Company's operations.

By-Laws

The Board of Directors amended the Company's By-Law provision on indemnification of officers and directors to make it more detailed as to the circumstances for such indemnification and the Company entered into an Indemnification Agreement with the directors.

Year 2000 Date Conversion

As the century turns from 1900 to 2000, date-sensitive systems may recognize the year 2000 as 1900 or not at all. This results primarily because of the conventional use of a two- digit date field in most software applications. The inability to properly recognize the year 2000 may cause systems to process financial and operational information incorrectly.

The Company believes that virtually all of the Company's systems are now fully compliant. Due to the fact that the Company's primary software supplier includes the year 2000 upgrade as part of its ongoing maintenance, the Company expects to expend a minimal amount of its resources in this area.

Although the Company expects its critical systems to be compliant, there is no guarantee that these results will be achieved. Specific factors that give rise to this uncertainty include a possible failure to identify all susceptible systems, noncompliance by third parties whose systems and operations impact the Company, and other similar uncertainties.

In addition to internal Year 2000 remediation activities, the Company is in contact with key suppliers and customers to reduce the likelihood of any significant interruption in the business between the Company and these important third parties relating to the Year 2000

issue. A comprehensive survey of all vendors and customers has not been made and is not presently planned. The Company's efforts thus far have been focused on key vendors and customers. If these third parties do not convert their systems in a timely manner and in a way that is compatible with the Company's systems, the year 2000 issue could have a material adverse effect on the Company's operations. The Company believes that its actions with key suppliers and customers will minimize these risks. The vast majority of the Company's products are not date-sensitive. The Company has collected information on current and discontinued date-sensitive products.

At this time, the Company does not have in place a comprehensive, global contingency plan relative to potential Year 2000 disruptions. Rather, each significant system with a potential problem either has been repaired and tested or is being updated. Contingency plans for certain types of unforeseen problems are being developed.

Item 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal financial instrument is long-term debt (consisting of a revolving credit and term loan facility) that provides for interest at a spread above the prime rate. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under this credit facility. A significant rise in the prime rate could materially adversely affect the Company's business, financial condition and results of operations. At June 30, 1999, an aggregate principal amount of approximately \$15,000,000 was outstanding under the Company's credit facility and term loan with a weighted average interest rate of 6.5%. If principal amounts outstanding under the Company's credit facility remained at this year-end level for an entire year and the prime rate increased or decreased, respectively, by 1.25% the Company would pay or save, respectively, an additional \$187,500 in interest that year. The Company does not utilize derivative financial instruments to hedge against changes in interest rates or for any other purpose.

Where appropriate, the Company requires that letters of credit be provided on foreign sales. In addition, a significant number of transactions by the Company are denominated in U.S. dollars. As such, the Company has shifted foreign currency exposure onto its foreign customers. As a result, if exchange rates move against foreign customers, the Company could experience difficulty collecting unsecured accounts receivable, the cancellation of existing orders or the loss of future orders. The foregoing could materially adversely affect the Company's business, financial condition and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

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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, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1999 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.

/s/ ARTHUR ANDERSEN LLP

Melville, New York
September 22, 1999

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 1999 AND 1998

ASSETS	1999	1998
	-----	-----
	(in thousands, except share data)	
CURRENT ASSETS:		
Cash	\$ 2,230	\$ 1,989
Accounts receivable, less reserve for doubtful accounts of \$887 and \$755, respectively	16,446	14,760
Inventories	21,495	25,438
Prepaid expenses and other current assets	809	674
Deferred income taxes	716	1,292
	-----	-----
Total current assets	41,696	44,153
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization of approximately \$12,316 and \$11,055, respectively	11,280	11,491
GOODWILL, net of accumulated amortization of approximately \$1,256 and \$1,149, respectively	2,485	2,592
OTHER ASSETS	326	327
	-----	-----
	\$ 55,787	\$ 58,563
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,433	\$ 1,667
Accounts payable	3,651	3,862
Accrued expenses	828	1,025
Accrued salaries and wages	754	653
Accrued income taxes	110	3,004
	-----	-----
Total current liabilities	6,776	10,211
LONG-TERM DEBT	17,241	18,644
DEFERRED INCOME TAXES	442	875
	-----	-----
Total liabilities	24,459	29,730
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; 21,000,000 shares authorized; 5,908,602 and 5,908,102 shares issued, respectively; 3,490,151 and 3,489,651 shares outstanding, respectively	59	59
Additional paid-in capital	751	749
Retained earnings	34,967	32,474
Less: Treasury stock, at cost (2,418,451 shares)	(4,449)	(4,449)
	-----	-----
Total stockholders' equity	31,328	28,833
	-----	-----
	\$ 55,787	\$ 58,563
	=====	=====

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, 1999, 1998 AND 1997

	1999 ----- (in thousands, except share and per share data)	1998 ----- (in thousands, except share and per share data)	1997 ----- (in thousands, except share and per share data)
NET SALES	\$ 50,573	\$ 50,269	\$ 53,302
COST OF SALES	38,514 -----	38,484 -----	40,524 -----
Gross profit	12,059	11,785	12,778
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,148 -----	9,289 -----	9,133 -----
Operating income	1,911 -----	2,496 -----	3,645 -----
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,359)	(1,130)	(1,081)
Other, net	16 -----	147 -----	(320) -----
	(1,343) -----	(983) -----	(1,401) -----
Income before (benefit) provision for income taxes	568	1,513	2,244
(BENEFIT) PROVISION FOR INCOME TAXES	(1,925) -----	(525) -----	605 -----
Net income	\$ 2,493 =====	\$ 2,038 =====	\$ 1,639 =====
EARNINGS PER SHARE (Note 1):			
Basic	\$.71 =====	\$.48 =====	\$.38 =====
Diluted	\$.71 =====	\$.48 =====	\$.37 =====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 1):			
Basic	3,493,000 =====	4,263,000 =====	4,369,000 =====
Diluted	3,512,000 =====	4,285,000 =====	4,383,000 =====

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, 1999, 1998 AND 1997
(in thousands except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	Number of Shares	Amount				
BALANCE AT JUNE 30, 1996	5,896,602	\$ 59	\$ 719	\$ 28,797	\$ (1)	\$ 29,574
Exercise of employee stock options	2,000	-	5	-	-	5
Net income	-	-	-	1,639	-	1,639
BALANCE AT JUNE 30, 1997	5,898,602	59	724	30,436	(1)	31,218
Purchase of treasury stock	-	-	-	-	(4,448)	(4,448)
Exercise of employee stock options	9,500	-	25	-	-	25
Net income	-	-	-	2,038	-	2,038
BALANCE AT JUNE 30, 1998	5,908,102	59	749	32,474	(4,449)	28,833
Purchase of treasury stock	-	-	-	-	-	-
Exercise of employee stock options	500	-	2	-	-	2
Net income	-	-	-	2,493	-	2,493
BALANCE AT JUNE 30, 1999	5,908,602	\$ 59	\$ 751	\$ 34,967	\$ (4,449)	\$ 31,328
	=====	=====	=====	=====	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1999, 1998 AND 1997

	1999 -----	1998 ----- (in thousands)	1997 -----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,493	\$ 2,038	\$ 1,639
Adjustments to reconcile net income to net cash provided by (used in) operating activities-			
Depreciation and amortization	1,368	1,289	1,440
Provision for doubtful accounts	230	50	55
Deferred income taxes	143	(259)	(11)
Changes in operating assets and liabilities resulting from increases and decreases in:			
Accounts receivable	(1,916)	(873)	(233)
Inventories	3,943	264	242
Prepaid expenses and other current assets	(135)	(284)	99
Other assets	1	109	(105)
Accounts payable, accrued expenses, accrued salaries and wages and accrued income taxes	(3,201)	(2,441)	(368)
Net cash provided by (used in) operating activities	2,926	(107)	2,758
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net purchases of property, plant and equipment	(1,050)	(585)	(746)
Net cash used in investing activities	(1,050)	(585)	(746)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from notes payable to bank	-	2,500	-
Principal payments on long-term debt	(1,637)	(900)	(13,400)
Proceeds from long-term debt	-	2,550	11,963
Purchase of treasury stock	-	(2,500)	-
Proceeds from exercise of employee stock options	2	25	5
Net cash (used in) provided by financing activities	(1,635)	1,675	(1,432)
NET INCREASE IN CASH	241	983	580
CASH, beginning of year	1,989	1,006	426
CASH, end of year	\$ 2,230 =====	\$ 1,989 =====	\$ 1,006 =====
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ 1,301 =====	\$ 1,289 =====	\$ 1,076 =====
Income taxes paid	\$ 259 =====	\$ 108 =====	\$ 35 =====
NON-CASH FINANCING ACTIVITIES:			
Issuance of note payable for purchase of treasury stock	\$ - =====	\$ 1,948 =====	\$ - =====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999, 1998 AND 1997

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 alarm products and door 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 first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment is recorded 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. Subsequent to an acquisition, the Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of the goodwill may warrant revision or that the remaining balance may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the undiscounted cash flows over the remaining life of the goodwill in measuring whether it is recoverable. In the years ended June 30, 1999, 1998 and 1997, there were no adjustments to the carrying value of goodwill, other than the straight-line amortization.

Revenue Recognition

Revenue is recognized upon shipment of the Company's products to its customers. The Company reports its sales levels on a net sales basis, with net sales being computed by deducting from gross sales the amount of actual sales returns and the amount of reserves established for anticipated sales returns.

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 in the Dominican Republic 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 totaling \$2,031,000 must be reported as taxable income over a ten-year period in the Company's tax returns, starting with the June 30, 1992 tax year.

The Company does not provide for income taxes on the undistributed earnings of its foreign subsidiary in the Dominican Republic 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, 1999 and 1998, approximately \$19,369,000 and \$19,085,000 in cumulative earnings of this foreign subsidiary are included in consolidated retained earnings.

Earnings Per Share

The Company accounts for Earnings Per Share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". This statement establishes standards for computing and presenting earnings per share ("EPS"), replacing the presentation of currently required primary EPS with a presentation of Basic EPS. For entities with complex capital structures, the statement requires the dual presentation of both Basic EPS and Diluted EPS on the face of the statement of income. Under this new standard, Basic EPS is computed based on weighted average shares outstanding and excludes any potential dilution; Diluted EPS reflects potential dilution from the exercise or conversion of securities into common stock or from other contracts to issue common stock and is similar to the currently-required fully diluted EPS. SFAS No. 128 is effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and earlier application is not permitted.

A reconciliation between the numerators and denominators of the Basic and Diluted EPS computations for net income is as follows:

	Net Income - Numerator			Shares - Denominator			Per Share Amounts		
	1999	1998	1997	1999	1998	1997	1999	1998	1997
	----	----	----	----	----	----	----	----	----
Net income	\$2,493	\$2,038	\$1,639	--	--	--	\$ --	\$ --	\$ --
Basic EPS									
Net income attributable to common stock	2,493	2,038	1,639	3,493	4,263	4,369	0.71	0.48	0.38
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Effect of Dilutive Securities									
Options	--	--	--	19	22	14	--	--	(0.01)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Diluted EPS									
Net income attributable to common stock and assumed option exercises	\$2,493	\$2,038	\$1,639	3,512	4,285	4,383	\$ 0.71	\$ 0.48	\$ 0.37
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Options to purchase 10,620, 4,400 and 4,200 shares of common stock for the three years ended June 30, 1999, respectively, were not included in the computation of diluted EPS because the exercise prices exceeded the average market price of the common shares for the respective periods because their inclusion would be antidilutive. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of SFAS No. 123 "Accounting for Stock-Based Compensation". The Company adopted this standard in fiscal 1997, and has elected to continue the accounting set forth in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and to provide the necessary pro-forma disclosures (Note 6).

Comprehensive Income

In the first quarter of 1999, the Company adopted SFAS No. 130 "Reporting Comprehensive Income," which establishes new rules for the reporting of comprehensive income and its components. The adoption of this statement had no impact on the Company's net income or stockholders' equity. For the fiscal years ended 1999, 1998 and 1997, the Company's operations did not give rise to items includable in comprehensive income which were not already included in net income. Therefore, the Company's comprehensive income is the same as its net income for all periods presented.

Segment Reporting

Effective June 30, 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Pursuant to this pronouncement, the reportable operating segments are determined based on the Company's management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision maker organizes the segments within an enterprise for making operating decisions and assessing performance. The Company's results of operations are reviewed by the chief operating decision maker on a consolidated basis and the Company operates in only one segment. The company has presented required geographical segment data in Note 11, and no additional segment data has been presented.

Fair Value of Financial Instruments

The Company calculates the fair value of financial instruments and includes this additional information in the notes to financial statements where the fair value is different than the book value of those financial instruments. When the fair value approximates book value, no additional disclosure is made. The Company uses quoted market prices whenever available to calculate these fair values. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments which take into account the present value of estimated future cash flows. At June 30, 1999, management of the Company believes the carrying value of all financial instruments approximated fair value.

2. INVENTORIES:

Inventories consist of the following:

	June 30, -----	
	1999	1998
	(in thousands)	
Component parts	\$10,093	\$10,200
Work-in-process	4,954	4,056
Finished products	6,448	11,182
	-----	-----
	\$21,495	\$25,438
	=====	=====

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consists of the following:

	June 30, 1999 1998 (in thousands)		Depreciation/ amortization- annual rates
Land	\$ 904	\$ 904	--
Building	8,911	8,911	3%
Molds and dies	3,180	2,819	20% to 33%
Furniture and fixtures	964	912	10% to 20%
Machinery and equipment	9,581	8,944	10% to 15%
Leasehold improvements	56	56	Shorter of the lease term or life of asset
	-----	-----	
	23,596	22,546	
Less: Accumulated depreciation and amortization	12,316	11,055	
	-----	-----	
	\$11,280	\$11,491	
	=====	=====	

Depreciation and amortization expense on property, plant and equipment was approximately \$1,261,000, \$1,182,000 and \$1,332,000 for the three years ended June 30, 1999, respectively.

4. INCOME TAXES:

In August 1995, the Internal Revenue Service (the "IRS") informed the Company that it had completed the audit of the Company's Federal tax returns for fiscal years 1986 through 1993. The IRS had 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 IRS related to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagreed with the IRS and began the process of vigorously appealing this assessment using all remedies and procedural actions available under the law. The Company had provided a reserve to reflect its estimate of the ultimate resolution of this matter, so that the outcome of this matter would not have a material adverse effect on the Company's consolidated financial statements.

During fiscal 1998, the Company continued to discuss the assessment with the IRS Appeals Office and in July 1998 received a revised audit report, that was subject to final government administrative approval, and which reduced the original assessment for the years covered by the IRS audit. The Company accepted the revised audit report and the final government approval was pending as of June 30, 1998. Accordingly, the Company determined that \$900,000 of previously recorded reserves should be reversed through the 1998 income tax provision to reflect the expected final settlement with respect to this IRS audit.

In fiscal 1999, the Company received the final government approval on the IRS audit related to fiscal years 1986 through 1993. In addition, the IRS completed its audits of fiscal years 1994 through 1997. As a result of the favorable outcome from the audits, the Company reversed an additional \$1,896,000 of previously recorded reserves through the income tax provision in fiscal 1999.

(Benefit) provision for income taxes consists of the following:

	For the Years Ended June 30,		
	1999	1998	1997
	----	----	----
	(in thousands)		
Taxes currently payable:			
Federal	\$(2,271)	\$ (210)	\$ 340
State	(4)	(56)	120
	-----	-----	-----
	(2,275)	(266)	460
Taxes on DISC earnings and other	--	--	156
Deferred income tax (benefit) provision	350	(259)	(11)
	-----	-----	-----
(Benefit) provision for income taxes	\$(1,925)	\$ (525)	\$ 605
	=====	=====	=====

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

	1999		1998		1997	
	Amount	% of Pre-tax Income (in thousands, except percentages)	Amount	% of pre-tax Income	Amount	% of pre-tax Income
Tax at Federal statutory rate	\$ 193	34%	\$ 514	34.0%	\$ 763	34.0%
Increases (decreases) in taxes resulting from:						
State income taxes, net of Federal income tax benefit	(2)	(0.4)	38	2.5	96	4.3
Amortization of non-deductible goodwill	36	6.3	36	2.4	36	1.6
Non-taxable foreign source income	(362)	(63.7)	(257)	(17.0)	(382)	(17.0)
Adjustment to reflect IRS settlement	(1,896)	(333.8)	(900)	(59.5)	--	--
Other, net	106	18.7	44	2.9	92	4.1
	-----	-----	-----	-----	-----	-----
(Benefit) provision for income taxes	<u>\$ (1,925)</u>	<u>(338.9)%</u>	<u>\$ (525)</u>	<u>(34.7)%</u>	<u>\$ 605</u>	<u>27.0%</u>
	=====	=====	=====	=====	=====	=====

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 domestic income tax.

Deferred tax assets and deferred tax liabilities at June 30, 1999 and 1998 are as follows (in thousands):

	Deferred Tax Assets		Deferred Tax Liabilities		Net Deferred Tax Assets (Liabilities)	
	1999	1998	1999	1998	1999	1998
	----	----	----	----	----	----
Current:						
Accounts receivable	\$ 255	\$ 314	\$ -	\$ -	\$ 255	\$ 314
Inventories	392	902	-	-	392	902
Accrued liabilities	93	194	-	-	93	194
Other	15	29	39	147	(24)	(118)
	-----	-----	-----	-----	-----	-----
	755	1,439	39	147	716	1,292
Noncurrent:						
Fixed assets	-	-	442	875	(442)	(875)
	-----	-----	-----	-----	-----	-----
Total deferred taxes	<u>\$ 755</u>	<u>\$ 1,439</u>	<u>\$ 481</u>	<u>\$ 1,022</u>	<u>\$ 274</u>	<u>\$ 417</u>
	=====	=====	=====	=====	=====	=====

As a result of the Company's U.S. operations generating income in each of the three years in the period ended June 30, 1999, management believes it is more likely than not that the Company will realize the benefit of the net deferred tax assets existing at June 30, 1999 and 1998. Accordingly, the Company has not reflected any valuation allowance against the deferred tax assets at June 30, 1999 and 1998. 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.

5. LONG-TERM DEBT:

Long-term debt consists of the following:

	June 30,	
	1999	1998
	(in thousands)	
Revolving credit and term loan facility (a)	\$ 14,513	\$ 14,513
Notes payable (b)	4,161	5,798
	-----	-----
	18,674	20,311
Less: Current portion	1,433	1,667
	-----	-----
	\$ 17,241	\$ 18,644
	=====	=====

(a) On May 13, 1997, the Company refinanced the majority of its bank debt with a new primary bank and entered into a \$16,000,000 secured revolving credit agreement and a \$3,000,000 line of credit to be used in connection with commercial and standby letters of credit, and replaced the \$2,500,000 standby letter of credit securing an earlier loan from another bank in connection with the Company's international operations. The revolving credit agreement and the letters of credit are secured by all the accounts receivable, inventory and certain other assets of Napco Security Systems, Inc., a first and second mortgage on the Company's headquarters in Amityville, New York and common stock of two of the Company's subsidiaries. The revolving credit agreement bears interest at either the bank's prime rate (7.75% at June 30, 1999) or an alternate rate based on LIBOR as described in the agreement. As part of the debt restructuring, the Company retired the outstanding Industrial Revenue Bonds relating to the financing of the construction of the Company's Amityville, New York facility. The revolving credit agreement will expire in November 2000 and any outstanding borrowings are to be repaid on or before that time. 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, 1999, the Company was in compliance with all of these financial covenants.

(b) In November 1991, a subsidiary of the Company entered into a \$4,500,000 line of credit agreement with a 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, 1999 and 1998, the amounts outstanding (\$450,000 and \$1,350,000, respectively) bore interest at rates of 5.57% and 6.19%, 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. In May 1997, the Company entered into an agreement with its primary bank to replace a previous \$2,500,000 standby letter of credit agreement which expired in February 1997 with a new \$2,500,000 standby letter of credit, as described above, for the purpose of providing additional collateral for the line of credit agreement.

In connection with the stock purchase agreement described in Note 7, the Company entered into a term-loan facility in May 1998 with its primary bank for a \$2,500,000 term loan. Under the terms of the note, the loan is to be repaid in 60 equal monthly installments of \$41,667, plus interest at 7.94%, beginning on July 1, 1998.

In addition, the Company issued a four-year term loan in the amount of \$1,947,880 to its former president in connection with the stock purchase agreement. This note bears interest at 8% and calls for payments to begin in April 1999, with a final maturity June 2003.

Maturities of long-term debt are as follows (in thousands):

Year Ending June 30,

2000	\$ 1,433
2001	15,571
2002	1,116
2003	554

	\$ 18,674
	=====

6. STOCK OPTIONS:

In November 1992, the stockholders approved a 10-year extension of the already existing 1982 Incentive Stock Option Plan (the "1992 Plan"). The 1992 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of approximately 815,000 shares of the Company's common stock to be acquired by the holders of such awards. Under the 1992 Plan, the Company may grant stock options, which are intended to qualify as incentive stock options ("ISOs"), to key employees, officers, and employee directors. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant and the option must be exercised within five years from the date of grant. Under the 1992 Plan, stock options have been granted to employees and directors for terms of up to 5 years at an exercise price equal to the fair market on the date of grant and are exercisable in whole or in part at 20% per year from the date of grant. At June 30, 1999, 138,750 stock options granted to employees and directors were exercisable. The Company accounts for awards granted to employees, directors and key employees under APB Opinion No. 25, under which compensation cost is recognized for stock options granted at an exercise price less than the market value of the options on the grant date. Had compensation cost for all stock option grants in fiscal years 1999, 1998 and 1997 been determined consistent with SFAS No.

123, the Company's net income and earnings per share would have been:

		1999	1998	1997
		----	----	----
		(in thousands, except for per share data)		
NET INCOME:	As reported	\$ 2,493	\$ 2,038	\$ 1,639
	Pro forma	2,279	1,901	1,629
BASIC EPS:	As reported	\$ 0.71	\$ 0.48	\$ 0.38
	Pro forma	0.65	0.45	0.37
DILUTED EPS:	As reported	\$ 0.71	\$ 0.48	\$ 0.37
	Pro forma	0.65	0.44	0.37

The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to option awards granted prior to fiscal year 1996.

The following table reflects activity under the plan for the years ended:

	June 30,					
	1999		1998		1997	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	236,250	\$3.91	75,750	\$3.08	76,000	\$3.02
Granted	251,600	3.12	209,000	4.11	3,250	3.59
Exercised	(500)	3.88	(9,500)	2.61	(2,000)	2.25
Forfeited	(35,500)	4.66	(34,500)	3.76	-	-
Canceled/Lapsed	(13,750)	4.28	(4,500)	2.97	(1,500)	2.25
	-----	----	-----	----	-----	----
Outstanding at end of year	438,100	3.39	236,250	3.91	75,750	3.08
	=====		=====		=====	
Exercisable at end of year	138,570	3.40	72,800	3.71	46,750	3.21
	=====		=====		=====	
Weighted average fair value of options granted	\$4.25		\$3.04		\$1.76	

The fair value of each stock option grant is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1999	1998	1997
	----	----	----
Risk-Free Interest Rates	5.22%	6.10%	5.99%
Expected Lives	5 years	5 years	5 years
Expected Volatility	45%	46%	47%
Expected Dividend Yields	0%	0%	0%

The following table summarizes information about stock options outstanding at June 30, 1999:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 6/30/99	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 6/30/99	Weighted Average Exercise Price
-----	-----	-----	-----	-----	-----
\$ 2.50 - \$ 3.75	261,000	4.23	\$2.97	72,350	\$2.85
3.76 - 5.63	177,100	3.23	4.00	66,220	4.00
	-----	----	----	-----	-----
2.50 - 5.63	438,100	3.82	3.39	138,570	3.40
	=====	=====	=====	=====	=====

Effective October 1990, the Company established a non-employee stock option plan (the "1990 Plan") to encourage non-employee directors and consultants of the Company to invest in the Company's stock. The 1990 Plan provides for the granting of non-qualified stock options, the exercise of which would allow up to an aggregate of 50,000 shares of the Company's common stock to be acquired by the holders of the stock options. The 1990 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. The Company has adopted SFAS No. 123 to account for stock-based compensation awards granted to non-employee consultants, under which a compensation cost is recognized for the fair value of the options granted as of the date of grant. As of June 30, 1999, no shares have been granted under this plan.

7. STOCK PURCHASE:

On May 28, 1998, the Company entered into a stock purchase agreement with its former president, which called for the purchase by the Company of all the shares of the Company's common stock held by the former president (889,576 shares) at a price of \$5 per share, in connection with the former president's retirement. The agreement also contained a consulting and non-compete agreement for a period of ten years each. Upon closing, \$2,500,000 of the purchase price was paid to the former president with the proceeds of the term loan discussed in Note 5 (b). The remaining purchase price is to be paid over a 4 year period according to the terms of a note issue to the former president. The common stock purchased is included in treasury stock as of June 30, 1999.

8. 401(k) PLAN:

The Company maintains 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 \$54,000, \$53,000 and \$47,000 for the three years ended June 30, 1999, respectively.

9. BUSINESS AND CREDIT CONCENTRATIONS:

The Company is engaged in one major line of business - the development, manufacture and distribution of security alarm products and door security devices for commercial and residential use. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America, Europe and South America. Identifiable assets (net of intercompany receivables and payables) relating to the Company's foreign subsidiaries were approximately \$22,720,000 and \$18,780,000 at June 30, 1999 and 1998, respectively.

Export sales amounted to \$10,713,000, \$12,101,000 and \$10,355,000 for the three years ended June 30, 1999, respectively.

At June 30, 1999, the Company had two customers (Customer A and B) with accounts receivable balances that aggregated 49% of the Company's accounts receivable. At June 30, 1998, the Company had two customers (Customer A and C) with accounts receivable balances that aggregated 36% of the Company's accounts receivable. The Company had one customer that accounted for 27%, 23% and 21% of the Company's net sales in fiscal 1999, 1998 and 1997, respectively. During the past three fiscal years no other customer represented more than 10% of the Company's net sales.

10. 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,

2000	\$	371
2001		165
2002		70
2003		45
Thereafter		15

Rent expense totaled approximately \$805,000, \$866,000 and \$736,000 for the three years ended June 30, 1999, respectively.

Land Lease

On April 26, 1993, one of the Company's foreign subsidiaries entered into a 99 year lease for approximately four acres of land in the Dominican Republic, at an annual cost of approximately \$272,000, on which the Company's main production facility is located.

Letters of Credit

At June 30, 1999, the Company was committed for approximately \$576,000 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.

11. SEGMENT DATA:

As described in Note 1, effective June 30, 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." While the company's results of operations are primarily reviewed on a consolidated basis, the chief operating decision maker also manages the enterprise in two geographic segments: (i) United States (ii) Foreign. The following represents selected consolidated financial information for the Company's segments for the fiscal years ended June 30, 1999, 1998 and 1997:

	1999 ----	1998 ----	1997 ----
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$50,573	50,269	53,302
Foreign (see Note 9)	0	0	0
Identifiable assets:			
United States	33,067	39,783	41,242
Foreign	22,720	18,780	16,002

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY

CONDENSED BALANCE SHEETS

ASSETS - - - - -	As of June 30 -----	
	1999 ----	1998 ----
	(in thousands)	
CASH	\$ 1,452	\$ 1,825
ACCOUNTS RECEIVABLE, net	13,311	12,905
INVENTORIES	6,583	12,656
PREPAID EXPENSES AND OTHER CURRENT ASSETS .	489	533
DEFERRED INCOME TAXES	716	1,292
	-----	-----
Total current assets	22,551	29,211
INVESTMENT IN SUBSIDIARIES, on equity basis	29,495	25,102
PROPERTY, PLANT AND EQUIPMENT, net	5,777	5,744
OTHER ASSETS	214	146
	-----	-----
	\$58,037	\$60,203
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY - - - - -		
CURRENT LIABILITIES	\$ 5,665	\$ 8,917
DUE TO SUBSIDIARIES	3,361	3,384
LONG-TERM DEBT	17,241	18,194
DEFERRED INCOME TAXES	442	875
	-----	-----
Total liabilities	26,709	31,370
STOCKHOLDERS' EQUITY	31,328	28,833
	-----	-----
	\$58,037	\$60,203
	=====	=====

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,		
	1999	1998	1997
	----	----	----
	(in thousands)		
NET SALES	\$ 35,733	\$ 41,610	\$ 43,921
COST OF SALES	26,325	32,022	33,733
	-----	-----	-----
Gross profit	9,408	9,588	10,188
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,741	7,934	7,826
	-----	-----	-----
Operating income	1,667	1,654	2,362
EQUITY IN EARNINGS OF SUBSIDIARIES	284	757	1,122
OTHER EXPENSE, net	(1,383)	(898)	(1,240)
	-----	-----	-----
Income before (benefit) provision for income taxes	568	1,513	2,244
(BENEFIT) PROVISION FOR INCOME TAXES	(1,925)	(525)	605
	-----	-----	-----
Net income	\$ 2,493	\$ 2,038	\$ 1,639
	=====	=====	=====

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 Beginning of Period -----	Charged to Costs and Expenses -----	Deductions (1) -----	Balance at End of Period -----
For the year ended June 30, 1997:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 864 =====	\$ 55 =====	\$ 114 =====	\$ 805 =====
For the year ended June 30, 1998:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 805 =====	\$ 50 =====	\$ 100 =====	\$ 755 =====
For the year ended June 30, 1999:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 755 =====	\$ 230 =====	\$ 98 =====	\$ 887 =====

(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 1999 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 1999 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, 1999 and 1998 and for each of the 3 Years in the Period Ended June 30, 1999.....	16
Consolidated Balance Sheets as of June 30, 1999 and 1998.....	17
Consolidated Statements of Income for the Years Ended June 30, 1999, 1998 and 1997.....	18
Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 1999, 1998 and 1997.....	19
Consolidated Statements of Cash Flows for the Years Ended June 30, 1999, 1998 and 1997.....	20
Notes to Consolidated Financial Statements, June 30, 1999, 1998 and 1997.....	21

(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.....	32
II: Valuation and Qualifying Accounts.....	34

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)	Amended and Restated By-Laws - August 9, 1999.....	E-1
Ex-10.A	Amended and Restated 1992 Incentive Stock Option Plan	E-17
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	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.F	Credit Agreement dated November 8, 1991 between N.S.S. Caribe S.A. and Citibank, N.A.....	Exhibit 10-j

Exhibit No. ---	Title -----	
		to Report on Form 10-K for fiscal year ended June 30, 1992
Ex-10.G	Construction Contract dated June 5, 1993.....	Exhibit 10-1 to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.H	First Amendment dated as of November 5, 1993 to Credit Agreement dated as of November 8, 1991 with Citibank, N.A.....	Exhibit 10-0 to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.I	Loan and Security Agreement with Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.I to Rpt. On Form 10K for fiscal year ended June 30, 1997
Ex-10.J	Revolving Credit Note #1 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.J to Report on Form 10-K for Fiscal year ended June 30, 1997
Ex-10.K	Revolving Credit Note #2 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.K to Report on Form 10-K for fiscal year ended June 30, 1997
Ex-10.L	Promissory Note to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10-L to Report on Form 10-K for fiscal year ended June 30, 1997
Ex-10.G	Construction Contract dated June 5, 1993.....	Exhibit 10-1 to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.H	First Amendment dated as of November 5, 1993 to Credit Agreement dated as of November 8, 1991 with Citibank, N.A.....	Exhibit 10-0 to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.I	Loan and Security Agreement with Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.I to Rpt. On Form 10K for fiscal year ended June 30, 1997
Ex-10.J	Revolving Credit Note #1 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.J to Report on Form 10-K for Fiscal year ended June 30, 1997
Ex-10.K	Revolving Credit Note #2 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.K to Report on Form 10-K for fiscal year ended June 30, 1997
Ex-10.L	Promissory Note to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10-L to Report on Form 10-K for fiscal year ended June 30, 1997

Ex-10.M	Amendment No. 1 to the Loan and Security Agreement with Marine Midland Bank dated as of May 28, 1998.....	Exhibit 10-M to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex.-10.N	Term Loan Note to Marine Midland Bank dated as of May 28, 1998.....	Exhibit 10-N to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex-10.O	Promissory Note to Kenneth Rosenberg dated as of May 28, 1998.....	Exhibit 10-O to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex-10.P	Consulting Agreement with Kenneth Rosenberg dated as of May 28, 1998.....	Exhibit 10-P to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex-10.Q	Employment Agreement with Richard Soloway	Exhibit 10.Q to Report in Form 10-Q for period ended March 31, 1999.
Ex-10.R	Employment Agreement with Jorge Hevia	Exhibit 10-R to Report in Form 10-Q for period ended March 31, 1999.
Ex-10.S	Amendment No. 2 to the Loan and Security Agreement with HSBC Bank dated as of June 30, 1999.....	E-26
Ex-10.T	Indemnification Agreement dated August 9, 1999	E-29
Ex-11	Computation of earnings per share	E-33
Ex-12	Computation of ratios	E-34
Ex-21	Subsidiaries of the Registrant	E-35

Ex-23	Consent of Independent Public Accountants.....	E-36
Ex-27	Financial Data Schedule.....	E-37

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, 1999.

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 28, 1999

NAPCO SECURITY SYSTEMS, INC.
(Registrant)

By: /s/ RICHARD SOLOWAY
Richard Soloway
Chairman of the Board of
Directors, President and Secretary
(Principal Executive Officer)

By: /s/ KEVIN S. BUCHEL
Kevin S. Buchel
Senior Vice President of
Operations and Finance and Treasurer
(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 28, 1999
/s/ KEVIN S. BUCHEL ----- Kevin S. Buchel	Director	September 28, 1999
/s/ RANDY B. BLAUSTEIN ----- Randy B. Blaustein	Director	September 28, 1999
/s/ ANDREW J. WILDER ----- Andrew J. Wilder	Director	September 28, 1999

Ex-3(ii)	Amended and Restated By-Laws - August 9, 1999.....	E-1
Ex-10.A	Amended and Restated 1992 Incentive Stock Option Plan.....	E-17
Ex-10.S	Amendment No. 2 to the Loan and Security Agreement with HSBC Bank dated as of June 30, 1999.....	E-26
Ex-10.T	Indemnification Agreement dated August 9, 1999.....	E-29
Ex-11	Computation of earnings per share.....	E-33
Ex-12	Computation of ratios.....	E-34
Ex-21	Subsidiaries of the Registrant.....	E-35
Ex-23	Consent of Independent Public Accountants.....	E-36
Ex-27	Financial Data Schedule.....	E-37

NAPCO SECURITY SYSTEMS, INC.
BY-LAWS

Amended and Restated Effective August 9, 1999

ARTICLE I

MEETING OF STOCKHOLDERS

Section 1. Annual Meeting. The annual meeting of the stockholders of NAPCO SECURITY SYSTEMS, INC. (the "Corporation") for the election of directors and for the transaction of such other business as may come before the meeting shall be held at 10:00 a.m. on the fourth Wednesday in November in each year or at such other hour or on such other day within five months after the end of each fiscal year of the Corporation as the Board of Directors of the Corporation (the "Board") may order or at such other time as the Board may determine.

Section 2. Special Meetings. Special meetings of the stockholders, unless otherwise prescribed by statute, may be called at any time by the Board, the Chairman of the Board or the President.

Section 3. Notice of Meetings. Notice of the place, date and time of the holding of each annual and special meeting of the stockholders and the purpose or purposes thereof shall be given personally or by mail in a postage prepaid envelope to each stockholder entitled to vote at such meeting, not less than ten nor more than fifty days before the date of such meeting. If mailed, it shall be deposited in the mails within the above-mentioned period and directed to such stockholder at his address as it appears on the records of the Corporation, unless he shall have filed with the Secretary of the Corporation a written request that notices to him be mailed to some other address, in which case it shall be directed to him at such other address. Except as may otherwise be required by applicable law, notice of any meeting of stockholders shall not be required to be given to any stockholder who shall attend such meeting in person or by proxy and shall not, at the beginning of such meeting, object to the transaction of any business because the meeting is not lawfully called or convened, or who shall, either before or after the meeting, submit a signed waiver of notice, in person or by proxy. In the case of an adjourned meeting, unless the Board shall fix after the adjournment a new record date, notice of such adjourned meeting need not be given if the time and place to which the meeting shall be adjourned were announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 4. Place of Meetings. Meetings of the stockholders may be held at such place, within or without the State of Delaware, as the Board or the officer calling the same shall specify in the notice of such meeting, or in a duly executed waiver of notice thereof.

Section 5. Quorum. At all meetings of the stockholders, the holders of a majority of the shares of stock of the Corporation issued and outstanding and entitled to vote shall be present in person or by proxy to constitute a quorum for the transaction of any business, except as otherwise provided by statute or in the Certificate of Incorporation and except when stockholders are required to vote by class, in which event a majority of the issued and outstanding shares of the appropriate class shall be present in person or by proxy. In the absence of a quorum, the holders of a majority of the shares of stock present in person or by proxy and entitled to vote, or if no stockholder entitled to vote is present, then any officer of the Corporation, may adjourn the meeting from time to time. At any such adjourned meeting at which a quorum may be present, any business may be transacted which might have been transacted at the meeting as originally called.

Section 6. Organization. At each meeting of the stockholders, the Chairman of the Board or the President, or in their absence of inability to act, a Vice President, or in the absence of any Vice President, any person chosen by a majority of those stockholders present shall act as chairman of the meeting. The Secretary, or, in his absence or inability to act, the Assistant Secretary or any person appointed by the chairman of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

Section 7. Order of Business. The order of business at all meetings of the stockholders shall be as determined by the chairman of the meeting.

Section 8. Voting. Except as otherwise provided by statute, the Certificate of Incorporation or any certificate duly filed in the State of Delaware pursuant to Section 151 of the Delaware General Corporation Law, each holder of record of shares of stock of the Corporation having voter power shall be entitled to one vote for every share of such stock standing in his name on the record of stockholders of the Corporation on the date fixed by the Board as the record date for the determination of the stockholders who shall be entitled to notice of and to vote at such meeting; or if such record date shall not have been so fixed, then at the close of business on the day next prevailing the day on which notice thereof shall be given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy signed by such stockholder or his attorney-in-fact. Any such proxy shall be delivered to the secretary of such meeting at or prior to the time designated in the order of business for so delivering such proxies. No proxy shall be valid after the expiration of three years from the date thereof, unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the stockholder executing it, except in those cases where an irrevocable proxy is permitted by law. Except as otherwise provided by statute, these By-Laws or the Certificate of Incorporation, any corporate action to be taken by vote of the stockholders shall be authorized by a majority of the total votes, or when stockholders are required to vote by class by a majority of the votes of the appropriate class, cast at a meeting of stockholders by the holders of shares present in person or represented by proxy and entitled to vote on such action. Unless required by statute, or determined by the chairman of the meeting to be advisable, the vote on any question need not be by written ballot. On a vote by written ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and shall state the number of shares voted.

Section 9. List of Stockholders. The officer or duly authorized transfer agent who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 10. Inspectors. The Board may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If the inspectors shall not be so appointed or if any of them shall fail to appear or act, the chairman of the meeting may, and on the request of any stockholder entitled to vote thereat shall appoint inspectors. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors shall determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the validity and effect of proxies, and they shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting or any stockholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as inspector of an election of directors. Inspectors may, but need not, be stockholders.

Section 11. Conduct of Business.

(a) The chairman of any meeting of stockholders shall determine the order of business and the procedures at the meeting, including such regulation of the manner of voting and the conduct of discussion as seem to him or her in order. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting by the chairman.

(b) At any annual meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who is entitled to vote with respect thereto and who complies with the notice procedures set forth in this Section 11(b). For business to be properly brought before an annual meeting by a stockholder, the business must relate to a proper subject matter for stockholder action and the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered or mailed to and received at the principal executive offices of the Corporation not less than sixty (60) days prior to the date of the annual meeting; provided, however, that in the event

that less than seventy (70) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made. A stockholder's notice to the Secretary shall set forth as to each matter such stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business; (iii) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder; and (iv) any material interest of such stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be brought before or conducted at an annual meeting except in accordance with the provisions of this Section 11(b). The Chairman of the Corporation or other person presiding over the annual meeting shall, if the facts so warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 11(b) and, if he or she should so determine, he or she shall so declare to the meeting and any such business so determined to be not properly brought before the meeting shall not be transacted.

At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

(c) Only persons who are nominated in accordance with the procedures set forth in this Section shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders at which directors are to be elected only: (i) by or at the direction of the Board of Directors, or (ii) by any stockholder of the Corporation entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in this Section 11(c). Such nominations, other than those made by or at the direction of the Board of Directors, shall be made by timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered or mailed to and received at the principal executive offices of the Corporation not less than sixty (60) days prior to the date of the meeting; provided, however, that in the event that less than seventy (70) days' notice or prior disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth: (i) as to each person whom such stockholder proposes to nominate for election or re-election as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (ii) as to the stockholder giving the notice (x) the name and address, as they appear on the Corporation's books, of such stockholder and (y) the class and number of shares of the Corporation's capital stock that are beneficially owned by such stockholder. At the request of the Board of Directors any person nominated by the Board of Directors for election as a Director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the provisions

of this Section 11(c). The Chairman of the Corporation or other person presiding at the meeting shall, if the facts so warrant, determine that a nomination was not made in accordance with such provisions and, if he or she shall so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

ARTICLE II

BOARD OF DIRECTORS

Section 1. General Powers. The business and affairs of the Corporation shall be managed by the Board. The Board may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by the stockholders.

Section 2. Number, Qualifications, Election and Term of Office. The number and term of office of directors shall be as set forth in the Certificate of Incorporation, as amended. All directors shall be of full age. Directors need not be stockholders. Except as otherwise provided by statute, the Certificate of Incorporation, or these By-Laws, the directors shall be elected at the annual meeting of stockholders for the election of directors at which a quorum is present and the persons receiving a plurality of the votes cast at such election shall be elected.

Section 3. Place of Meetings. Meetings of the Board may be held at such place, within or without the State of Delaware, as the Board may from time to time determine or as shall be specified in the notice or waiver of notice of such meeting.

Section 4. First Meeting. The Board shall meet for the purpose of organization, the election of officers and the transaction of other business, as soon as practicable after each annual meeting of the stockholders, on the same day and at the same place where such annual meeting shall be held. Notice of such meeting need not be given. Such meeting may be held at any other time or place (within or without the State of Delaware) which shall be specified in a notice thereof given as hereinafter provided in Section 7 of this Article II.

Section 5. Regular Meetings. Regular meetings of the Board shall be held at such time and place as the Board may from time to time determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting which would otherwise be held on that day shall be held at the same hour on the next succeeding business day. Notice of regular meetings of the Board need not be given except as otherwise required by statute or these By-Laws.

Section 6. Special Meetings. Special meetings of the Board may be called by two or more directors of the Corporation, by the Chairman of the Board or by the President.

Section 7. Notice of Meetings. Notice of each special meeting of the Board (and of each regular meeting for which notice shall be required) shall be given by the Secretary as

hereinafter provided in this Section 7, in which notice shall be stated the time and place (within or without the State of Delaware) of the meeting. Notice of each such meeting shall be delivered to each director either personally or by telephone, telegraph, cable or wireless, at least twenty-four hours before the time at which such meeting is to be held or by first-class mail, postage prepaid, addressed to him at his residence, or usual place of business, at least three days before the day on which such meeting is to be held. Notice of any such meeting need not be given to any director who shall, either before or after the meeting, submit a signed waiver of notice or who shall attend such meeting without protesting, prior to or at its commencement, the lack of notice to him. Except as otherwise specifically required by these By-Laws, a notice or waiver of notice of any regular or special meeting need not state the purposes of such meeting.

Section 8. Quorum and Manner of Acting. A majority of the entire Board shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and, except as otherwise expressly required by statute or the Certificate of Incorporation, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board. In the absence of a quorum at any meeting of the Board, a majority of the directors present thereat, or if no director be present, the Secretary, may adjourn such meeting to another time and place, or such meeting, unless it be the first meeting of the Board, need not be held. At any adjourned meeting at which a quorum is present, any business may be transacted at the meeting as originally called. Except as provided in Article III of these By-Laws, the directors shall act only as a Board and the individual directors shall have no power as such.

Section 9. Organization. At each meeting of the Board, the Chairman of the Board or the President (or, in their absence or inability to act, a director chosen by a majority of the directors present) shall act as chairman of the meeting and preside thereat. The Secretary (or, in his absence or inability to act, any person appointed by the chairman) shall act as secretary of the meeting and keep the minutes thereof.

Section 10. Resignations. Any Director of the Corporation may resign at any time by giving written notice of his resignation to the Board, the Chairman of the Board, the President or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 11. Vacancies. Vacancies may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office as provided in the Certificate of Incorporation of the Corporation. If there are no directors in office, then an election of directors may be held in the manner provided by statute. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than majority of the whole Board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any holder or holders of at least ten percent of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office. Except as otherwise provided in

the Certificate of Incorporation of the Corporation or these By-Laws, when one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Section 12. Removal of Directors. Except as otherwise provided in the Certificate of Incorporation or in these By-Laws, any director may be removed, either with or without cause, at any time, by the affirmative vote of the holders of a majority of the issued and outstanding shares entitled to vote for the election of directors of the Corporation given at a special meeting of the stockholders - called and held for the purpose; and the vacancy in the Board caused by any such removal may be filled by such stockholders at such meeting, or, if the stockholders shall fail to fill such vacancy, as in these By-Laws provided.

Section 13. Compensation. The Board shall have authority to fix the compensation, including fees and reimbursement of expenses; of directors for services to the Corporation in any capacity, provided no such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 14. Action Without Meeting. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 15. Action by Conference Telephone. Members of the Board or any committee may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in such meeting may hear each other, and such participation shall constitute presence in person at such meeting.

ARTICLE III

EXECUTIVE AND OTHER COMMITTEES

Section 1. Executive and Other Committees. The Board may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of such committee or committees, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution, shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may

require it; provided, however, that no committee shall have power or authority to amend the Certificate of Incorporation, adopt an agreement of merger or consolidation, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amend these By-Laws. No committee shall have the power and authority to declare a dividend or authorize the issuance of stock of the Corporation. Each committee shall keep written minutes of its proceedings and shall report such minutes to the Board when required. All such proceedings shall be subject to revision or alteration by the Board; provided, however, that third parties shall not be prejudiced by such revision or alteration.

Section 2. General. A majority of any committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the committee in the manner provided for in Article II, Section 7. The Board shall have any power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or exercise any authority of the Board.

Section 3. Audit Committee. The Board of Directors may appoint from among its members an Audit Committee of not less than three members, and shall designate one of such members as Chairman.

The responsibilities of the Audit Committee shall be limited to the following:

(a) To recommend to the Board of Directors for engagement a firm of independent certified public accountants, hereinafter called the "Firm", to audit the accounts of the Corporation, and its subsidiaries for the year regarding which the Firm is engaged.

(b) To meet jointly and/or separately with the Chief Financial Officer of the Corporation and the Firm before commencement of the audit (i) to discuss evaluation by the Firm of the adequacy and effectiveness of the accounting procedures and internal controls of the Corporation and its subsidiaries, (ii) to approve the overall scope of the audit to be made and the fees to be charged, and (iii) to inquire and discuss with the Firm recent Financial Accounting Standards Board, Securities and Exchange Commission or other regulatory agency pronouncements, if any, which might effect the Corporation's financial statements.

(c) To meet jointly and/or separately with the Chief Financial Officer and the Firm at the conclusion of the audit; (i) to read and discuss the audited financial statements of the Corporation, (ii) to discuss any significant recommendations by the Firm for improvement of accounting systems and internal controls of the Corporation, and (iii) to discuss the quality and depth of staffing in the accounting and financial departments of the Corporation.

(d) To meet and confer with such officers and employees of the Corporation as the Audit Committee shall deem appropriate in connection with carrying out the foregoing responsibilities.

ARTICLE IV

OFFICERS

Section 1. Number and Qualifications. The officers of the Corporation shall include the Chairman of the Board, President, one or more Vice Presidents (one or more of whom may be designated Executive Vice President or Senior Vice President), the Treasurer, and the Secretary. Any two or more offices may be held by the same person. Such officers shall be elected from time to time by the Board, each to hold office until the meeting of the Board following the next annual meeting of the stockholders, or until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned, or have been removed, as hereinafter provided in these By-Laws. The Board may from time to time elect, or the Chairman of the Board or the President may appoint, such other officers (including one or more Assistant Vice Presidents, Assistant Secretaries and Assistant Treasurers), and such agents, as may be necessary or desirable for the business of the Corporation. Such other officers and agents shall have such duties and shall hold their offices for such terms as may be prescribed by the Board or by the appointing authority.

Section 2. Resignations. Any officer of the Corporation may resign at any time by giving written notice of his resignation to the Board, the Chairman of the Board, the President, or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein; immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3. Removal. Any officer or agent of the Corporation may be removed, either with or without cause, at any time, by the vote of the majority of the entire Board at any meeting of the Board or, except in the case of an officer or agent elected or appointed by the Board, by the Chairman of the Board or the President. Such removal shall be without prejudice of the contractual rights, if any, of the person so removed.

Section 4. Vacancies. A vacancy in any office, whether arising from death, resignation, removal or any other cause, may be filled for the unexpired portion of the term of the office which shall be vacant, in the manner prescribed in these By-Laws for the regular election or appointment to such office.

Section 5. Chairman of the Board. The Chairman of the Board shall be an executive officer of the Corporation. He shall perform all duties incident to the office of Chairman of the Board and such other duties as may from time to time be assigned to him by the Board.

Section 6. The President. The President shall be an executive officer of the Corporation. He shall perform all duties incident to the office of President and such other duties as from time to time may be assigned to him by the Board.

Section 7. Vice Presidents. Each Executive Vice President, each Senior Vice President and each Vice President shall have such powers and perform all such duties as from time to time may be assigned to him by the Chairman of the Board, the President, or the Board of Directors.

Section 8. The Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall establish and maintain internal accounting controls, and, in cooperation with the independent public accountants selected by the Board, shall supervise internal auditing.

The Treasurer shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursement, and shall render to the Chairman of the Board, the President and the Board of Directors, at regular meetings of the Board or when the Board of Directors, the Chairman of the Board or the President so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. He may delegate all or some of the above duties at any time.

Section 9. The Assistant Treasurer. The Assistant Treasurer or, if there shall be more than one (1), the Assistant Treasurers in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer, or in the event of his inability or refusal to act, perform the duties and exercise the power of the Treasurer and shall perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board or the President may from time to time prescribe.

Section 10. The Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholder and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, the Chairman of the Board or the President, under whose supervision he shall be. The Secretary shall have custody of the corporate seal of the Corporation and the Secretary or an Assistant Secretary shall have authority to affix the seal to any instrument requiring it and when so affixed, it may be attested by the signature of the Secretary or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall also have the powers and duties of the Treasurer if for any reason the Corporation has no Treasurer. He may delegate all or some of the duties at any time.

Section 11. The Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries, in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election), shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and

exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 12. Officers' Bonds or Other Security. If required by the Board, any officer of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety or sureties as the Board may require.

Section 13. Compensation. The compensation of the officers of the Corporation for their services as such officers shall be fixed from time to time by the Board; provided, however, that the Board may delegate to the Chairman of the Board or the President the power to fix the compensation of officers and agents appointed by the Chairman of the Board or the President, as the case may be. An officer of the Corporation shall not be prevented from receiving compensation by reason of the fact that he is also a director of the Corporation, but any such officer who shall also be a director shall not have any vote in the determination of the amount of compensation paid to him.

ARTICLE V

INDEMNIFICATION

(a) To the extent not prohibited by law, the Corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a Director or officer of the Corporation, or is or was serving in any capacity at the request of the Corporation for any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise (an "Other Entity"), against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees and disbursements). Persons who are not Directors or officers of the Corporation may be similarly indemnified in respect of service to the Corporation or to an Other Entity at the request of the Corporation to the extent the Board at any time specifies that such persons are entitled to the benefits of this Article V.

(b) The Corporation shall, from time to time, reimburse or advance to any Director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding, in advance of the final disposition of such Proceeding; provided, however, that if required by the Delaware General Corporation Law, such expenses incurred by or on behalf of any Director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the Corporation of an undertaking, by or on behalf of such Director or officer (or other person indemnified hereunder), to repay any such amount so advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such Director, officer or other person is not entitled to be indemnified for such expenses.

(c) The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article V shall not be deemed exclusive of any other right to which a person seeking indemnification or reimbursement or advancement of expenses may have or hereafter be entitled under any statute, this Certificate of Incorporation, these By-laws of the Corporation, any agreement, any vote of stockholders or disinterested Directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

(d) The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article V shall continue as to a person who has ceased to be a Director or officer (or other person indemnified hereunder) and shall inure to the benefit of the executors, administrators, legatees and distributees of such person.

ARTICLE VI

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

Section 1. Execution of Contracts. Except as otherwise required by statute, the Certificate of Incorporation or these By-Laws, any contracts or other instruments may be executed and delivered in the name and on behalf of the Corporation by such officer or officers (including any assistant officer) of the Corporation as the Board may from time to time direct. Such authority may be general or confined to specific instances as the Board may determine. Unless authorized by the Board or expressly permitted by these By-Laws, an officer or agent or employee shall not have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it pecuniarily liable for any purpose or to any amount.

Section 2. Loans. Unless the Board shall otherwise determine, either (a) the Chairman of the Board or the President, each singly, or (b) a Vice President, together with the Treasurer, or Secretary, may effect loans and advances at any time for the Corporation from any bank, trust company or other institution, or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes, bonds or other certificates or evidences of indebtedness of the Corporation, but no officer or officers shall mortgage, pledge, hypothecate or transfer any securities or other property of the Corporation, except when authorized by the Board.

Section 3. Checks, Drafts etc. All checks, drafts, bills of exchange or other orders for the payment of money out of the funds of the Corporation, and all notes or other evidences of indebtedness of the Corporation, shall be signed in the name and on behalf of the Corporation by such persons and in such manner as shall from time to time be authorized by the Board.

Section 4. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may from time to time designate or as may be designated by any

officer of officers of the Corporation to whom such power of designation may from time to time be delegated by the board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, checks, drafts and other orders for the payment of money which are payable to the order of the Corporation may be endorsed, assigned and delivered by any officer or agent of the Corporation, or in such other manner as the Board may determine by resolution.

Section 5. General and Special Bank Accounts. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may designate or as may be designated by any officer or officers of the Corporation to whom such power of designation may from time to time be delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these By-Laws, as it may deem expedient.

Section 6. Proxies in Respect of Securities of Other Corporations. Unless otherwise provided by resolution adopted by the Board, the Chairman of the Board, the President, or a Vice President may, from time to time, in the name and on behalf of the Corporation (a) cast the votes which the Corporation may be entitled to cast as the holder of stock or other securities in any other corporation any of whose stock or other securities may be held by the Corporation, at meetings of the holders of the stock or other securities of such other corporation, or consent in writing, in the name of the Corporation as such holder, to any action by such other corporation, and execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal, or otherwise, all such written proxies or other instruments as he may deem necessary or proper in the premises, and (b) appoint an attorney or attorneys or agent or agents, of the Corporation, to take any of such actions and instruct the person or persons so appointed as to the manner of casting such votes or giving such consent.

ARTICLE VII

SHARES, ETC.

Section 1. Stock Certificates. Each holder of stock of the Corporation shall be entitled to have a certificate, in such form as shall be approved by the Board, certifying the number of shares of stock of the Corporation owned by him. The certificates representing shares of stock shall be signed in the name of the Corporation by the Chairman of the Board, the President, or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and sealed with the seal of the Corporation (which seal may be a facsimile, engraved or printed); provided, however, that where any such certificate is countersigned by a transfer agent other than the Corporation or its employee, or is registered by a registrar other than the Corporation or one of its employees, any other signature on such certificates may be facsimiles, engraved or printed. In case any officer, transfer agent or registrar who shall have signed or whose facsimile signature has been placed upon such certificates no longer holds such office, the shares may nevertheless be issued by the Corporation with the same effect as if such officer were still in office at the date of their issue.

Section 2. Books of Account and Record of Stockholders. The books and records of the Corporation may be kept at such places, within or without the State of Delaware as the Board may from time to time determine. The stock record books and the blank stock certificate books shall be kept by the Secretary or by any other officer or agent designated by the Board.

Section 3. Transfer of Shares. Transfer of shares of stock of the Corporation shall be made on the stock records of the Corporation only upon authorization by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk, and on surrender of the certificate or certificates for such shares properly endorsed or accompanied by a duly executed stock transfer power and the payment of all taxes thereon. Except as otherwise provided by law, the Corporation shall be entitled to recognize the exclusive right of a person in whose name any share or shares stand on the record of stockholders as the owner of such share or shares for all purposes, including, without limitation, the rights to receive dividends or other distributions, and to vote as such owner, and the Corporation may hold any such stockholder of record liable for calls and assessments and the Corporation shall not be bound to recognize any equitable or legal claim to or interest in any such share or shares on the part of any other person whether or not it shall have express or other notice thereof. Whenever any transfer of shares shall be made for collateral security and not absolutely, and both the transferor and transferee request the Corporation to do so, such fact shall be stated in the entry of the transfer.

Section 4. Regulations. The Board may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation. The Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents or one or more transfer clerks and one or more registrars and may require all certificates for shares of stock to bear the signature or signatures of any of them.

Section 5. Lost, Destroyed or Mutilated Certificates. The holder of any certificate representing shares of stock of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of such certificate, and the Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it which the owner thereof shall allege to have been lost, stolen or destroyed, or which shall have been mutilated, and the Board may, in its discretion, require such owner or his legal representatives to give to the Corporation a bond in such sum, limited or unlimited, and in such form and with such surety or sureties as the Board in its absolute discretion shall determine, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate, or the issuance of a new certificate. Anything herein to the contrary notwithstanding, the Board, in its absolute discretion, may refuse to issue any such new certificate, except pursuant to legal proceedings under the laws of the State of Delaware.

Section 6. Stockholder's Right of Inspection. Any stockholder of record of the Corporation in person or by attorney or other agent, shall upon written demand under oath stating the purpose thereof, have the right during the usual hours of business to inspect for any proper purpose the Corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably

related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the Corporation at its registered office in the State of Delaware or at its principal place of business.

Section 7. Fixing of Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VIII

OFFICES

Section 1. Registered Office. The registered office of the Corporation in the State of Delaware shall be at No. 100 West Tenth Street, in the City of Wilmington, in the County of New Castle. The name of the resident agent in charge thereof shall be The Corporation Trust Company.

Section 2. Other Offices. The Corporation may also have an office or offices other than said registered office at such place or places, either within or without the State of Delaware, as the Board shall from time to time determine or the business of the Corporation may require.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall be determined by the Board.

ARTICLE X

SEAL

The Board shall provide a corporate seal, which shall be in the form of the name of the Corporation, the year of its incorporation, and the words "Corporate Seal, Delaware."

ARTICLE XI

AMENDMENTS

11.1 Amendments by Board of Directors.

The Board of Directors is expressly empowered to adopt, amend or repeal Bylaws of the Corporation. Any adoption, amendment or repeal of Bylaws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board).

11.2 Amendments by Stockholders.

In addition to the right of the Board of Directors, as provided in Section 11.1, above, to adopt, amend or repeal Bylaws of the Corporation, the stockholders shall have power to adopt, amend or repeal the Bylaws of the Corporation. In addition to any vote of the holders of any class or series of stock of this Corporation required by law or by the Certificate of Incorporation of the Corporation, the affirmative vote of the holders of at least 80% of the voting power of all of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provisions of the bylaws of the Corporation.

NAPCO SECURITY SYSTEMS, INC.

AMENDED AND RESTATED
1992 INCENTIVE STOCK OPTION PLAN
(Extended 1982 Incentive Stock Option Plan)

1. Purpose of the Plan. This 1992 Incentive Stock Option Plan (hereinafter referred to as the "Plan"), constituting a ten-year extension of the 1982 Incentive Stock Option Plan, is intended to encourage ownership of stock of Napco Security Systems, Inc. (hereinafter referred to as the "Corporation") by key employees of the Corporation and its subsidiaries, if any, and to provide additional incentive for them to promote the success of the business. As used in the Plan the term "subsidiary" shall have the same meaning as the term "subsidiary corporation" defined in Section 425(f) of the Internal Revenue Code of 1986, as amended (the "Code").

2. Scope of the Plan. An aggregate of Eight Hundred Fifteen Thousand Nine Hundred Thirty-Three (815,933) shares (representing Seven Hundred Twenty-seven Thousand Nine Hundred Thirty-three (727,933) shares for future options and Eighty-Eight Thousand (88,000) shares for outstanding options) of the Corporation's Common Stock, par value \$.01 per share (hereinafter referred to as "Common Stock"), shall be available and reserved for issue under the Plan subject, however, to the provisions of Section 12 hereof. If an option should expire or terminate for any reason without having been exercised in full, the unpurchased shares that were subject thereto shall, unless the Plan shall have terminated, become available for other options under the Plan. Common Stock shall not be issued in respect of an option granted under the Plan unless the exercise of such option and the issuance and delivery of shares of Common Stock pursuant thereto shall comply with all relevant provisions of law, including the Securities Act of

1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations thereunder, and the requirements of any stock exchange upon which the Common Stock may then be listed, and shall be further subject to the approval of the Corporation's counsel with respect to such compliance.

3. Administration of the Plan. The Plan shall be administered by the Board of Directors or a Stock Option Committee (hereinafter sometimes referred to as the "Committee") of the Board of Directors of the Corporation. Directors of the Corporation who are either eligible for options or to whom options have been granted may vote on any matters affecting the administration of the Plan or the granting of options under the Plan; provided, however, that no option may be granted to a director under the Plan except by:

(a) The Committee at a meeting at which a majority of its members are disinterested persons; or

(b) The Board of Directors at a meeting at which the majority of directors present and a majority of the directors voting on a grant, are disinterested persons.

For purposes of this Section 3, a "disinterested person" is a person who, at a given meeting of the Committee or the Board of Directors, is not being considered to receive a grant of stock options under the Plan or any other stock option plan of the Corporation or its subsidiaries.

Without limiting the generality of the foregoing, the Board of Directors shall have full and final authority in its discretion, but subject to the express provisions of the Plan, to determine the fair market value of the Common Stock covered by each option; to select the key employees of the Corporation and its subsidiaries to whom, and the time or times at which, options shall be granted; to determine the manner in which options may be exercised; to determine the number of shares to be covered by each option and the consideration, if any, to flow to the Corporation for each option; to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating

to the Plan; to determine the terms and provisions of each option granted under the Plan (which need not be identical); to accelerate any exercise date of any option; to waive restrictions imposed with respect to the transferability of stock acquired on exercise of options granted under the Plan; to cancel an option previously granted to an optionee and issue a new option to such optionee at a lower price, provided that such optionee's consent is first obtained; to authorize any person to execute on behalf of the Corporation an option agreement with respect to an option previously granted by the Board of Directors; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. Eligibility. Options may be granted only to valued employees (including officers and directors who are employees) of the Corporation or any subsidiary; provided, however, that no option shall be granted hereunder to any person in whose hands such option is not an "incentive stock option" within the meaning of Section 422 of the Code by reason of the stock ownership test set forth in Section 422(b)(6) of the Code. However, options may be granted to such persons under the Plan if such options would qualify as incentive stock options by virtue of meeting the option price and term requirements set forth in Section 422(c)(5) of the Code. In selecting the individuals to whom options shall be granted, as well as in determining the number of shares subject to each option, the Board of Directors may take into consideration the recommendation of the members of the Board of Directors who are also employees of the Corporation or a subsidiary and such factors as it shall deem relevant in connection with accomplishing the purposes of the Plan. An individual who has been granted an option may, if he is otherwise eligible, be granted an additional option or options.

5. Option Price. The purchase price to be paid for Common Stock transferred pursuant to the exercise of any option granted under the Plan shall be not less than the fair market value of

such stock on the date the option is granted as provided in Section 14 hereof (but in no event less than the par value of the Common Stock), and shall not thereafter be subject to reduction except as provided in Section 12 hereof; provided, however, that the purchase price to be paid for Common Stock issued pursuant to an option granted to an individual who, at the time of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation or its subsidiaries, as described in Section 422(b)(6) of the Code, shall, as provided by Section 422(c)(5) of the Code, be not less than 110% of the fair market value of the Common Stock. For purposes of the Plan the fair market value of the Common Stock on any date shall be determined by the Board of Directors. The proceeds of sale of Common Stock subject to option are to be added to the general funds of the Corporation and used for such corporate purposes as the Board of Directors may determine.

6. Term of Options. The term of each option granted under the Plan shall be not more than five years from the date of the granting thereof, subject to its earlier termination as hereinafter provided.

7. Non-Transferability of Options. An option granted under the Plan shall by its terms not be transferable and an option may be exercised, during the lifetime of the holder of the option, only by such holder. More particularly, but without limiting the generality of the foregoing, an option may not be assigned, transferred, pledged, or hypothecated in any way (whether by operation of law or otherwise), and will not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of any option contrary to the provisions of the Plan, and any levy of any attachment or similar process upon an option will be null and void and without effect, and the Board of Directors may, in its discretion, upon the happening of any such event, terminate an option forthwith.

8. Annual Limitation on Options Granted. To the extent that the aggregate fair market value of stock with respect to which incentive stock options (determined without regard to this subsection) are exercisable for the first time by any individual during any calendar year (under all plans of the individual's employer corporation and its parent and subsidiary corporations) exceeds One Hundred Thousand (\$100,000) Dollars, such options shall be treated as options which are not incentive stock options.

9. Exercise of Options. Except as hereinafter provided in this Section 9 and in Sections 3 and 11, options may be exercised within the year of grant (as the Board of Directors, in its discretion, shall determine) with respect to no more than twenty percent (20%) of the total number of shares of Common Stock subject to such grant. Thereafter, during each succeeding year beginning on an anniversary date, options with respect to an additional twenty percent (20%) of the total number of shares subject to a grant may be exercised. However, no option shall be exercisable after the expiration of the term thereof as provided in Section 6. Moreover, an option shall not be exercisable unless the holder thereof shall, at the time of exercise, be an employee of the Corporation or a subsidiary.

Notwithstanding anything herein to the contrary, to the extent that the Corporation has entered into a written employment agreement with the holder of the option and such agreement provides that such options will vest upon a "change in control" of the Corporation (as defined in such agreement), such holder's options will vest and become immediately exercisable in full upon such a change in control.

The purchase price of any shares as to which an option shall be exercised shall be paid in full at the time of exercise. The holder of an option shall not have any of the rights of a stockholder with respect to the shares covered by his option until such shares shall have been

issued to him (as evidenced by the appropriate entry on the books of a duly authorized transfer agent of the Corporation) upon the purchase of such shares upon exercise of the option.

10. Consideration. The Board of Directors shall determine the nature of the consideration flowing to the Corporation in respect of each option granted under the Plan as well as the conditions, if any, which it may deem appropriate to assure that such consideration shall be received by, or shall accrue to, the Corporation. The consideration specified in any option may be different from the consideration specified in any other option, whether granted at the same or a different time.

11. Exercise Upon Cessation of Relationship With Corporation. The right of a holder of an option to exercise such option shall terminate immediately upon voluntary termination of service as an employee or dismissal, disability, retirement, death or otherwise. Option agreements may contain such provisions as the Board of Directors shall approve with reference to the effect of approved leaves of absence, provided, however, that all options shall terminate not more than five years after the date of grant.

12. Adjustments. Options granted under the Plan shall contain such uniform provisions as the Board of Directors shall, in its sole judgment, determine for adjustment of the number and class of shares covered thereby, or of the option prices (but not below the par value of the Common Stock), or both, to reflect a stock dividend, stock split-up, share combination, exchange of shares, recapitalization, merger, consolidation, acquisition or disposition of property or shares, reorganization, liquidation, or other similar changes or transactions, of or by the Corporation. In any such event the aggregate number and class of shares available for issuance under the Plan shall be appropriately adjusted and all the provisions of the Plan with respect to the number and class of shares so available shall likewise be adjusted.

13. Effectiveness of the Plan. The Plan shall become effective on October 8, 1992, but shall be subject to approval by the holders of Common Stock at a meeting of stockholders of the Corporation duly called and held no later than twelve months after the date of adoption of the Plan by the Board of Directors.

14. Time of Granting Options. The date of grant of an option under the Plan shall, for all purposes, be the date on which the Board of Directors makes the determination granting such option; and no grant shall be deemed effective under the Plan prior to such date. Notice of the determination shall be given to each employee to whom an option is so granted within a reasonable time after the date of such grant.

15. Termination and Amendment of the Plan. The Plan shall terminate ten (10) years from the date on which it is adopted by the Board of Directors or the date on which it is approved by the stockholders, whichever is earlier. Prior thereto, the Board of Directors may terminate the Plan at any time; provided, however, that any such termination shall not affect any options then outstanding under the Plan. No options under the Plan may be granted after termination of the Plan.

The Board of Directors from time to time may make such modifications or amendments of the Plan and, with the consent of the holder of an option, of the terms and conditions of his option, as it shall deem advisable, but may not, without further approval of the stockholders of the Corporation, except as provided in Section 12 hereof (a) increase the maximum number of shares which shall be available and reserved for issue under the Plan, or (b) change the employees or class of employees eligible to receive options, or (c) extend the term of the Plan beyond the period provided in this paragraph.

Neither the termination nor any modification or amendment of the Plan shall, without the consent of the holder of an option theretofore granted under the Plan, adversely affect the rights of such holder with respect to such option.

16. Termination of Right of Action. Every right of action arising out of or in connection with the Plan by or on behalf of the Corporation or a subsidiary or by any stockholder of the Corporation or a subsidiary against any past, present or future employee, or by an employee (past, present or future) against the Corporation shall, irrespective of the place where an action may be brought and irrespective of the place of residence of any such stockholder or employee, cease and be barred by the expiration of three years from the date of the act or omission in respect to which such right of action is alleged to have arisen.

17. Registration Rights. If in the future the Corporation registers additional shares with the Securities and Exchange Commission, the Corporation will also register the shares subject to the options of this Plan.

Dated as of: October 8, 1992

Last Amended: February 22, 1999

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Richard Soloway, President

ATTEST:

By: /s/ Kevin S. Buchel, Senior Vice President

AMENDMENT NO. 2 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 2 to the Loan and Security Agreement dated as of June 30, 1999 ("Amendment No. 2") by and between NAPCO SECURITY SYSTEMS, INC., a New York corporation having a place of business at 333 Bayview Avenue, Amityville, New York 11701 (the "Debtor") and HSBC BANK USA F/K/A MARINE MIDLAND BANK, having a place of business at 534 Broad Hollow Road, Melville, New York 11747 (the "Secured Party").

W I T N E S S E T H

WHEREAS, as of May 12, 1997, Debtor and Secured Party had entered into a certain loan and security agreement, as amended by amendment no. 1 to the loan and security agreement dated as of May 28, 1998, as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party extend the Termination Date, as set forth in the Agreement and the Secured Party has agreed to do so, in the manner set forth below, provided however, that, among other things, Debtor execute this Amendment No. 2.

NOW, THEREFORE, in consideration of the mutual promises and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. The definition of "Termination Date" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

"Termination Date" shall mean the earlier to occur of (a) November 30, 2000 or, if such day shall not be a Business Day, the next succeeding Business Day, or (b) upon the occurrence of an Event of Default.

2. As an inducement to the Bank extending the Termination Date, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 2, (i) the representations and warranties set forth in Article 4 of the Agreement and the representations and warranties of Debtor and any Third Party set forth in the other Transaction Documents to which any is a party are true and correct in all respects, (ii) no event has occurred and is continuing which constitutes an "Event of Default" under any of the Transaction Documents (as

"Event of Default" is defined in each of those Transaction Documents"), and (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement.

3. Debtor represents and warrants to Secured Party that there are no offsets, defenses or counterclaims to the payment of the indebtedness owing Secured Party, including the Advances, and to the continuing general security interest in the Collateral granted to Secured Party by Debtor as security for payment of the indebtedness, as fully described in the Agreement.

4. Except as modified herein, all other provisions of the Agreement and the other Transaction Documents remain unmodified and are in full force and effect.

5. This Amendment No. 2 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 as of the day and year first above written.

HSBC BANK USA F/K/A MARINE
MIDLAND BANK

By: /s/ Thomas J. Dionian
Vice President

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin Buchel
Senior Vice President

STATE OF NEW YORK
SS:
COUNTY OF SUFFOLK

On this 9th day of August, 1999, before me, the undersigned, a Notary Public in and for said State, personally came THOMAS J. DIONIAN, personally known to me or proved to me on the basis of satisfactory evidence to be the person, whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or entity upon behalf of which the person acted executed the instrument.

/s/ Antonella Stallone

Notary Public

STATE OF NEW YORK

SS:

COUNTY OF SUFFOLK

On this 9th day of August, 1999, before me, the undersigned, a Notary Public in and for said State, personally came KEVIN BUCHEL, personally known to me or proved to me on the basis of satisfactory evidence to be the person, whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or entity upon behalf of which the person acted executed the instrument.

/s/ Antonella Stallone

Notary Public

INDEMNIFICATION AGREEMENT

AGREEMENT, effective as of the 9th day of August, 1999, between NAPCO SECURITY SYSTEMS, INC., a Delaware corporation (the "Company"), and the individuals listed on the signature page (each an "Indemnatee" and collectively the "Indemnitees").

WHEREAS, Indemnatee is a director, officer or employee of the Company; and

WHEREAS, both the Company and the Indemnatee recognize the risk of litigation and other claims being asserted against corporate agents or public companies in today's environment; and

WHEREAS, the Articles of Incorporation and Bylaws of the Company permit the Company to indemnify and advance expenses to its directors and officers to the fullest extent now or hereafter authorized or permitted by law.

NOW, THEREFORE, in consideration of the premises and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions.

(a) Approved Counsel shall mean any attorney or law firm located and selected by an Indemnatee and reasonably acceptable to the Company.

(b) Board of Directors shall mean the Board of Directors of the Company.

(c) Claim shall mean any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether instituted by the Company or any other party, that an Indemnatee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other and shall also include litigation of the type described in Section 3(b), 3(c) or 5.

(d) Expenses shall include attorneys' fees of approved counsel and all other costs, expenses, disbursements, and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event, including any litigation described in Section 3(b), 3(c) or 5 together with interest calculated at the Company's average cost of funds for short-term borrowings, accrued from the date of payment of such expense of the date Indemnatee received reimbursement therefor.

(e) Indemnifiable Event shall mean any event or occurrence related to the fact that an Indemnatee is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation of any type or kind, domestic or foreign, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by an Indemnatee in any such capacity. Without limitation of an indemnification provided hereunder, an Indemnatee serving (i) another corporation, partnership, joint venture or trust of which twenty (20%) percent or more of the voting power or residual economic interest is held, directly or indirectly, by the Company, or (ii) any employee benefit plan of the Company or any entity referred to in clause (i), in any capacity shall be deemed to be doing so at the request of the Company.

2. Basic Indemnification Arrangement. If an Indemnatee was, is or becomes at any time a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify such Indemnatee to the fullest extent now or hereafter authorized or permitted by law as soon as practicable but in any event no later than fifteen (15) days after written demand is presented to the Company, against any and all Expenses, judgments, fines (including excise

taxes assessed against an Indemnitee with respect to an employee benefit plan), penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim. If so requested by Indemnitee, the Company shall advance (within two (2) business days of such request) any and all Expenses to an Indemnitee (an "Expense Advance"), provided however, the Indemnitee must sign an undertaking to reimburse the Company for such Expenses if it is ultimately determined that the Indemnitee was not entitled to indemnification with respect to the Claim. As to any action or suit by or in the right of the Company, such indemnification shall be subject to the provisions of Section 145(b) of the DGCL.

3. Payment. (a) Notwithstanding the provisions of Section 2, the obligations of the Company under Section 2 shall in no event be deemed to preclude any right to indemnification to which an Indemnitee may be entitled under the Delaware General Corporation Law (the "DGCL").

(b) In the event an Indemnitee seeks indemnification in a proceeding initiated by such Indemnitee (other than a proceeding under Section 3(c) hereof), the obligations of the Company under Section 2 shall be subject to the requirement that such proceeding was specifically authorized, or later ratified, by the Company.

(c) If the Company refuses to indemnify an Indemnitee for any reason whatsoever and such Indemnitee substantively would be permitted to be indemnified in whole or in part under applicable law, such Indemnitee shall have the right to commence litigation in any court in the States of New York or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such refusal by the Company or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process relating thereto and hereby consents to personal jurisdiction of any such court and agrees to appear in any such proceeding. In any such litigation, an Indemnitee shall be entitled to the benefits of the burden of proof presumption provided in Section 7 hereof.

4. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made against an Indemnitee to the extent such Indemnitee has otherwise actually received payment (under any insurance policy, Bylaw or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Indemnification for Additional Expenses. The Company shall indemnify Indemnitees against any and all Expenses (including attorneys' fees) and, if requested by such Indemnitee, shall (within two business days of such request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any claim asserted or action brought by Indemnitee for (i) indemnification or payment of Expenses by the Company or advance of expenses under this Agreement or any other agreement or Company Bylaw now or hereafter in effect relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether such Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

6. Partial Indemnity, Etc. If an Indemnitee is entitled under any provision of this Agreement or otherwise to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Indemnitee for the portion thereof to which such Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that such Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, such Indemnitee shall be indemnified, to the extent permitted by law, against all Expenses incurred in connection with such Indemnifiable Event.

7. Burden of Proof. In connection with any determination hereunder or otherwise, including any litigation of the sort described in Section 3(b) or 3(c), as to whether an Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that such Indemnitee is not so entitled.

8. No Adverse Presumptions. For purposes of this Agreement, the termination of any claim, action, suit or proceeding, whether civil or criminal, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that an

Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

9. Nonexclusivity, Etc. The rights of an Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Bylaws or the DGCL or otherwise. To the extent that a change in the DGCL (whether by statute or judicial decision) permits greater indemnification by agreement than those currently afforded under the Company's Bylaws and this Agreement, it is the intent of the parties hereto that such Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

5. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, an Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any director or officer of the Company.

6. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company against an Indemnitee, an Indemnitee's spouse, heir, executors or personal or legal representatives from and after the date hereof.

7. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be effective unless in writing and no written waiver shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a waiver.

8. Subrogation. In the event of payment under this Agreement to an Indemnitee, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of such Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

9. Specific Performance. The parties recognize that if any provision of this Agreement is violated by the Company, an Indemnitee may be without an adequate remedy at law. Accordingly, in the event of any such violation, such Indemnitee shall be entitled, if such Indemnitee so elects, to institute proceedings, either in law or at equity, to obtain damages or reimbursements for costs, expenses, or disbursements, to enforce specific performance, to enjoin such violation, or to obtain any relief or any combination of the foregoing as such Indemnitee may elect to pursue.

10. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, assigns, spouses, heirs, executors, and personal and legal representatives. This Agreement shall continue in effect regardless of whether an Indemnitee continues to serve as an officer or director of the Company or of any other enterprise at the Company's request or in any other capacity, such as agent or consultant.

11. Severability; Several Obligations. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provisions within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and with respect to all other Indemnitees and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law. The indemnities afforded hereby are several and not joint obligations, and no requirement of joinder, common pleadings, joint request or the like shall be needed for any single Indemnitee to enjoy the rights hereby afforded.

THE INDEMNITOR:

NAPCO SECURITY SYSTEMS, INC.

By: /s/

 Name: Richard Soloway
 Title: President

THE IMDEMNITEES:

 /s/

 Richard Soloway

 /s/

 Kevin S. Buchel

 /s/

 Randy Blaustein

 /s/

 Andrew J. Wilder

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE

	1999 ----	1998 ----	1997 ----	1996 ----	1995 ----
Weighted average number of shares outstanding	3,492,501	4,262,686	4,368,727	4,367,727	4,367,727
Add common stock equivalents	19,607 -----	22,536 -----	14,222 -----	5,396 -----	21,904 -----
Adjusted weighted average shares outstanding	3,512,108 =====	4,285,222 =====	4,382,949 =====	4,373,123 =====	4,389,631 =====
Net Income:	\$2,493,000 =====	\$2,038,000 =====	\$1,639,000 =====	\$1,014,000 =====	\$ 512,000 =====
Earnings per share:					
Basic	\$.71	\$.48 =====	\$.38 =====	\$.23 =====	\$.12 =====
Diluted	\$.71 =====	\$.48 =====	\$.37 =====	\$.23 =====	\$.12 =====

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. AND SUBSIDIARIES

COMPUTATION OF RATIOS

	1999	1998	1997
	----	----	----
(In thousands, except for ratios)			
A. Current Assets	\$41,696	\$44,153	\$42,021
B. Current Liabilities	6,776	10,211	11,885
Current Ratio (Line A / Line B)	6.2 to 1	4.3 to 1	3.5 to 1
C. Sales	\$50,573	\$50,269	\$53,302
D. Receivables	16,446	14,760	13,937
Ratio (Line C / Line D)	3.1 to 1	3.4 to 1	3.8 to 1
E. Total Current Liabilities	\$6,776	\$10,211	\$11,885
F. Long Term Debt	17,241	18,644	13,313
G. Deferred Income Taxes	442	875	828
H. Total Liabilities	24,459	29,730	26,026
I. Equity	31,328	28,833	31,218
Ratio (Line H / Line I)	.8 to 1	1.0 to 1	.8 to 1

SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 1998. 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
Napco/Alarm Lock Exportadora, S.A.	Dominican Republic
NAPCO/Alarm Lock Grupo International, S.A. (formerly known as NSS Caribe, S.A.)	Dominican Republic
NAPCO/Alarm Lock Exportadora, S.A.	Dominican Republic
NAPCO Group Europe, Limited	England
UMI Manufacturing Corp.	New York

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement No. 333-14743 on Form S-8 relating to common stock of Napco Security Systems, Inc. issuable under the 1992 Incentive Stock Option Plan.

/s/ ARTHUR ANDERSEN LLP

New York, New York
September 27, 1999

E-36

5
1,000

12-MOS
JUN-30-1999
JUL-01-1998
JUN-30-1999
2,230
0
16,446
887
21,495
41,696
11,280
12,310
55,787
6,776
0
59
0
0
751
55,787
50,573
50,573
38,514
38,514
10,148
0
1,359
568
(1,925)
2,493
0
0
0
2,493
0.71
0.71