UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
[X] 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, 2004

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 incorporation or organization)	(I.R.S. Employer I.D. Number)
333 BAYVIEW AVENUE, AMITYVILLE, NEW YORK	11701
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(631) 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 Each Class)

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

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. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

As of December 31, 2003, the aggregate market value of the common stock held by non-affiliates based upon the last sale price of the stock on such date was $19,636,725.

As of September 14, 2004 7,088,992 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant's 2004 Annual Meeting of Stockholders to be held on December 13, 2004.

PART I

ITEM 1. BUSINESS.

NAPCO Security Systems, Inc. ("NAPCO" or the "Company") was incorporated in December 1971 in the State of Delaware.

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

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

The Company designs, engineers and markets the software and control panels discussed above. It also buys and resells various identification readers, PC-based computers and various peripheral equipment for access control systems.

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 "Gemini(TM)" and "Magnum Alert(TM)" followed by a numerical designation.

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

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

Fire Alarm Control Panel. Multi-zone fire alarm control panels, which accommodate an optional digital communicator for reporting to a central station, 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, 2004, 2003, and 2002, the Company expended approximately $4,254,000, $4,516,000, and $4,239,000, respectively, on Company-sponsored research and development activities 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, 2004, the Company had approximately 765 full-time employees.

MARKETING AND MAJOR CUSTOMERS

The Company's staff of 44 sales and marketing support employees located at the Company's Amityville and United Kingdom offices sells and markets the Products primarily to independent distributors and wholesalers of security alarm and security hardware equipment. Management estimates that these channels of distribution represented approximately 72% and 76% of the Company's total sales for the fiscal year ended June 30, 2004 and 2003, respectively. The remaining revenues are primarily from alarm installers and governmental institutions. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company Products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States and European cities. Some of the Company's products are marketed under the "private label" of certain customers.

The Company had two customers (Customer A and B) with accounts receivable balances that aggregated 31% and 29% of the Company's accounts receivable at June 30, 2004 and 2003, respectively. Sales to neither of these customers exceeded 10% of net sales in any of the past three years.

The Company had a third customer (Customer C) whose accounts receivable balance was 22% of the Company's accounts receivable at June 30, 2003. The Company had no accounts receivable due from this customer as of June 30, 2004. This customer accounted for 1%, 19% and 17% of the Company's net sales in fiscal 2004, 2003 and 2002. During the past three fiscal years no other customer represented more than 10% of the Company's net sales. The Company terminated its relationship with Customer C in fiscal 2004. The termination of this customer did not have a materially adverse effect on the Company's operations.

COMPETITION

The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 20 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that no one of these competitors is dominant in the industry. Certain of these companies have substantially greater financial and other resources than the Company.

The Company competes primarily on the basis of the features, quality, reliability and pricing 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, its reputation and its ability to provide Products to customers on a timely basis. 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 $469,000 and $226,000 existed as of June 30, 2004 and 2003, respectively. The Company does not generally have a material backlog.

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 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. Cost of compliance has not been material.

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 and identifiable assets attributable to the Company's domestic and foreign operations for its last three fiscal years, are summarized in the following tabulation:

Financial Information Relating to Domestic and Foreign Operations

	2004	2003	2002
	(in thousands)		
Sales to external customers(1):			
Domestic	$48,626	$47,965	$46,652
Foreign	9,467	9,375	9,184
Total Net Sales	$58,093	$57,340	$55,836
Identifiable assets:			
United States	$40,153	$39,005	$40,955
Dominican Republic (2)	13,075	15,691	17,035
Other foreign countries	3,444	2,653	2,762

(1) All of the Company's sales occur in the United States and are shipped primarily from the Company's facilities in the United States and United Kingdom. There were no sales into any one foreign country in excess of 10% of total Net Sales.

(2) Identifiable assets consist primarily of inventories and fixed assets located at the Company's principal manufacturing facility in the Dominican Republic.

ITEM 2. PROPERTIES.

The Company owns 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 located in the Dominican Republic, NAPCO/Alarm Lock Grupo International, S.A. (formerly known as NSS Caribe, S.A.), owns a building of approximately 167,000 square feet of production and warehousing space in the Dominican Republic. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092. As of June 30, 2004, a majority of the Company's products were manufactured at this facility, utilizing U.S. quality control standards.

The Company's foreign subsidiary located in the United Kingdom, Napco Group Europe Ltd, leases office and warehouse space of approximately 10,000 square feet. This lease expires in June 2010.

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

ITEM 3. LEGAL PROCEEDINGS.

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

As previously reported, on or about August 27, 2001, a five-count Verified Complaint was filed against NAPCO Security Group and Alarm Lock Systems, Inc. by Jose Ramirez and Glenda Ramirez in the Supreme Court of State of New York, County of the Bronx. The Verified Complaint seemingly seeks fifteen million dollars ($15,000,000) in damages on behalf of Mr. Ramirez based on theories including strict liability in tort, negligence, breach of warranty, failure to warn, etc. The Verified Complaint also seeks damages in the amount of two million dollars

($2,000,000) on behalf of Ms. Ramirez based on an allegation that she has been, and forever will be, "deprived of the society, services, companionship consortium and support of" Mr. Ramirez based on the personal injuries he suffered in a fire which purportedly occurred on November 5, 1999. This case was consolidated with the related case concerning the same incident, captioned Jose Ramirez and Glenda Ramirez v. Mark T. Miller, Chelsea Gardens Owners Corp., Eichner Rudd Management Associates, Ltd., Napco Security Group and Alarm Lock Systems, Inc., asserting the same claims against the Company. The action is being defended by NAPCO's insurance company on behalf of NAPCO. The Alarm Lock product in question has been tested and still functions correctly, and the Company believes that action is without merit. NAPCO plans to have this action vigorously defended.

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.

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

At the Company's Annual Meeting of Stockholders held on April 26, 2004, three nominees were elected as directors to serve until the Annual Meeting of Stockholders following fiscal year 2006:

Nominee	"For"	"Withheld"
Paul Stephen Beeber	3,002,194	17,700
Randy Blaustein	2,986,318	33,576
Donna Soloway	2,986,118	33,776

The following directors' terms of office continued after the meeting:

Directors to serve until the Annual Meeting of Stockholders following fiscal year 2004:

Richard Soloway
Kevin Buchel

Directors to serve until the Annual Meeting of Stockholders following fiscal year 2005:

Andrew J. Wilder
Arnold Blumenthal

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

PRINCIPAL MARKET

NAPCO's Common Stock is traded on the NASDAQ Stock Market, National Market System, under the symbol NSSC.

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 and as adjusted for the 2:1 stock split effective as of April 2004.

	Quarter Ended Fiscal 2004			
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	$ 4.875	$ 4.475	$ 8.875	$ 11.60
Low	$ 4.275	$ 3.625	$ 3.30	$ 6.50

	Quarter Ended Fiscal 2003			
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	$ 4.62	$ 5.095	$ 5.10	$ 4.735
Low	$ 2.79	$ 4.30	$ 3.805	$ 3.75

APPROXIMATE NUMBER OF SECURITY HOLDERS

The number of holders of record of NAPCO's Common Stock as of September 7, 2004 was 161 (such number does not include beneficial owners of stock held in nominee name).

DIVIDEND INFORMATION

NAPCO has declared no cash dividends during the past two years with respect to its Common Stock, and the Company does not anticipate paying any cash dividends in the foreseeable future. Any dividends must be authorized by the Company's primary lender.

EQUITY COMPENSATION PLAN INFORMATION
AS OF JUNE 30, 2004

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS (a)	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE (EXCLUDING SECURITIES REFLECTED IN COLUMN a) (c)
Equity compensation plans approved by security holders:	746,400	$ 3.82	294,000
Equity compensation plans not approved by security holders:	—	—	—
Total	746,400	$ 3.82	294,000

ITEM 6. SELECTED FINANCIAL DATA.

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page FS-1 of this report.

	Fiscal Year Ended or at June 30				
	(In thousands, except share data)				
	2004*	2003*(1)	2002*(1)	2001*(1)	2000 (1)
Statement of earnings data:					
Net Sales	$ 58,093	$ 57,340	$ 55,836	$ 54,771	$ 53,946
Gross Profit	19,540	15,401	14,717	14,317	13,198
Income from Operations	6,065	2,225	2,817	1,859	3,122
Net Income (2)	3,335	1,010	1,575	251	2,010
Cash Flow Data:					
Net cash flows provided by operating activities	$ 6,275	$ 6,482	$ 7,091	$ 1,326	$ 2,822
Net cash flows used in investing activities	(681)	(752)	(709)	(8,283)	(1,221)
Net cash flows (used in) provided by financing activities	(6,592)	5,436	(5,919)	5,610	(1,447)
Per Share Data:					
Net earnings per common share:					
Basic	$ .50	$ .15	$ .23	$ .04	$ .29
Diluted	$ .47	$ .14	$ .22	$ .04	$ .29
Weighted average common shares outstanding:					
Basic	6,632,000	6,645,000	6,704,000	6,938,000	6,990,000
Diluted	7,081,000	7,114,000	7,078,000	7,054,000	7,026,000
Cash Dividends declared per common share (3)	$ .00	$ .00	$ .00	$ .00	$ .00
Balance sheet data (4):					
Working capital	$ 28,992	$ 28,843	$ 31,812	$ 33,232	$ 35,280
Total assets	56,672	57,349	60,752	63,677	55,529
Long-term debt	6,400	14,100	16,588	21,567	16,183
Stockholders' equity	37,904	33,357	34,528	32,944	33,359

* includes results of Continental Instruments, LLC which was acquired in July, 2000.

(1) Restated to reflect the effect of a 2:1 stock split effective April 2004.

(2) Net income results through 2001 included Amortization Expense related to goodwill.

(3) The Company has never paid a dividend on its common stock. It is the policy of the Board of Directors to retain earnings for use in the Company's business. Any dividends must be authorized by the Company's primary lender.

(4) Working capital is calculated by deducting Current Liabilities from Current Assets.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates. Our most critical accounting policies relate to revenue recognition; concentration of credit risk; inventory; goodwill; and income taxes.

REVENUE RECOGNITION

Revenues from merchandise sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of purchase. We report our sales levels on a net sales basis, which is computed by deducting from gross sales the amount of actual returns received and an amount established for anticipated returns and allowances.

Our sales return accrual is a subjective critical estimate that has a direct impact on reported net sales and income. This accrual is calculated based on a history of gross sales and actual sales returns, as well as management's estimate of anticipated returns and allowances. As a percentage of gross sales, sales returns and allowances were 7%, 10% and 7% in fiscal 2004, 2003 and 2002, respectively.

CONCENTRATION OF CREDIT RISK

An entity is more vulnerable to concentrations of credit risk if it is exposed to risk of loss greater than it would have had it mitigated its risk through diversification of customers. Such risks of loss manifest themselves differently, depending on the nature of the concentration, and vary in significance.

The Company had two customers (Customer A and B) with accounts receivable balances that aggregated 31% and 29% of the Company's accounts receivable at June 30, 2004 and 2003, respectively. Sales to neither of these customers exceeded 10% of net sales in any of the past three years.

The Company had a third customer (Customer C) whose accounts receivable balance was 22% of the Company's accounts receivable at June 30, 2003. The Company had no accounts receivable due from this customer as of June 30, 2004. This customer accounted for 1%, 19% and 17% of the Company's net sales in fiscal 2004, 2003 and 2002. During the past three fiscal years no other customer represented more than 10% of the Company's net sales. The Company terminated its relationship with Customer C in fiscal 2004. The termination of this customer did not have a materially adverse effect on the Company's operations.

In the ordinary course of business, we have established an allowance for doubtful accounts and customer deductions in the amount of $355,000 and $215,000 as of June 30, 2004 and 2003, respectively. Our allowance for doubtful accounts is a subjective critical estimate that has a direct impact on reported net earnings. This reserve is based upon the evaluation of accounts receivable agings, specific exposures and historical trends.

INVENTORY

We state our inventory at the lower of cost or fair market value, with cost being determined on the first-in, first-out (FIFO) method. We believe FIFO most closely matches the flow of our products from manufacture through sale. The reported net value of our inventory includes finished saleable products, work-in-process and raw materials that will be sold or used in future periods. Inventory cost includes raw materials, direct labor and overhead.

We also record an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, we may establish specific reserves for future known or anticipated events.

GOODWILL

Effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. These statements established accounting and reporting standards for acquired goodwill and other intangible assets. Specifically, the standards address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements. In accordance with SFAS No. 142, intangible assets, including purchased goodwill, must be evaluated for impairment. Those intangible assets that are classified as goodwill or as other intangibles with indefinite lives are not amortized.

In accordance with SFAS No. 142, the Company completed its transitional impairment testing of intangible assets during the first quarter of fiscal 2002. That effort, and preliminary assessments of the Company's identifiable intangible assets, indicated that no adjustment would be required upon adoption of this pronouncement. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The Company has performed its annual impairment evaluation required by this standard and determined that the goodwill is not impaired.

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 (benefit) for income taxes represents U.S. Federal, State and foreign taxes. Through June 30, 2001, the Company's subsidiary in the Dominican Republic, Napco/Alarm Lock Group International, S.A. ("Napco DR"), was not subject to tax in the United States, and as a result, no taxes were provided. Effective July 1, 2001, the Company made a domestication election for Napco DR. Accordingly, its income will be subject to taxation in the United States on a going forward basis.

In March 2003, Napco Security Systems, Inc. timely filed its income tax return for the fiscal year ended June 30, 2002. This return included an election to treat one of the Company's foreign subsidiaries as if it were a domestic corporation beginning July 1, 2001. This election is based on a recently enacted Internal Revenue Code ("Code") provision. As a result of this election, this subsidiary is treated, for Federal income tax purposes, as transferring all of its assets to a domestic corporation in connection with an exchange. Although this type of transfer usually results in the recognition of taxable income to the extent of any untaxed earnings and profits, the recently enacted Code provision provides an exemption for applicable corporations. The Company qualifies as an applicable corporation per this Code section, and based on this Code exemption, the Company's tax return treated the transfer of approximately $27,000,000 of this subsidiary's untaxed earnings and profits as nontaxable.

The Internal Revenue Service has issued a Revenue Procedure that is inconsistent with the Code exemption described above. Management believes that it has appropriately relied on the guidance in the Code when filing its income tax return. Nevertheless, as of June 30, 2002, the Company has removed the $2,225,000 deferred tax asset related to its net operating loss carryforward ("NOL") of $6,545,000. The NOL would have expired through 2017. As a result of the utilization of the NOL for book purposes, the Company has also eliminated the valuation reserve

of $2,913,000 during the year ended June 30, 2002. The Company's tax provision utilizes estimates made by management and as such is subject to change as described in note 1 to the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash on hand combined with proceeds from operating activities during fiscal 2004 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 $18,000,000 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, 2004, the Company's unused sources of funds consisted principally of $796,000 in cash and approximately $12,287,000 which represents the unused portion of its secured revolving credit facility. The Company's management believes that current working capital, cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through at least the first quarter of fiscal 2006.

In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to $18,000,000. The amended revolving credit agreement is 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 three of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less 1/4% or an alternate rate based on LIBOR as described in the agreement. The revolving credit agreement, which previously had an expiration date of April 2005, has been extended to July 2005. Any outstanding borrowings are to be repaid or refinanced on or before that time. The Company plans to refinance this agreement prior to its expiration. 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. During fiscal 2004, at certain dates the Company was not in compliance with certain covenants, but received waivers and amendments from its bank. As of June 30, 2004, the Company was in compliance with these covenants.

In November 2000 the Company adopted a stock repurchase program. As amended, this program authorizes the Company to repurchase up to 410,000 shares of its common stock. As of June 30, 2004 the Company had repurchased 405,210 shares under this program.

In January 2003, the Company repurchased 500,000 shares of its common stock from two shareholders, unaffiliated with the Company, at $4.88 per share, a discount from its then current trading price of $5.01. The transaction was approved by the board of directors and the purchase price of $2,442,000 (including fees of $5,000) was financed through the Company's revolving line of credit and a new five (5) year term loan from its primary lender for $1,250,000. This term loan is being repaid in 60 equal monthly installments commencing on April 30, 2003.

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

	2004	2003	2002
Current Ratio	4.3 to 1	4.2 to 1	4.5 to 1
Sales to Receivables	2.9 to 1	3.3 to 1	3.0 to 1
Total debt to equity	.2 to 1	.5 to 1	.6 to 1

As of June 30, 2004, the Company had no material commitments for purchases or capital expenditures, except 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 $288,000.

On July 27, 2000, the Company signed an Asset Purchase Agreement to acquire the net assets of Continental Instruments, LLC ("Continental") for an purchase price of $7,522,500 in cash, less subsequent purchase price

adjustments of approximately $460,000, plus future deferred payments of $1,700,000 in cash to be paid over 24 months. The Company financed the transaction with borrowings under a 60 Month Installment loan of $8,250,000. Continental designs and sells access control and other security control systems to dealers and distributors worldwide.

Working Capital. Working capital increased by $149,000 to $28,992,000 at June 30, 2004 from $28,843,000 at June 30, 2003. The increase in working capital was primarily the result of the increase in net income and decrease in inventory as partially offset by debt reduction and an increase in accounts receivable. Working capital is calculated by deducting Current Liabilities from Current Assets.

Accounts Receivable. Accounts Receivable increased by $2,502,000 to $19,927,000 at June 30, 2004 from $17,425,000 at June 30, 2003. This increase resulted primarily from the granting of additional payment terms to certain of the Company's burglar alarm customers.

Inventory. Inventory decreased by $2,328,000 to $14,594,000 at June 30, 2004 as compared to $16,922,000 at June 30, 2003. The decrease in inventory levels was primarily the result of reductions in the Company's manufacturing overhead costs due, in part, to a favorable change in the exchange rate relating to the Company's Dominican Republic manufacturing facility as well as cost reductions of certain of the Company's raw material costs.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses remained relatively constant at $6,663,000 as of June 30, 2004 as compared to $6,687,000 at June 30, 2003.

CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations by fiscal year:

	Payments due by period				
Contractual obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	$ 8,300,000	$ 1,900,000	$ 6,213,000	$ 187,000	$ -
Land lease (88 years remaining) (1)	25,344,000	288,000	576,000	576,000	23,904,000
Operating lease obligations	338,000	142,000	156,000	40,000	-
Other long-term obligations	2,950,618	1,085,070	1,394,183	471,365	-
Total	$36,932,618	$ 3,415,070	$ 2,126,183	$7,487,365	$23,904,000

(1) see footnote 10 to the consolidated financial statements.

RESULTS OF OPERATIONS

FISCAL 2004 COMPARED TO FISCAL 2003

Net Sales. Net sales in fiscal 2004 increased by 1% to $58,093,000 from $57,340,000 in fiscal 2004. The Company's sales growth was primarily due to increased sales in the Company's door locking and access control products, as partially offset by lower burglar alarm sales principally as a result of a major distributor's introduction of its company-wide inventory reduction program, which reduced its purchasing levels. During the quarter ended December 31, 2003, the Company began the process of realigning its burglar alarm products distribution network

which culminated in the termination of the aforementioned major burglar alarm distributor. The Company reallocated its burglar alarm products business across its extensive national network of independent distributors.

Gross Profit. The Company's gross profit increased $4,139,000 to $19,540,000 or 33.6% of net sales in fiscal 2004 as compared to $15,401,000 or 26.9% of net sales in fiscal 2003. The increase in gross profit in both absolute dollars and as a percentage of net sales was due primarily to the shift in product mix towards higher margin products such as door locking devices and access control products. Gross profit was also positively impacted by lower manufacturing overhead costs due, in part, to a favorable change in the exchange rate relating to the Company's Dominican Republic manufacturing facility as well as cost reductions of certain of the Company's raw material costs.

Expenses. Selling, general and administrative expenses increased by 2% to $13,475,000, or 23% of net sales in fiscal 2004 from $13,176,000, or 23% of net sales in fiscal 2003. This increase was due primarily to the increase in certain variable selling expenses associated with the increase in net sales from fiscal 2003 to 2004.

Interest expense for fiscal 2004 decreased by $307,000 to $420,000 from $727,000 for the same period a year ago. The decrease in interest expense is primarily the result of the Company reducing its outstanding debt by $7,700,000 during fiscal 2004.

Other Expenses. Other expenses increased $236,000 to an expense of $109,000 in fiscal 2004 as compared to income of $127,000 in fiscal 2003. This increase resulted primarily from the Company settling litigation during the quarter ended September 30, 2002 which it had initiated as the plaintiff and realized a gain of approximately $210,000. This gain was recorded as Other Income during the quarter ended September 30, 2002.

Income Taxes. The Company's provision for income taxes increased by $1,586,000 to a provision of $2,201,000 in fiscal 2004 as compared to $615,000 in fiscal 2003. This increase in the provision for income taxes is primarily due to a $3,911,000 increase in income before income taxes in fiscal 2004 as compared to fiscal 2003. The increase in income before income taxes is due primarily to the items discussed above.

FISCAL 2003 COMPARED TO FISCAL 2002

Net Sales. Net sales in fiscal 2003 increased by 3% to $57,340,000 from $55,836,000 in fiscal 2002. The Company's sales growth was due primarily to increased domestic sales volume in the Company's burglar alarm product line.

Gross Profit. The Company's gross profit increased $684,000 to $15,401,000 or 26.9% of net sales in fiscal 2003 as compared to $14,717,000 or 26.4% of net sales in fiscal 2002. The increase in gross profit in both absolute dollars and as a percentage of net sales was due primarily to the increase in sales as discussed above. Gross profit was also positively impacted by cost reductions of certain of the Company's raw material costs.

Expenses. Selling, general and administrative expenses increased by 11% to $13,176,000, or 23% of net sales in fiscal 2003 from $11,900,000, or 21% of net sales in fiscal 2002. This increase was due primarily to additional investment in the Company's sales force, primarily in the international and access control areas.

Other Expenses. Other expenses decreased $858,000 to $600,000 in fiscal 2003 as compared to $1,458,000 in fiscal 2002. This decrease was due primarily to the decrease in interest expense resulting from the Company's continued reduction of the outstanding principal on its outstanding debt as well as a decline in interest rates available to the Company. In addition, during the quarter ended September 30, 2002, the Company settled litigation which it had initiated as the plaintiff and realized a gain of approximately $210,000. This gain was recorded as Other Income during the quarter ended September 30, 2002.

Income Taxes. Benefit for income taxes changed by $831,000 to a provision of $615,000 in fiscal 2003 as compared to a benefit of $216,000 in fiscal 2002. The current year income tax provision relates primarily to the Company electing to treat its main foreign subsidiary as a U.S. Company for book and tax purposes.

STOCK SPLIT

In March 2004, the Company's Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend of the Company's common stock payable to stockholders of record on April 13, 2004. The additional shares were distributed on April 27, 2004. The Company utilized all 2,871,056 of its shares held as treasury stock as of April 27, 2004 plus an additional 609,260 shares in paying this stock dividend. The cost of treasury stock was applied first to additional paid-in capital (to the extent there was a positive balance), then directly to retained earnings. All share and per share amounts (except par value) have been retroactively adjusted to reflect the stock split. There was no net effect on total stockholders' equity as a result of the stock split.

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K and the information incorporated by reference may include "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. The Company intends the Forward-Looking Statements to be covered by the Safe Harbor Provisions for Forward-Looking Statements. All statements regarding the Company's expected financial position and operating results, its business strategy, its financing plans and the outcome of any contingencies are Forward-Looking Statements. The Forward-Looking Statements are based on current estimates and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of such words and similar expressions are intended to identify such Forward-Looking Statements. The Forward-Looking Statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by any Forward-Looking Statements. Factors that could cause actual results to differ materially from the Forward-Looking Statements include, but are not limited to, inability to refinance, adverse tax consequences of offshore of operations, distribution problems, unforeseen environmental liabilities and the uncertain military, political and economic conditions in the world. These and other risks are detailed in Part I, Item 1 and elsewhere in this Form 10-K. The Company assumes no obligation to update publicly the Forward-Looking Statements contained herein, whether as a result of new information, future events or otherwise, except as may be required by law.

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 below 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, 2004, an aggregate principal amount of approximately $8,300,000 was outstanding under the Company's credit facility and term loans with a weighted average interest rate of approximately 3%. 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% the Company would pay or save, respectively, an additional $83,000 in interest that year. In October 2000, the Company entered into an interest rate swap to maintain the value-at-risk inherent in its interest rate exposures. This instrument expired on October 30, 2002.

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 have a material adverse affect on the Company's business, financial condition and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

a. Financial Statements: Financial statements required pursuant to this Item are presented on pages FS - 1 through FS - 24 of this report as follows:

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

JUNE 30, 2004 AND 2003

NAPCO SECURITY SYSTEMS, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

June 30, 2004 and 2003

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the
Board of Directors and Stockholders
Napco Security Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Napco Security Systems, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of June 30, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2004. Our audits also included the financial statement schedule as of and for the years ended June 30, 2004, 2003 and 2002 listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Napco Security Systems, Inc. and subsidiaries as of June 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ MARCUM & KLIEGMAN LLP

Woodbury, New York
September 14, 2004

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2004 and 2003
(In Thousands, Except Share Data)

ASSETS

	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	$ 796	$ 1,794
Accounts receivable, less reserve for doubtful accounts of $355 and $215, respectively	19,927	17,425
Inventories	14,594	16,922
Prepaid expenses and other current assets	760	525
Deferred income taxes	1,763	1,253
Total Current Assets	37,840	37,919
Property, plant and equipment, net	8,987	9,466
Goodwill, net	9,686	9,686
Other assets	159	278
TOTAL ASSETS	$56,672	$57,349

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2004 and 2003
(In Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2004	2003
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,900	$ 1,900
Accounts payable	3,789	3,374
Accrued expenses	963	1,812
Accrued salaries and wages	1,911	1,501
Accrued income taxes	285	489
Total Current Liabilities	8,848	9,076
Long-term debt, net of current portion	6,400	14,100
Accrued income taxes	2,243	--
Deferred income taxes	1,277	816
Total Liabilities	18,768	23,992
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (1)		
Common stock, par value $0.01 per share; Authorized 21,000,000 shares; issued and outstanding 7,086,392 and 6,397,392 shares, respectively	71	64
Additional paid-in capital	145	--
Retained earnings	37,688	33,293
TOTAL STOCKHOLDERS' EQUITY	37,904	33,357
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$56,672	$57,349

(1) Fiscal 2003 data restated to reflect the effect of a 2:1 stock split effective April 2004.

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2004, 2003, and 2002
(In Thousands, Except Share and Per Share Data)

	2004	2003	2002
Net sales	$ 58,093	$ 57,340	$ 55,836
Cost of sales	38,553	41,939	41,119
Gross Profit	19,540	15,401	14,717
Selling, general, and administrative expenses	13,475	13,176	11,900
Operating Income	6,065	2,225	2,817
Other income (expense):			
Interest expense, net	(420)	(727)	(1,409)
Other, net	(109)	127	(49)
	(529)	(600)	(1,458)
Income Before Income Taxes	5,536	1,625	1,359
Provision (benefit) for income taxes	2,201	615	(216)
Net Income	$ 3,335	$ 1,010	$ 1,575
Earnings per share: (1)			
Basic	$ 0.50	$ 0.15	$ 0.23
Diluted	$ 0.47	$ 0.14	$ 0.22
Weighted average number of shares outstanding: (1)			
Basic	6,632,000	6,863,000	6,752,000
Diluted	7,081,000	7,358,000	7,126,000

(1) Fiscal 2003 and 2002 restated to reflect the effect of a 2:1 stock split effective April 2004.

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (1)

Years Ended June 30, 2004, 2003 and 2002
(In Thousands, Except Share Data)

	Common stock		Additional		Treasury Stock		
	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Number of Shares	Amount	Total
BALANCE - July 1, 2001	5,938,852	$ 59	$ 831	$ 37,228	2,572,256	$(5,174)	$ 32,944
Retroactive effect of 2:1 stock split effective April 27, 2004	794,340	8	(831)	(4,351)	(2,572,256)	5,174	--
BALANCE - as adjusted	6,733,192	67	--	32,877	--	--	32,944
Purchase of treasury shares	(97,600)	(1)	--	(242)	--	--	(243)
Exercise of employee stock options	130,800	2	--	250	--	--	252
Net income	--	--	--	1,575	--	--	1,575
BALANCE - June 30, 2002	6,766,392	68	--	34,460	--	--	34,528
Purchase of treasury shares	(500,000)	(5)	--	(2,437)	--	--	(2,442)
Exercise of employee stock options	131,000	1	--	260	--	--	261
Net income	--	--	--	1,010	--	--	1,010
BALANCE - June 30, 2003	6,397,392	64	--	33,293	--	--	33,357
Exercise of employee stock options, July 1, 2003 to April 27, 2004	606,840	6	--	956	--	--	962
Tax benefit in connection with exercise of stock options	--	--	--	104	--	--	104
Exercise of employee stock options, April 28, 2004 to June 30, 2004	82,160	1	145	--	--	--	146
Net income	--	--	--	3,335	--	--	3,335
BALANCE - June 30, 2004	7,086,392	$ 71	$ 145	$ 37,688	--	$ --	$ 37,904

(1) Restated to reflect the effect of a 2:1 stock split effective April 27, 2004 (Note 1).

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2004, 2003, and 2002
(In Thousands)

	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 3,335	$ 1,010	$ 1,575
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,189	1,294	1,529
Provision for doubtful accounts	140	16	45
Deferred income taxes	(49)	173	(117)
Tax benefit in connection with exercise of stock options	104	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(2,642)	872	(1,418)
Inventories	2,328	2,041	4,271
Prepaid expenses and other current assets	(235)	366	4
Other assets	90	(90)	167
Accounts payable, accrued expenses, accrued salaries and wages, and accrued income taxes	2,015	800	1,035
Net Cash Provided By Operating Activities	6,275	6,482	7,091
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	(681)	(752)	(709)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(8,700)	(7,505)	(6,128)
Proceeds from long-term debt	1,000	4,250	200
Purchase of treasury shares	--	(2,442)	(243)
Proceeds from exercise of employee stock options	1,108	261	252
Net Cash Used In Financing Activities	(6,592)	(5,436)	(5,919)
Net Increase (Decrease) In Cash and Cash Equivalents	(998)	294	463
CASH AND CASH EQUIVALENTS - Beginning	1,794	1,500	1,037
CASH AND CASH EQUIVALENTS - Ending	$ 796	$ 1,794	$ 1,500

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2004, 2003, and 2002
(In Thousands)

	2004	2003	2002
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid, net	$427	$733	$1,403
Income taxes paid	$106	$ 15	$ 10

See accompanying notes to consolidated financial statements.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies

Nature of Business

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 wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Critical estimates include management's judgments associated with revenue recognition, concentration of credit risk, inventories, goodwill and income taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include approximately $308,000 and $223,000 of short-term time deposits at June 30, 2004 and 2003, respectively. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of June 30, 2004 and 2003.

Inventories

Inventories are valued at the lower of cost or fair market value, with cost being determined on the first-in, first-out (FIFO) method. The reported net value of inventory includes finished saleable products, work-in-process and raw materials that will be sold or used in future periods. Inventory cost includes raw materials, direct labor and overhead.

In addition, the Company records an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. For the fiscal years 2004, 2003 and 2002, charges/(recoveries) and balances in these reserves amounted to $1,035,000 and $2,035,000; $300,000 and $1,000,000; ($500,000) and $700,000; respectively. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Property, Plant, and Equipment

Property, plant, and equipment are carried at cost less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred; costs of major renewals and improvements are capitalized. At the time property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the asset and accumulated depreciation accounts and the profit or loss on such disposition is reflected in income.

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

Effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. These statements established accounting and reporting standards for acquired goodwill and other intangible assets. Specifically, the standards address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements. In accordance with SFAS No. 142, intangible assets, including purchased goodwill, must be evaluated for impairment. Those intangible assets that are classified as goodwill or as other intangibles with indefinite lives are not amortized.

In accordance with SFAS No. 142, the Company completed its transitional impairment testing of intangible assets during the first quarter of fiscal 2002. That effort, and preliminary assessments of the Company's identifiable intangible assets, indicated that no adjustment would be required upon adoption of this pronouncement. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The Company has performed its annual impairment evaluation required by this standard and determined that the goodwill is not impaired.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Long-Lived Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. An impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset.

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin Topic 13, Revenue Recognition, the Company recognizes revenue when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) there is a fixed and determinable price for the Company's product, (iii) shipment and passage of title occurs, and (iv) collectibility is reasonably assured. Revenues from merchandise sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of the sale. 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.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for the fiscal years ended June 30, 2004, 2003 and 2002 was $1,030,000, $1,128,000 and $1,084,000, respectively.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense in the year incurred. Company-sponsored research and development costs of $4,254,000, $4,516,000 and $4,239,000 were charged to expense for the fiscal years ended June 30, 2004, 2003 and 2002, respectively and are included in "Cost of Sales" in the consolidated statements of income.

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. Net deferred tax assets are adjusted by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax assets will not be realized. If the Company determines that a deferred tax asset will not be realizable or that a previously reserved deferred tax asset will become realizable, an adjustment to the deferred tax asset will result in a reduction of, or increase to, earnings at that time. The provision (benefit) for income taxes represents U.S. Federal, state and foreign taxes. Through June 30, 2001, the Company's subsidiary in the Dominican Republic, Napco/Alarm Lock Group International, S.A. ("Napco DR"), was not subject to tax in the United States, as a result, no taxes were provided. Effective July 1, 2001, the Company made a domestication election for Napco DR. Accordingly, its income will be subject to taxation in the United States on a going forward basis.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Stock Split

In March 2004, the Company's Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend of the Company's common stock payable to stockholders of record on April 13, 2004. The additional shares were distributed on April 27, 2004. The Company utilized all 2,871,056 of its shares held as treasury stock as of April 27, 2004 plus an additional 609,260 shares in paying this stock dividend. The cost of treasury stock was applied first to additional paid-in capital (to the extent there was a positive balance), then directly to retained earnings. All share and per share amounts (except par value) have been retroactively adjusted to reflect the stock split. There was no net effect on total stockholders' equity as a result of the stock split.

Earnings Per Share

The Company follows the provisions of SFAS No. 128, Earnings Per Share. Basic net income per common share (Basic EPS) is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per common share (Diluted EPS) is computed by dividing net income by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the consolidated statements of income.

The following provides a reconciliation of information used in calculating the per share amounts for the fiscal years ended June 30 (in thousands, except per share data):

	Net income			Weighted Average Shares			Net income per share		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Basic EPS:	$3,335	$1,010	$1,575	6,632	6,645	6,704	$ 0.50	$ 0.15	$ 0.23
Effect of Dilutive Securities:									
Employee stock options	--	--	--	449	495	374	(0.03)	(0.01)	(0.01)
Diluted EPS:	$3,335	$1,010	$1,575	7,081	7,140	7,078	$ 0.47	$ 0.14	$ 0.22

Options to purchase 10,000, 56,000 and 50,000 shares of common stock for the three fiscal years ended June 30, 2004, 2003 and 2002, 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 and, accordingly, their inclusion would be anti-dilutive. 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. Accordingly, the Company has elected to continue to apply the intrinsic value method of accounting set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, while providing the required pro forma disclosures as if the fair value method of SFAS No. 123 had been applied.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Under the intrinsic value method, no compensation expense is recognized if the exercise price of the Company's employee stock options equals or exceeds the market price of the underlying stock on the date of grant. Accordingly, no compensation cost has been recognized on options granted to employees. SFAS No. 123, requires that the Company provide pro forma information regarding net earnings and net earnings per common share as if compensation cost for the Company's stock option programs had been determined in accordance with the fair value method prescribed therein. The Company adopted the disclosure portion of SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure requiring quarterly SFAS No. 123 pro forma disclosure. The following table illustrates the effect on net earnings and earnings per common share as if the fair value method had been applied to all outstanding awards in each period presented:

	Year Ended June 30, 2004	2003	2002
	(In thousands, except per share data)		
Net income, as reported	$ 3,335	$ 1,010	$ 1,575
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	210	329	376
Pro forma net income	$ 3,125	$ 681	$ 1,199
Earnings per common share:			
Net earnings per common share - Basic, as reported	$ .50	$ 0.15	$ 0.23
Net earnings per common share - Basic, pro forma	$ .47	$ 0.10	$ 0.18
Net earnings per common share - Diluted, as reported	$ .47	$ 0.14	$ 0.22
Net earnings per common share - Diluted, pro forma	$ .44	$ 0.10	$ 0.17

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2004	2003	2002
Risk-free interest rates	4.70%	2.71%	3.50%
Expected lives	5 years	5 years	5 years
Expected volatility	48%	42%	43%
Expected dividend yields	0%	0%	0%

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. The realized and unrealized gains and losses associated with foreign currency translation, as well as related other comprehensive income, were not material for the three years ended June 30, 2004.

Comprehensive Income

The Company follows the provisions of SFAS No. 130, Reporting Comprehensive Income, which established rules for the reporting of comprehensive income and its components. For the fiscal years ended June 30, 2004, 2003 and 2002, the Company's operations did not give rise to material items includable in comprehensive income, which were not already included in net income. Accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Segment Reporting

The Company follows the provisions of 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 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 the 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, 2004 and 2003, management of the Company believes the carrying value of all financial instruments approximated fair value.

Shipping and Handling Revenues and Costs

Emerging Issues Task Force (EITF) Issue No. 00-10, Accounting for Shipping and Handling Revenues and Costs requires that all shipping and handling billed to customers should be reported as revenue and the costs associated with these revenues may be classified as either cost of sales, or selling, general, and administrative costs, with footnote disclosure as to classification of these costs. The Company records the amount billed to customers in net sales and classifies the costs associated with these revenues in cost of sales.

NOTE 1 - Nature of Business and Summary of Significant Accounting Policies, continued

Derivative Instruments and Hedging Activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities provides accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133, as amended, requires the recognition of all derivative instruments as either assets or liabilities in the balance sheet measured at fair value.

In October 2000, the Company entered into an interest rate swap to maintain the value-at-risk inherent in its interest rate exposures. This financial instrument expired in October 2002. This transaction met the requirements for cash flow hedge accounting, as the instrument was designated to a specific debt balance. Accordingly, any gain or loss associated with the difference between interest rates was included as a component of interest expense. The Company does not hold or enter into derivative financial instruments for trading or speculative purposes.

New Accounting Pronouncement

In January 2003, as revised December 2003, the FASB issued Interpretation No. 46R ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after March 15, 2004. The effect of the adoption of this new accounting pronouncement did not have a significant impact on the Company's consolidated financial statements for the year ended June 30, 2004.

NOTE 2 - Business and Credit Concentrations

The Company had two customers (Customer A and B) with accounts receivable balances that aggregated 31% and 29% of the Company's accounts receivable at June 30, 2004 and 2003, respectively. Sales to neither of these customers exceeded 10% of net sales in any of the past three years.

The Company had a third customer (Customer C) whose accounts receivable balance was 22% of the Company's accounts receivable at June 30, 2003. The Company had no accounts receivable due from this customer as of June 30, 2004. This customer accounted for 1%, 19% and 17% of the Company's net sales in fiscal 2004, 2003 and 2002. During the past three fiscal years no other customer represented more than 10% of the Company's net sales. The Company terminated its relationship with customer C in fiscal 2004.

NOTE 3 - Inventories

Inventories consist of the following:

	June 30	
	2004	2003
	(In thousands)	
Component parts	$ 9,423	$ 9,626
Work-in-process	1,352	2,443
Finished products	3,819	4,853
	$14,594	$16,922

NOTE 4 - Property, Plant, and Equipment

Property, plant and equipment consist of the following:

	June 30		Useful Life
	2004	2003	In years
	(In thousands)		
Land	$ 904	$ 904	--
Buildings	8,911	8,911	30 to 40
Molds and dies	4,438	4,360	3 to 5
Furniture and fixtures	1,334	1,223	5 to 10
Machinery and equipment	12,314	11,823	7 to 10
Leasehold improvements	191	191	Shorter of the lease term or life of asset
	28,092	27,412	
Less: accumulated depreciation and amortization	19,105	17,946	
	$ 8,987	$ 9,466	

Depreciation and amortization expense on property, plant, and equipment was approximately $1,159,000, $1,254,000 and $1,408,000 in fiscal 2004, 2003 and 2002, respectively.

NOTE 5 - Income Taxes

Provision (benefit) for income taxes consists of the following:

	For the Years Ended June 30		
	2004	2003	2002
	(In thousands)		
Current income taxes:			
Federal	$ 2,250	$ 428	$ --
Foreign	--	15	51
	2,250	443	51
Deferred income tax (benefit) expense	(49)	172	(267)
Provision (benefit) for income taxes	$ 2,201	$ 615	$ (216)

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 (dollars in thousands):

	For the Years Ended June 30					
	2004		2003		2002	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Tax at Federal statutory rate	$ 1,882	34.0%	$ 553	34.0%	$ 462	34.0%
Increases (decreases) in taxes resulting from:						
Meals and entertainment	54	1.0	55	3.4	46	3.3
State income taxes, net of Federal income tax benefit	97	1.7	--	--	--	--
Foreign source income and taxes			19	1.1	2,234	164.3
Valuation allowance	(97)	(1.7)	--	--	(2,913)	(214.2)
Other, net	265	4.8	(12)	(.7)	(45)	(3.3)
Provision (benefit) for income taxes	$ 2,201	39.8%	$ 615	37.8%	$ (216)	(15.9)%

NOTE 5 - Income Taxes, continued

Deferred tax assets and deferred tax liabilities at June 30, 2004 and 2003 are as follows (in thousands):

	Current Deferred Tax Assets (Liabilities)		Long-Term Deferred Tax Assets (Liabilities)	
	2004	2003	2004	2003
Accounts receivable	$ 105	$ 108	$ --	$ --
Inventories	1,229	847	--	--
Accrued liabilities	249	249	--	--
State net operating loss carryforward	97	--	--	--
Goodwill	--	--	(509)	(338)
Property, plant and equipment	--	--	(768)	(478)
Alternative minimum tax credit	167	49	--	--
Other	13	--	--	--
	1,860	1,253	(1,277)	(816)
Valuation allowance	(97)	--	--	--
Net deferred taxes	$ 1,763	$ 1,253	$(1,277)	$ (816)

In March 2003, Napco Security Systems, Inc. timely filed its income tax return for the fiscal year ended June 30, 2002. This return included an election to treat one of the Company's foreign subsidiaries, Napco DR, as if it were a domestic corporation beginning July 1, 2001. This election is based on a recently enacted Internal Revenue Code ("Code") provision. As a result of this election, Napco DR is treated, for Federal income tax purposes, as transferring all of its assets to a domestic corporation in connection with an exchange. Although this type of transfer usually results in the recognition of taxable income to the extent of any untaxed earnings and profits, the recently enacted Code provision provides an exemption for applicable corporations. The Company qualifies as an applicable corporation per this Code section, and based on this Code exemption, the Company's tax return treated the transfer of approximately $27,000,000 of Napco DR's untaxed earnings and profits as nontaxable.

The Internal Revenue service has issued a Revenue Procedure which is inconsistent with the Code exemption described above. Management believes that it has appropriately relied on the guidance in the Code when filing its income tax return. Nevertheless, as of June 30, 2002, the Company has removed the $2,225,000 deferred tax asset related to its net operating loss carryforward ("NOL") of $6,545,000. The NOL would have expired through 2017. As a result of the utilization of the NOL for book purposes, the Company has also eliminated the valuation allowance of $2,913,000 during the year ended June 30, 2002. The Company's tax provision utilizes estimates made by management and as such, is subject to change as described in Note 1.

NOTE 5 - Income Taxes, continued

The 1998 through 2002 income tax returns of the United Kingdom subsidiary were examined by the United Kingdom Inland Revenue. The resultant tax liability of $33,000 most of which relates to 1999, is reflected in the June 30, 2002 consolidated financial statements.

NOTE 6 - Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2004	2003
	(In thousands)	
Revolving credit and term loan facility (a)	$ 5,713	$11,513
Term loan (b)	1,650	3,300
Term loan (c)	937	1,187
	8,300	16,000
Less: current portion of long-term debt	1,900	1,900
	$ 6,400	$14,100

(a) In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to $18,000,000. The amended revolving credit agreement is secured by all the accounts receivable, inventory, the Company's headquarters in Amityville, New York and certain other assets of Napco Security Systems, Inc. and the common stock of three of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less 1/4% or an alternate rate based on LIBOR as described in the agreement. At June 30, 2004, the interest rate on this debt was 2.99%. The revolving credit agreement which was to expire in April 2005 was subsequently extended to July, 2005 and any outstanding borrowings are to be repaid or refinanced 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, 2004, the Company was in compliance with these covenants.

(b) On July 27, 2000, the Company entered into a five year $8,250,000 secured term loan with its primary bank in connection with the acquisition of Continental Instruments Systems, LLC. Under the agreement, the loan is to be repaid in 60 equal monthly installments of $137,500, plus interest. 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, 2004, the Company was in compliance with these covenants.

NOTE 6 - Long-Term Debt, continued

The Company entered into an interest rate swap agreement to exchange floating rate for fixed rate interest payments periodically over the life of this agreement. The interest rate swap was designated as a cash flow hedge and the difference between interest paid and received was included as a component of interest expense. The swap contract had a fixed interest rate of 8.68% and terminated on October 30, 2002. The debt instrument bears interest at either the Prime Rate or an alternate rate based on LIBOR as described in the agreement. At June 30, 2004 the interest rate on the debt was 3.34%

(c) In connection with the treasury stock repurchase described in Note 8, the Company entered into a five year $1,250,000 term loan from its primary bank. Under this agreement, the loan is to be repaid in 60 equal monthly installments of $20,833, plus interest at a variable rate as defined. At June 30, 2004, the interest rate on this debt was 3.19%.

Maturities of long-term debt are as follows:

Year Ending June 30,	Amount (In thousands)
2005	$1,900
2006	5,963
2007	250
2008	187
Total	$8,300

NOTE 7 - 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 authorized the granting of awards, the exercise of which would allow up to an aggregate of approximately 1,632,000 shares of the Company's common stock to be acquired by the holders of such awards. The 1992 Plan terminated in October 2002. As of June 30, 2004, there were 292,400 stock options granted to employees and directors of which 226,000 were exercisable.

In December 2002, the stockholders approved the 2002 Employee Stock Option Plan (the 2002 Plan). The 2002 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 680,000 shares of the Company's common stock to be acquired by the holders of such awards. Under the 2002 Plan, the Company may grant stock options, which are intended to qualify as incentive stock options (ISOs), to key employees. 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.

NOTE 7 - Stock Options, continued

Under the 2002 Plan, stock options have been granted to key employees with a term of 10 years at an exercise price equal to the fair market value 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, 2004, 406,000 stock options were granted, 274,000 stock options were available for grant, and 141,600 stock options were exercisable under this plan.

The following table reflects activity under the 1992 and 2002 Plans for the fiscal years ended:

	June 30					
	2004		2003		2002	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	1,284,400	$ 2.61	1,117,400	$ 1.89	1,153,700	$ 1.76
Granted	104,000	5.38	322,000	4.90	112,000	2.98
Exercised	(657,000)	1.61	(131,000)	1.99	(130,800)	1.93
Forfeited	(33,000)	3.25	(6,000)	1.94	(4,000)	1.94
Canceled/lapsed	--	--	(18,000)	1.94	(13,500)	1.94
Outstanding at end of year	698,400	$ 3.94	1,284,400	$ 2.61	1,117,400	$ 1.86
Exercisable at end of year	367,600	$ 3.34	850,400	$ 1.96	731,960	$ 1.75
Weighted average fair value of options granted	$ 3.05		$ 1.95		$ 1.23	

The following table summarizes information about stock options outstanding at June 30, 2004:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding at June 30, 2004	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at June 30, 2004	Weighted average exercise price
$1.50 to $1.93	40,000	0.7	$ 1.53	40,000	$ 1.53
$1.94 to $1.99	41,600	1.0	1.94	29,360	1.94
$2.00 to $3.19	210,800	1.9	2.64	156,640	2.55
$3.20 to $5.65	406,000	4.1	5.06	141,600	5.02
	698,400	3.02	$ 3.94	367,600	$ 3.34

NOTE 7 - Stock Options

In September 2000, the stockholders approved a 10 year extension of the already existing 1990 nonemployee stock option plan (the 2000 Plan) to encourage nonemployee directors and consultants of the Company to invest in the Company's stock. The 2000 Plan provides for the granting of nonqualified stock options, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of the stock options. The 2000 Plan provides that the option price will 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 nonemployee consultants, under which a compensation cost is recognized for the fair value of the options granted as of the date of grant. Under this plan, as of June 30, 2004, 2003 and 2002, 80,000 options were granted to directors with a weighted average exercise price of $2.07 and a weighted average remaining contractual life at June 30, 2004 of 1.2 years. There were 32,000 options exercised under the 2000 Plan during the year ended June 30, 2004. There were no other options exercised, cancelled, or forfeited under this plan during the years ended June 30, 2004, 2003 and 2002. As of June 30, 2004, 2003 and 2002, respectively, 32,000, 48,000 and 32,000 stock options were exercisable under this plan. No compensation expense was recorded for stock options granted to directors.

NOTE 8 - Stock Purchase

In January 2003, the Company repurchased 500,000 shares of its common stock from two stockholders, unaffiliated with the Company, at $4.88 per share, a discount from its then current trading price of $5.01. The transaction was approved by the Board of Directors and the purchase price of $2,442,000 (including fees of $5,000), was financed through the Company's revolving line of credit and a new five year term loan from its primary bank for $1,250,000. The term loan is being repaid in 60 equal monthly installments commencing on April 30, 2003.

NOTE 9 - 401(k) Plan

The Company maintains a 401(k) plan covering all U.S. 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 $73,000, $73,000, and $70,000 for the fiscal years ended 2004, 2003 and 2002, respectively.

NOTE 10 - Commitments and Contingencies

Leases

The Company is committed under various operating leases, which do not extend beyond fiscal 2010. Minimum lease payments through the expiration dates of these leases, with the exception of the land lease referred to below, are as follows:

Year Ending June 30,	Amount
2005	$142,000
2006	89,000
2007	67,000
2008	39,000
2009	1,000
Total	$338,000

Rent expense, with the exception of the land lease referred to below, totaled approximately $192,000, $321,000 and $319,000 for the fiscal years ended June 30, 2004, 2003 and 2002, 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 $288,000, on which the Company's principal production facility is located.

Letters of Credit

At June 30, 2004, the Company was committed for approximately $299,000 under open commercial letters of credit.

Litigation

In August 2001, the Company became a defendant in a product related lawsuit, in which the plaintiff seeks damages of approximately $17,000,000. This action is being defended by the Company's insurance company on behalf of the Company. Management believes that the action is without merit and plans to have this action vigorously defended.

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.

NOTE 10 Commitments and Contingencies, continued

Employment Agreements

As of June 30, 2004, the Company was obligated under four employment agreements and one severance agreement. Compensation under the agreements includes annual salaries approximating $1,085,000. The employment agreements provide for annual bonuses based upon sales and profits, or a formula to be determined by the Board of Directors, and various severance payments as defined in each agreement. One agreement, with current annual compensation of $471,000, includes additional compensation of 100,000 stock options that vest 20% per year or upon a change in control, as defined, and a termination payment in an amount equal to 299% of the average of the prior five calendar year's compensation, subject to certain limitations, as defined. The employment agreements expire at various times through June 2008.

NOTE 11 - Geographical Data

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.

The Company observes the provisions of SFAS No. 131. The following represents selected consolidated geographical data for the fiscal years ended June 30, 2004, 2003, and 2002:

	2004	2003	2002
	(In thousands)		
Sales to external customers(1):			
Domestic	$48,626	$47,965	$46,652
Export	9,467	9,375	9,184
	$58,093	$57,340	$55,836
Identifiable assets:			
United States	$40,153	$39,005	$40,955
Foreign(2)	16,519	18,344	19,797
	$56,672	$57,349	$60,752

(1) All of the Company's sales occur in the United States and are shipped primarily from the Company's facilities in the United States and United Kingdom. There were no sales into any one foreign country in excess of 10% of total net sales.

(2) Foreign identifiable assets consist primarily of inventories and fixed assets, which are located at the Company's principal manufacturing facility in the Dominican Republic.

SCHEDULE II

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Years Ended June 30, 2004, 2003, and 2002
(In Thousands)

Column A Description	Column B Balance at beginning of period	Column C Charged to costs and expenses	Column D Deductions/ (recoveries) (1)	Column E Balance at end of period
For the year ended June 30, 2002:				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 700	$ 45	$ 352	$ 393
For the year ended June 30, 2003:				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 393	$ 16	$ 194	$ 215
For the year ended June 30, 2004:				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 215	$ 140	$ --	$ 355

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

b. Supplementary Financial Data

QUARTERLY RESULTS

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).

	Fiscal Year Ended June 30, 2004			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 9,835	$ 14,629	$ 14,742	$ 18,887
Gross Profit	2,983	4,552	4,622	7,383
Income (Loss) from Operations	(294)	1,247	1,259	3,853
Net Income (Loss)	(282)	728	734	2,155
Net Income (Loss) Per Share				
Basic EPS	(.04)*	.11*	.11	.32
Diluted EPS	(.04)*	.10*	.11	.30

	Fiscal Year Ended June 30, 2003			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	$ 11,725	$ 13,859	$ 13,406	$ 18,350
Gross Profit	3,048	3,569	3,496	5,288
Income (Loss) from Operations	(233)	424	9	2,025
Net Income (Loss)	(183)	145	(136)	1,184
Net Income (Loss) Per Share:				
Basic EPS	(.03)*	.02*	(.03)*	.19*
Diluted EPS	(.03)*	.02*	(.03)*	.18*

* Restated to reflect 2:1 stock split reported in the third fiscal quarter of 2004.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND 304(B) FINANCIAL DISCLOSURE.

None

ITEM 9A. CONTROL AND PROCEDURES

At the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13 a - 15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective and sufficient to timely alert them to material information required to be included in the Company's periodic SEC filings and to ensure that the information required to be disclosed in the reports that the Company files under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. During the fourth quarter of 2004, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

The information called for by Part III is hereby incorporated by reference from the information set forth and under the headings "Beneficial Ownership of Common Stock", "Election of Directors", "Executive Compensation", "Corporate Governance and Board Matters", "Information Concerning Executive Officers", "Section 16(a) Beneficial Ownership Reporting Compliance" and "Principal Accountant Fees and Services" in the Company's definitive proxy statement for the 2004 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. 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:

(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:

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.

(a)3 and (b). Exhibits

Management Contracts designated by asterisk.

Exhibit No.	Title	
Ex-3.(i)	Articles of Incorporation, as amended	Exhibit 3(I) to Report on Form 10-Q for the fiscal year ended December 31, 2001
Ex-3.(ii)	Amended and Restated By-Laws	E-1
Ex-10.A (i)	Amended and Restated 1992 Incentive Stock Option Plan	Exhibit 10.A to Report on Form 10-K for fiscal year ended June 30, 2001
*Ex-10.A (ii)	2002 Employee Stock Option Plan	Exhibit 10.Y to Report on Form 10-Q for the fiscal quarter ended December 31, 2003
*Ex-10.B	2000 Non-Employee Stock Option Plan	Exhibit 10.B to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.C	Loan and Security Agreement with Marine Midland Bank dated as of May 12 1997	E-17
Ex-10.D	Revolving Credit Note #1 to Marine Midland Bank dated as of May 12 1997	E-65
Ex-10.E	Revolving Credit Note #2 to Marine Midland Bank dated as of May 12 1997	E-72
Ex-10.F	Promissory Note to Marine Midland Bank dated as of May 12 1997	E-79
Ex-10.G	Amendment No.1 to the Loan and Security Agreement with Marine Midland Bank dated as of May 28 1998	E-83
Ex-10.H	Term Loan Note to Marine Midland Bank dated as of May 28 1998	E-87
*Ex-10.I	Amended and Restated Employment Agreement with Richard Soloway	Exhibit 10.I to Report on Form 10-K for fiscal year ended June 30, 2003
*Ex.10.J	Employment Agreement with Jorge Hevia	Exhibit 10.R to Report on Form 10-Q for period ended March 31, 2001
Ex-10.K	Amendment No. 2 to the Loan and Security Agreement with HSBC Bank dated as of June 30,2001	Exhibit 10.S to Report on Form 10-K for fiscal year ended June 30, 2001
*Ex-10.L	Employment Agreement with Michael Carrieri	Exhibit 10.U to Report on Form 10-Q For fiscal quarter ended September 30, 2001

*Ex-10.M	Indemnification Agreement dated August 9, 2001	Exhibit 10.T to Report on Form 10-K For fiscal year ended June 30, 2001
Ex-10.O	Amendment No. 4 to Loan and Security Agreement	Exhibit 10.V to Report on Form 8-K Filed July 27, 2002
Ex-10.P	Amendment No. 8 to Loan and Security Agreement	Exhibit 10.W to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.Q	Note Modification Agreement	Exhibit 10.W to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.R	Amendment No. 10 to the Loan and Security Agreement	Exhibit 10.R to Report on Form 10-K for fiscal year ended June 30, 2003
Ex-10.S	Amendment No. 3 to the Loan and Security Agreement	E-91
Ex-10.T	Amendment No. 9 to the Loan and Security Agreement	E-97
Ex-10.U	Amendment No. 11 to the Loan and Security Agreement	E-106
Ex-10.V	Amendment No. 12 to the Loan and Security Agreement	E-111
Ex-10.W	Amendment No. 13 to the Loan and Security Agreement	E-116
Ex-14.0	Code of Ethics	Exhibit 14.0 to Report on Form 10-K for the fiscal year ended June 30, 2003
Ex-21.0	Subsidiaries of the Registrant	E-121
Ex-23.1	Consent of Independent Auditors	E-122
Ex-31.1	Section 302 Certification of Chief Executive Officer	E-123
Ex-31.2	Section 302 Certification of Chief Financial Officer	E-124
Ex-32.1	Certification of Chief Executive Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-125
Ex-32.2	Certification of Chief Financial Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-126

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 27, 2004

NAPCO SECURITY SYSTEMS, INC.
(Registrant)

By: /s/ RICHARD SOLOWAY
Richard Soloway
Chairman of the Board of
Directors, President and Secretary
(Principal Executive 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, President and Secretary (Principal Executive Officer) and Director	September 27, 2004
/s/KEVIN S. BUCHEL Kevin S. Buchel	Senior Vice President of Operations and Finance and Treasurer (Principal Financial and Accounting Officer) and Director	September 27, 2004
/s/PAUL STEPHEN BEEBER Paul Stephen Beeber	Director	September 27, 2004
/s/RANDY B. BLAUSTEIN Randy B. Blaustein	Director	September 27, 2004
/s/ARNOLD BLUMENTHAL Arnold Blumenthal	Director	September 27, 2004
/s/DONNA SOLOWAY Donna Soloway	Director	September 27, 2004
/s/ANDREW J WILDER Andrew J. Wilder	Director	September 27, 2004

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 or 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 of 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 (1) 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) The 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 of 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.

LOAN AND SECURITY AGREEMENT

between

NAPCO SECURITY SYSTEMS, INC.
("Debtor")

With a place of business at:

333 Bayview Avenue
Amityville, NY 11701

(Suffolk County)

and

MARINE MIDLAND BANK
("Secured Party")

With a place of business at:

534 Broad Hollow Road
New York, NY 11747

Dated as of May 12, 1997

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EXHIBITS

DEBTOR AND SECURED PARTY AGREE AS FOLLOWS:

1. DEFINITIONS:

1.1. CERTAIN SPECIFIC TERMS. For purposes of this Agreement, the following terms shall have the following meanings:

(a) ACCOUNT DEBTOR means the person, firm, or entity obligated to pay a Receivable.

(b) ADJUSTED LIBOR RATE means a rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to the product arrived at by multiplying the Base Libor Rate (as hereinafter defined) with respect to the applicable Interest Period (as hereinafter defined) by a fraction (expressed as a decimal); the numerator of which shall be the number one and the denominator of which shall be the number one minus the aggregate reserve percentages (expressed as a decimal) from time to time established by the Board of Governors of the Federal Reserve System of the United States and other banking authority to which the Secured Party is now or hereafter subject, including, but not limited to, any Reserve Eurocurrency Liabilities as defined in Regulation D of the Board of Governors of the Federal Reserve System of the United States at the ratios provided in such Regulation, from time to time, it being agreed that any portion of the Indebtedness (as hereinafter defined) bearing interest at a Libor Rate shall be deemed to constitute Eurocurrency Liabilities, as defined by such Regulation, and it being further agreed that such Eurocurrency Liabilities shall be deemed to be subject to such reserve requirements without benefit of or credit for prorations, exceptions or offsets that may be available to the Secured Party from time to time under such Regulation and irrespective of whether the Secured Party actually maintains all or any portion of such reserve.

(c) ADVANCE means a loan made to Debtor by Secured Party, pursuant to this Agreement.

(d) AGREEMENT or LOAN AGREEMENT means this Loan and Security Agreement including all exhibits hereto, as the same may be amended or otherwise modified from time to time; the terms "herein", "hereunder" and like terms shall be taken as referring to this Agreement in its entirety and shall not be limited to any particular section or provision thereof.

(e) BASE LIBOR RATE applicable to a particular Interest Period means a rate per annum (rounded upwards, if necessary, to the next 1/16th of 1%) equal to the rate at which dollars approximately equal in principal amount to the applicable portion of the Indebtedness and for a maturity equal to the applicable Interest Period are offered in immediately available funds to the

Secured Party by leading banks in the London Interbank Market for Eurodollars at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period.

(f) BORROWING means the incurrence of an Advance on a given date.

(g) BORROWING CAPACITY means, at the time of computation, $16,000,000.

(h) BUSINESS DAY means a day other than a Saturday, Sunday, or other day on which banks are authorized or required to close under the laws of New York or the State.

(i) COLLATERAL means collectively all of the property of Debtor subject to the Security Interest and described in Sections 3.1 and 3.2.

(j) COMMITMENT or COMMITMENTS means Secured Party's obligations, pursuant to the terms of this Agreement, to make Advances under the Revolving Credit Facility.

(k) CONSOLIDATED SUBSIDIARY means Alarm Lock Systems, Inc. ("Alarm"), NAPCO Security Systems International, Inc. ("NAPCO International"), UMI Manufacturing Corp. ("UMI"), E.E. Electronic Components Inc. ("E.E."), Derringer Security Systems, Inc. ("Derringer"), Raltech Logic, Inc. ("Raltech") and any other corporation of which at least 50% of the voting stock is owned by Debtor directly, or indirectly, through one or more Consolidated Subsidiaries.

(l) CURRENT ASSETS shall be determined in accordance with GAAP.

(m) CURRENT LIABILITIES shall be determined in accordance with GAAP.

(n) DEBTOR means the person or entity defined on the cover page to this Agreement.

(o) DEBT SERVICE COVERAGE RATIO means net income plus non cash expense plus interest expense divided by interest expense plus current portion of long term debt.

(p) DISPOSAL means the intentional or unintentional abandonment, discharge, deposit, injection, dumping, spilling, leaking, burning, thermal destruction, or placing of any Hazardous Substance so that it or any of its constituents may enter the environment.

(q) ENVIRONMENT means any water including, but not limited to, surface water and ground water or water vapor; any land including land surface or subsurface; stream sediments; air, fish, wildlife, plants; and all other natural resources or environmental media.

(r) ENVIRONMENTAL LAWS means all federal, state, and local environmental, land use, zoning, health, chemical use, safety and sanitation laws, statutes, ordinances, regulations, codes, and rules relating to the protection of the Environment and/or governing the use, storage, treatment, generation, transportation, processing, handling, production, or disposal of Hazardous Substances and the policies, guidelines, procedures, interpretations, decisions, orders, and directives of federal, state, and local governmental agencies and authorities with respect thereto.

(s) ENVIRONMENTAL PERMITS means all licenses, permits, approvals, authorizations, consents or registrations required by any applicable Environmental Laws and all applicable judicial and administrative orders in connection with ownership, lease, purchase, transfer, closure, use, and/or operation of any property owned, leased or operated by Debtor or any Consolidated Subsidiary and/or as may be required for the storage, treatment, generation, transportation, processing, handling, production, or disposal of Hazardous Substances.

(t) ENVIRONMENTAL QUESTIONNAIRE means a questionnaire and all attachments thereto concerning (i) activities and conditions affecting the Environment at any property of Debtor or any Consolidated Subsidiary or (ii) the enforcement or possible enforcement of any Environmental Law against Debtor or any Consolidated Subsidiary.

(u) ENVIRONMENTAL REPORT means a written report prepared for Secured Party by an environmental consulting or environmental engineering firm.

(v) ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

(w) EVENT OF DEFAULT or EVENTS OF DEFAULT means an Event of Default or Events of Default as defined in Section 11.1.

(x) FEDERAL BANKRUPTCY CODE means Title 11 of the United States Code, entitled "Bankruptcy," as amended, or any successor federal bankruptcy law.

(y) GAAP means Generally Accepted Accounting Principles set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other statements by such other entity as may be approved by a significant segment of the accounting profession, which are applicable in the circumstances as of the date in question, consistently applied within a period and from period to period, provided, however, that if employment of more than one principle shall be permissible at such time in respect to a particular accounting matter, "GAAP" shall refer to the principle which is then employed by Debtor with the concurrence of the independent certified public accountants of Debtor.

(z) HAZARDOUS SUBSTANCES means, without limitation, any explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum and petroleum products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances, and any other material defined as a hazardous substance in Section 101(14) of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601(14).

(aa) INDEBTEDNESS means the indebtedness secured by the Security Interest and described in Section 3.3.

(bb) INTANGIBLE ASSETS means (1) all loans or advances to, and other receivable owing from, any officers, employees, subsidiaries and other affiliates, (2) all investments in a subsidiary, (3) goodwill, (4) any other assets deemed intangible under GAAP.

(cc) INTEREST PERIOD means the period of time during which a particular Libor Rate Option (as hereinafter defined) will be applicable to a portion of the Indebtedness, it being agreed that (i) each Interest Period shall be of a duration of, at the option of the Borrower, one month, two months, three months, four months, six months, nine months or twelve months (ii) no Interest Period shall extend beyond the Term, (iii) the principal balance with respect to which a particular Interest Period is applicable will bear interest at the Libor Rate Option pertaining to such Interest Period from and including the first day of such Interest Period to, but not including, the last day of such Interest Period.

(dd) INTERNAL REVENUE CODE means the Internal Revenue Code of 1986, as amended from time to time.

(ee) INVENTORY means inventory, as defined in the Uniform Commercial Code as in effect in the State as of the date

of this Agreement, and in any event shall include returned or repossessed Goods.

(ff) LIBOR RATE OPTION means a rate per annum equal to one and one half of one (1.50%) percent per annum plus the Adjusted Libor Rate with respect to the applicable Interest Period.

(gg) PENSION EVENT means, with respect to any Pension Plan, the occurrence of (i) any prohibited transaction described in Section 406 of ERISA or in Section 4975 of the Internal Revenue Code; (ii) any Reportable Event; (iii) any complete or partial withdrawal, or proposed complete or partial withdrawal, of Debtor or any Consolidated Subsidiary from such Pension Plan; (iv) any complete or partial termination, or proposed complete or partial termination, of such Pension Plan; or (v) any accumulated funding deficiency (whether or not waived), as defined in Section 302 of ERISA or in Section 412 of the Internal Revenue Code.

(hh) PENSION PLAN means any pension plan, as defined in Section 3(2) or ERISA, which is a multiemployer plan or a single employer plan, as defined in Section 4001 of ERISA, and subject to Title IV of ERISA and which is (i) a plan maintained by Debtor or any Consolidated Subsidiary for employees or former employees of Debtor or of any Consolidated Subsidiary; (ii) a plan to which Debtor or any Consolidated Subsidiary contributes or is required to contribute; (iii) a plan to which Debtor or any Consolidated Subsidiary was required to make contributions at any time during the five (5) calendar years preceding the date of this Agreement; or (iv) any other plan with respect to which Debtor or any Consolidated Subsidiary has incurred or may incur liability, including, without limitation, contingent liability, under Title IV of ERISA either to such plan or to the Pension Benefit Guaranty Corporation. For purposes of this definition, and for purposes of Sections 1.1(cc), 4.12, and 11.1(i), Debtor shall include any trade or business (whether or not incorporated) which, together with Debtor or any Consolidated Subsidiary, is deemed to be a "single employer" within the meaning of Section 4001(b)(1) of ERISA.

(ii) PRIME RATE means the rate of interest publicly announced by Marine Midland Bank from time to time as its prime rate and is a base rate for calculating interest on certain loans. The rate announced by Marine Midland Bank as its prime rate may or may not be the most favorable rate charged by Marine Midland Bank to its customers.

(jj) RECEIVABLE means the right to payment for Goods sold or leased or services rendered by Debtor, whether or not earned by performance, and may, without limitation, in whole or in part be in the form of an Account, Chattel Paper, Document, or

Instrument.

(kk) RELEASE means "release", as defined in Section 101(22) of the Comprehensive, Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601(22), and the regulations promulgated thereunder.

(ll) REPORTABLE EVENT means any event described in Section 4043(b) of ERISA or in regulations issued thereunder with regard to a Pension Plan.

(mm) REVOLVING CREDIT FACILITY means the Advances made or to be made available to Debtor by Secured Party pursuant to the terms of this Agreement, and as evidenced by the Revolving Credit Note.

(nn) REVOLVING CREDIT NOTE or NOTE means, individually, jointly, severally, and collectively, the revolving credit note #1 in the aggregate sum not to exceed $1,000,000., as the same may be amended and/or extended from time to time ("Note #1") and the revolving credit note # 2 in the aggregate sum not to exceed $15,000,000. ("Note #2"), as the same may be amended and/or extended from time to time ("Note #2"),.

(oo) RESPONSIBLE PARTY means an Account Debtor, a general partner of an Account Debtor, or any party otherwise in any way directly or indirectly liable for the payment of a Receivable.

(pp) SECURED PARTY means the person or entity defined on the cover page of this Agreement and any successors or assigns of Secured Party.

(qq) SECURITY INTEREST means the security interest granted to Secured Party by Debtor as described in Section 3.1.

(rr) STATE means New York State.

(ss) TANGIBLE NET WORTH means total stockholders' equity minus Intangible Assets, all to be determined in accordance with GAAP.

(tt) TERM or LOAN PERIOD means the period from the date hereof until the Termination Date.

(uu) TERMINATION DATE means the earlier to occur of (a) May __, 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.

(vv) THIRD PARTY means any person or entity who has

executed and delivered, or who in the future may execute and deliver, to Secured Party any agreement, instrument, or document, pursuant to which such person or entity has guaranteed to Secured Party the payment of the Indebtedness or has granted Secured Party a security interest in or lien on some or all of such person's or entity's real or personal property to secure the payment of the Indebtedness.

(ww) TOTAL LIABILITIES shall be determined in accordance with GAAP, but, in any event, shall exclude the principal balance of any debt that is subordinated to Secured Party in a manner satisfactory to Secured Party.

(xx) TRANSACTION DOCUMENTS means this Agreement and all documents, including, without limitation, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, any Third Party, or any Responsible Party pursuant hereto or in connection herewith, in connection with the issuance of a certain standby letter of credit in the amount not to exceed $2,500,000. by Secured Party in favor of Citibank, N.A., at the request of and for the benefit of Debtor, the reimbursement obligations being evidenced by a promissory note in the principal sum not to exceed $2,500,000., and a letter of credit application and reimbursement agreement, each dated of even date hereof, and a certain uncommitted trade line established by Marine in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated of even date hereof.

(yy) VARIABLE RATE OPTION means a fluctuating annual rate equal to the Prime Rate.

1.2. SINGULARS AND PLURALS. Unless the context otherwise requires, words in the singular number include the plural, and in the plural include the singular.

1.3. U.C.C. DEFINITIONS. Unless otherwise defined in Section 1.1 or elsewhere in this Agreement, capitalized words shall have the meanings set forth in the Uniform Commercial Code as in effect in the State as of the date of this Agreement.

1.4. ACCOUNTING TERMS. All other accounting terms used herein or in the other Transaction Documents not specifically defined shall have the meanings defined under GAAP.

2. ADVANCES.

2.1. REQUESTS FOR AN ADVANCE. From time to time, Debtor may make a written or oral request for an Advance, so long as the sum of the aggregate principal balance of outstanding advances and the requested Advance does not exceed the Borrowing Capacity as then computed; and Secured Party shall make such requested Advance, provided that (i) the Borrowing Capacity would not be so exceeded; (ii) there has not occurred an Event of Default for which a waiver signed by a duly authorized Officer of Secured Party was not obtained, or an event which, with notice or lapse of time or both, would constitute an Event of Default; and (iii) all representations and warranties contained in this Agreement and in the other Transaction Documents are true and correct on the date such requested Advance is made as though made on and as of such date. Each oral request for an Advance shall be conclusively presumed to be made by a person authorized by Debtor to do so, and the making of the Advance to Debtor as hereinafter provided shall conclusively establish Debtor's obligation to repay the Advance.

2.2. PROCEEDS OF AN ADVANCE. Proceeds of Advances shall be paid in the manner agreed by Debtor and Secured Party in writing or, absent any such agreement, as determined by Secured Party.

2.3. Intentionally Deleted.

2.4. LETTERS OF CREDIT. At the request of Debtor, and upon execution of Letter of Credit documentation satisfactory to Secured Party, Secured Party, within the limits of the Borrowing Capacity as then computed, may issue Letters of Credit from time to time for the account of Debtor in an amount not exceeding in the aggregate at any one time outstanding $2,500,000.00. The Letters of Credit shall be on terms mutually acceptable to Secured Party and Debtor and no Letter of Credit shall have an expiration date later than the termination date of this Agreement. An Advance in an amount equal to any amount paid by Secured Party on any draft drawn under any Letter of Credit shall be deemed made to Debtor, without request therefor, immediately upon any payment by Secured Party on such draft. In connection with the issuance of Letters of Credit, Debtor shall pay to Secured Party fees as mutually agreed upon.

3. COLLATERAL AND INDEBTEDNESS SECURED.

3.1. SECURITY INTEREST. Debtor hereby grants to Secured Party a security interest in, and a lien on, the following property of Debtor wherever located and whether now owned or hereafter acquired:

(a) All Accounts, Inventory, General Intangibles, Chattel Paper, Documents, and Instruments, whether or not specifically assigned to Secured Party, including, without

limitation, all Receivables.

(b) All guaranties, collateral, liens on, or security interests in, real or personal property, leases, letters of credit and other rights, agreements, and property securing or relating to payment of Receivables.

(c) All books, records, ledger cards, data processing records, computer software, and other property at any time evidencing or relating to Collateral.

(d) All monies, securities, and other property now or hereafter held, or received by, or in transit to, Secured Party from or for Debtor, and all of Debtor's deposit accounts, credits, and balances with Secured Party existing at any time.

(e) All parts, accessories, attachments, special tools, additions, replacements, substitutions and accessions to or for all of the foregoing.

(f) All Proceeds and products of all of the foregoing in any form, including, without limitation, amounts payable under any policies of insurance insuring the foregoing against loss or damage, and all increases and profits received from all of the foregoing.

3.2. OTHER COLLATERAL. Nothing contained in this Agreement shall limit the rights of Secured Party in and to any other collateral securing the Indebtedness which may have been, or may hereafter be, granted to Secured Party by Debtor or any Third Party, pursuant to any other agreement.

3.3. INDEBTEDNESS SECURED. The Security Interest secures payment of any and all indebtedness, and performance of all obligations and agreements, of Debtor to Secured Party, whether now existing or hereafter incurred or arising, of every kind and character, primary or secondary, direct or indirect, absolute or contingent, sole, joint or several, and whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred, including, without limitation: (a) all Advances; (b) all interest which accrues on any such indebtedness, until payment of such indebtedness in full, including, without limitation, all interest provided for under this Agreement; (c) all other monies payable by Debtor, and all obligations and agreements of Debtor to Secured Party, pursuant to

the Transaction Documents; (d) all debts owed, or to be owed, by Debtor to others which Secured Party has obtained, or may obtain, by assignment or otherwise; (e) all monies payable by any Third Party, and all obligations and agreements of any Third Party to Secured Party, pursuant to any of the Transaction Documents; and (f) all monies due, and to become due, pursuant to Section 7.3.

4. REPRESENTATIONS AND WARRANTIES. To induce Secured Party to enter into this Agreement, and make Advances to Debtor from time to time as herein provided, Debtor represents and warrants, to the best of its knowledge, and, so long as any Indebtedness remains unpaid or this Agreement remains in effect, shall be deemed continuously to represent and warrant as follows:

4.1. CORPORATE EXISTENCE. Debtor and Alarm each is duly organized and existing and in good standing under the laws of the state of Delaware and is duly licensed or qualified to do business and in good standing in every state in which the nature of its business or ownership of its property requires such licensing or qualification. Other than Alarm (Alarm being a corporation organized under the laws of the state of Delaware) and other than Raltech (Raltech having been dissolved by proclamation, with Raltech not having any present intention of being reinstated), each domestic Consolidated Subsidiary is duly organized and existing and in good standing under the laws of the State and is duly licensed or qualified to do business and in good standing in every state in which the nature of its business or ownership of its property requires such licensing or qualification.

4.2 CORPORATE CAPACITY. The execution, delivery and performance of the Transaction Documents are within Debtor's corporate powers, have been duly authorized by all necessary and appropriate corporate and shareholder action, and are not in contravention of any law or the terms of Debtor's articles or certificate of incorporation or by-laws or any amendment thereto, or of any indenture, agreement, undertaking, or other document to which Debtor is a party or by which Debtor or any of Debtor's property is bound or affected.

4.3. VALIDITY OF RECEIVABLES. (a) each copy of each invoice is a true and genuine copy of the original invoice sent to the account debtor named therein and accurately evidences the transaction from which the underlying Receivable arose, and the date payment is due as stated on each Invoice or computed based on the information set forth on each such Invoice is correct; (b) all Chattel Paper, and all promissory notes, drafts, trade acceptances, and other instruments for the payment of money relating to or evidencing each Receivable, and each endorsement thereon, are true and genuine and in all respects what they purport to be, and are the valid and binding obligation of all parties thereto, and the date or dates stated on all such items as the date on which payment in whole or in part is due is correct; (c) all Inventory described in each Invoice has been delivered to the Account Debtor named in such Invoice or placed

for such delivery in the possession of a carrier not owned or controlled directly or indirectly by Debtor; (d) all evidence of the delivery or shipment of Inventory is true and genuine; (e) all services to be performed by Debtor in connection with each Receivable have been performed by Debtor; and (f) all evidence of the performance of such services by Debtor is true and genuine.

4.4. INVENTORY. (a) All representations made by Debtor to Secured Party, and all documents and schedules given by Debtor to Secured Party, relating to the description, quantity, quality, condition, and valuation of the Inventory are true and correct; (b) Inventory is located only at the address or addresses of Debtor set forth at the beginning of this Agreement, or such other place or places as approved by Secured Party in writing; (however Debtor has signed a lease for a location at 9/21 Prestwood, Risley, Warrington, England, where it will house Inventory (c) all Inventory is insured as required by Section 9.11, pursuant to policies in full compliance with the requirements of such Section; and (d) all domestically manufactured or produced Inventory has been produced by Debtor in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders promulgated thereunder.

4.5. TITLE TO COLLATERAL. (a) Debtor is the owner of the Collateral free of all security interests, liens, and other encumbrances, except the Security Interest; (b) Debtor has the unconditional authority to grant the Security Interest to Secured Party; and (c) assuming that all necessary Uniform Commercial Code filings have been made and, if applicable, assuming compliance with the Federal Assignment of Claims Act of 1940, as amended, Secured Party has an enforceable first lien on all Collateral.

4.6. Intentionally Deleted Prior to Execution.

4.7. Intentionally Deleted Prior to Execution.

4.8. PLACE OF BUSINESS. (a) Debtor is engaged in business operations which are in whole, or in part, carried on at the address or addresses specified at the beginning of this Agreement and at no other address or addresses (except that Debtor has signed a lease for space at 9/21 Prestwood, Risley, Warrington, England); (b) if Debtor has more than one place of business, its chief executive office is at the address specified as such at the beginning of this Agreement; and (c) Debtor's records concerning the Collateral are kept at the address specified at the beginning of this Agreement.

4.9. FINANCIAL CONDITION. Debtor has furnished to Secured Party Debtor's most current financial statements, including, without limiting the foregoing, the most recent interim statements of Debtor, which statements represent correctly and fairly the results of the operations and transactions of Debtor and the Consolidated Subsidiaries as of the dates, and for the period referred to, and have been prepared in accordance with GAAP applied during each interval involved and from interval to interval. Since the date of such financial statements, there have not been any materially adverse changes in the financial condition reflected in such financial statements, except as disclosed in writing by Debtor to Secured Party.

4.10. TAXES. Except as disclosed in writing by Debtor to Secured Party including Debtor's financial statements provided to Secured Party: (a) all federal and other tax returns required to be filed by Debtor and each Consolidated Subsidiary have been filed, and all taxes required by such returns have been paid; and (b) neither Debtor nor any Consolidated Subsidiary has received any notice from the Internal Revenue Service or any other taxing authority proposing additional taxes.

4.11. LITIGATION. Except as disclosed in writing by Debtor to Secured Party, there are no actions, suits, proceedings, or investigations pending or, to the knowledge of Debtor, threatened against Debtor or any Consolidated Subsidiary or any basis therefor which, if adversely determined, would, in any case or in the aggregate, materially adversely affect the property, assets, financial condition, or business of Debtor or any Consolidated Subsidiary or materially impair the right or ability of Debtor or any Consolidated Subsidiary to carry on its operations substantially as conducted on the date of this Agreement.

4.12. ERISA MATTERS. (a) No Pension Plan has been terminated, or partially terminated, or is insolvent, or in reorganization, nor have any proceedings been instituted to terminate or reorganize any Pension Plan; (b) neither Debtor nor any Consolidated Subsidiary has withdrawn from any Pension Plan in a complete or partial withdrawal, nor has a condition occurred which, if continued, would result in a complete or partial withdrawal; (c) neither Debtor nor any Consolidated Subsidiary has incurred any withdrawal liability, including, without limitation, contingent withdrawal liability, to any Pension Plan, pursuant to Title IV of ERISA; (d) neither Debtor nor any Consolidated Subsidiary has incurred any liability to the Pension Benefit Guaranty Corporation other than for required insurance premiums which have been paid when due; (e) no Reportable Event has occurred; (f) no Pension Plan or other "employee pension benefit plan" as defined in Section 3(2) of ERISA, to which

Debtor or any Consolidated Subsidiary is a party has an "accumulated funding deficiency" (whether or not waived), as defined in Section 302 of ERISA or in Section 412 of the Internal Revenue Code; (g) the present value of all benefits vested under any Pension Plan does not exceed the value of the assets of such Pension Plan allocable to such vested benefits; (h) each Pension Plan and each other "employee benefit plan", as defined in Section 3(3) of ERISA, to which Debtor or any Consolidated Subsidiary is a party is in substantial compliance with ERISA, and no such plan or any administrator, trustee, or fiduciary thereof has engaged in a prohibited transaction described in Section 406 of ERISA or in Section 4975 of the Internal Revenue Code; (i) each Pension Plan and each other "employee benefit plan" as defined in Section 3(2) of ERISA, to which Debtor or any Consolidated Subsidiary is a party has received a favorable determination by the Internal Revenue Service with respect to qualification under Section 401(a) of the Internal Revenue Code; and (j) neither Debtor nor any Consolidated Subsidiary has incurred any liability to a trustee or trust established pursuant to Section 4049 of ERISA or to a trustee appointed pursuant to Section 4042(b) or (c) of ERISA.

4.13. ENVIRONMENTAL MATTERS.

(a) Any Environmental Questionnaire previously provided to Secured Party was and is accurate and complete and does not omit any material fact the omission of which would make the information contained therein materially misleading.

(b) No above ground or underground storage tanks containing Hazardous Substances are, or have been located on, any property owned, leased, or operated by Debtor or any domestic Consolidated Subsidiary.

(c) No property owned, leased, or operated by Debtor or any domestic Consolidated Subsidiary is, or has been, used for the Disposal of any Hazardous Substance or for the treatment, storage, or Disposal of Hazardous Substances.

(d) No Release of a Hazardous Substance has occurred, or is threatened on, at, from, or near any property owned, leased, or operated by Debtor or any domestic Consolidated Subsidiary.

(e) Neither Debtor nor any domestic Consolidated Subsidiary is subject to any existing, pending, or threatened

suit, claim, notice of violation, or request for information under any Environmental Law nor has Debtor or any domestic Consolidated Subsidiary provided any notice or information under any Environmental Law.

(f) Debtor and each domestic Consolidated Subsidiary are in compliance with, and have obtained all Environmental Permits required by, all Environmental Laws.

4.14. VALIDITY OF TRANSACTION DOCUMENTS. The Transaction Documents constitute the legal, valid, and binding obligations of Debtor and each Consolidated Subsidiary and any Third Parties thereto, enforceable in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy and insolvency laws and laws affecting creditors' rights generally.

4.15. NO CONSENT OR FILING. No consent, license, approval, or authorization of, or registration, declaration, or filing with, any court, governmental body or authority, or other person or entity is required in connection with the valid execution, delivery, or performance of the Transaction Documents or for the conduct of Debtor's business as now conducted, other than filings and recordings to perfect security interests in or liens on the Collateral in connection with the Transaction Documents.

4.16. NO VIOLATIONS. Neither Debtor nor any Consolidated Subsidiary is in violation of any term of its articles, or Certificate of Incorporation, or by-laws, or of any mortgage, borrowing agreement, or other instrument or agreement pertaining to indebtedness for borrowed money. Neither Debtor nor any Consolidated Subsidiary is in violation of any term of any other indenture, instrument, or agreement to which it is a party or by which it or its property may be bound, resulting, or which might reasonably be expected to result, in a material and adverse effect upon its business or assets. Neither Debtor nor any Consolidated Subsidiary is in violation of any order, writ, judgment, injunction, or decree of any court of competent jurisdiction or of any statute, rule or regulation of any governmental authority. The execution and delivery of the Transaction Documents and the performance of all of the same, is, and will be, in compliance with the foregoing and will not result in any violation thereof, or result in the creation of any mortgage, lien, security interest, charge, or encumbrance upon, any properties or assets except in favor of Secured Party. There exists no fact or circumstance (whether or not disclosed in the Transaction Documents) which materially adversely affects, or in the future (so far as Debtor can now foresee) may materially adversely affect, the condition, business, or operations of Debtor or any Consolidated Subsidiary.

4.17. TRADEMARKS AND PATENTS. Debtor and each Consolidated Subsidiary possesses all trademarks, trademark rights, patents, patent rights, tradenames, tradename rights and copyrights that are required to conduct its business as now conducted without conflict with the rights or claimed rights of others. A list of the foregoing as set forth in Exhibit A attached hereto.

4.18. CONTINGENT LIABILITIES. There are no suretyship agreements, guaranties, or other contingent liabilities of Debtor or any Consolidated Subsidiary which are not disclosed by the financial statements described in Section 4.9.

4.19. COMPLIANCE WITH LAWS. Debtor is in compliance with all applicable laws, rules, regulations, and other legal requirements with respect to its business and the use, maintenance and operations of the real and personal property owned or leased by it in the conduct of its business.

4.20. LICENSES, PERMITS, ETC. Each franchise, grant, approval, authorization, license, permit, easement, consent, certificate, and order of and registration, declaration, and filing with, any court, governmental body or authority, or other person or entity required for or in connection with the conduct of Debtor's and each Consolidated Subsidiary's business as now conducted is in full force and effect.

4.21. LABOR CONTRACTS. Neither Debtor nor any Consolidated Subsidiary is a party to any collective bargaining agreement or to any existing or threatened labor dispute or controversies.

4.22. CONSOLIDATED SUBSIDIARIES. Debtor has no Consolidated Subsidiaries other than those listed in Exhibit B attached hereto and the percentage ownership of Debtor in each such Consolidated Subsidiary is specified in such Exhibit B.

4.23. AUTHORIZED SHARES. Debtor's total authorized common shares, the par value of such shares, and the number of such shares issued and outstanding, are set forth in Exhibit C. All of such shares are of one class and have been validly issued in full compliance with all applicable federal and state laws, and are fully paid and non-assessable. No other shares of the Debtor of any class or type are authorized or outstanding.

4.24. LABOR MATTERS.

(a) Debtor is not engaged in any unfair labor practice. Debtor is in compliance in all material respects with all applicable federal, state and local laws, regulations, rules, orders or other requirements respecting terms and conditions of

employment, employment practices, and wages and hours,

(b) No strike, walkout or similar business interruption resulting from any labor dispute has been suffered by Debtor during the last five years nor is any state of facts known to Debtor which would indicate that such event or circumstance is likely to occur in the next twelve months.

(c) There is no pending, or to the knowledge of Debtor, threatened unfair labor practice complaint against Debtor, before the National Labor Relations Board.

(d) There is no strike, labor dispute, slowdown or stoppage actually pending or, to the knowledge of Debtor, threatened against them.

(e) No union representation question exists respecting the employees, or any group of employees, of Debtor.

(f) No grievance which might have a material adverse effect on Debtor or the conduct of their business nor any arbitration proceeding arising out of or under collective bargaining agreements is pending, and no claims therefor exist.

(g) No collective bargaining agreement which is binding on Debtor restricts Debtor from relocating or closing any office, warehouse or any other facility presently being used by Debtor.

(h) Debtor has not experienced any material work stoppage or other material labor difficulty at any office, warehouse or other facility.

(i) There are no claims, complaints or charges pending before any state or federal agency concerning employment penalties, including without limitation, employment discrimination, retaliatory discharge and wage and hour claims.

4.25 MATERIALITY. Notwithstanding anything to the contrary contained in Section 4 hereof, no representation or warranty contained in Section 4 shall be deemed false or cause an Event of Default to the extent that the falsity of such representation or warranty is not material, would not have a material adverse effect on Debtor and/or any domestic Consolidated Subsidiary, would not cause an untrue statement of material fact, and/or would not result in an omission to state a material fact in order to make the statements contained herein not misleading, and/or would not materially adversely affect the financial and/or business condition of Debtor and/or any domestic Consolidated Subsidiary.

5. Intentionally Deleted Prior to Execution.

6. REVOLVING CREDIT FACILITY.

6.1. COMMITMENT TO MAKE ADVANCES.

(a) Secured Party agrees, subject to the terms and conditions contained herein, to make Advances from the date hereof until but not including the Termination Date (the "Commitment Period"), provided that (i) each request for an Advance be in writing and specify the Interest Rate Option selected, as more specifically described in Section 7.2. herein and shall be accompanied by a Compliance Certificate, in the form attached hereto as Exhibit D; (ii) all representations and warranties contained in this Agreement are true and correct in all respects on the date of the Advance; (iii) all covenants and agreements contained in this Agreement and the other Loan Documents have been complied with; and (iv) no Event of Default has occurred and be continuing under the Transaction Documents.

6.2. ADVANCES. Debtor's obligation to pay the principal, and interest on, the Obligations under the Revolving Credit Loan Credit Facility shall be evidenced by the Revolving Credit Note. Availability under the Revolving Credit Loan Credit Facility is subject to the terms and conditions contained herein, including but not limited to, those set forth herein.

6.3. INTEREST RATE. For each Advance, the Interest Rate shall be as set forth in Section 7 herein and be evidenced by the Revolving Credit Note.

6.4. DEFAULT. The Note shall provide that upon the happening of any "Event of Default" hereunder and/or under the Transaction Documents, the principal sum hereof, together with accrued interest and all other expenses, including, but not limited to reasonable attorneys' fees for legal services incurred by the holder hereof in connection with the collection of the Note and/or the enforcement of payment hereof whether or not suit is brought, and if suit is brought, then through all appellate actions, shall immediately become due and payable at the option of the holder of the Note, notwithstanding the Termination Date set forth herein. In the Event of Default, whether the Bank exercises any of its rights and remedies contained herein, including the right to declare all Obligations hereunder to be immediately due and payable, the Borrower shall pay interest on the unpaid principal balance hereunder at a rate equal to the Default Rate. The unpaid principal balance under the Note shall bear the Default Rate of Interest until the first to occur of the following: (i) all Obligations under this Note are paid in full; (ii) Debtor has cured said Event of Default to the satisfaction

of the Bank; or (iii) the Bank, in writing, has waived said Event of Default. Notwithstanding anything to the contrary contained in the Revolving Credit Note, the Revolving Credit Note is subject to the express condition that at no time shall Debtor be obligated to be required to pay interest on the principal balance of the Revolving Credit Note at a rate which could subject Secured Party either to civil or criminal penalty as a result of being in excess of the maximum rate which Debtor is permitted by law to contract or agree to pay. If by the terms of the Revolving Credit Note, Debtor at any time are required or obligated to pay interest on the principal balance of such note at a rate in excess of such maximum rate then the rate of interest under such note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and any prior interest payments made in excess of such maximum rate shall be applied and shall be deemed to have been payments made in reduction of the principal balance of such note.

6.5. METHOD AND PLACE OF PAYMENT. All payments under the Revolving Credit Note and this Agreement shall be made by debiting the checking account of Debtor required to be maintained with Secured Party pursuant to the terms hereof.

6.6. REVOLVING CREDIT NOTE. The amount of Indebtedness under the Revolving Credit Facility may increase and decrease from time to time as Secured Party advances, Debtor repays, and Secured Party readvances, sums on account of the Revolving Credit Facility. It is hereby agreed that all Advances, first, shall be deemed evidenced by Note #1 up to the principal amount of $1,000,000., so that the first sums advanced by Secured Party shall be evidenced by Note #1. Note #1, and the Indebtedness evidenced by Note #1, shall be reduced only by the last and final sums that Debtor repays with respect to the Revolving Credit Facility and shall not be reduced by any intervening repayments of Advances by Secured Party until all Indebtedness under Note #2 has been repaid. All Advances

(including readvances) shall first be deemed borrowed under Note #1 (to the extent of $1,000,000.) and all repayments of Advances shall first be applied to Note #2.

7. PAYMENT Of PRINCIPAL, INTEREST, FEES AND COSTS AND EXPENSES- Revolving Credit Facility.

7.1. PROMISE TO PAY PRINCIPAL. Debtor promises to pay to Secured Party the outstanding principal of Advances in full upon termination of the Revolving Credit Facility pursuant to Section 13.13, or acceleration of the time for payment of the

Indebtedness, pursuant to Section 11.2. Whenever the outstanding principal balance of Advances exceeds the Borrowing Capacity, Debtor shall immediately pay to Secured Party the excess of the outstanding principal balance of Advances over the Borrowing Capacity.

7.2. PROMISE TO PAY INTEREST.

(a) Debtor promises to pay to Secured Party interest on the outstanding principal of Advances from time to time unpaid at either (a) the Variable Rate Option, or (b) the Libor Rate Option for the Interest Period selected by Debtor. The amount of principal based upon the Libor Rate Option shall be minimum amounts of $50,000.00 for the Interest Period selected by Debtor. From the date of the occurrence of, and during the continuance of, an Event of Default, Debtor, as additional compensation to Secured Party for its increased credit risk promises to pay interest on (i) the principal of Advances, whether or not past due; and (ii) past due interest and any other amount past due under the Transaction Documents, at a per annum rate of the Prime Rate plus three percent per annum ("Default Rate").

(b) Interest shall be paid (i) on the first day of each month in arrears, (ii) on the Termination Date, (iii) on acceleration of the time for payment of the Indebtedness, pursuant to Section 11.2, and (iv) on the date the Indebtedness is paid in full.

(c) Any change in the interest rate resulting from a change in the Prime Rate shall take effect simultaneously with such change in the Prime Rate. Whether the Variable Rate Option or Libor Rate Option is in effect, interest shall be computed on the daily unpaid principal balance of Advances. Interest shall be calculated for each calendar day at 1/360th of the applicable per annum rate which will result in an effective per annum rate higher than the rate specified herein. In no event shall the rate of interest exceed the maximum rate permitted by applicable law. If Debtor pays to Secured Party interest in excess of the amount permitted by applicable law, such excess shall be applied in reduction of the principal of Advances under the Revolving Credit Facility made pursuant to this Agreement, and any remaining excess interest, after application thereof to the principal of Advances, shall be refunded to Debtor.

(d) At Debtor's option, Debtor may elect to pay interest on one or more Advances for one or more Interest Periods or for the term of this Note, or any period of time, so long as such period is made available by Secured Party and does not extend beyond the Term, subject to the provisions contained herein, by giving notice of such election to the Secured Party by 11:00 a.m. at least three (3) Business Days before the first day

of such Advance. If the Debtor does not elect an Interest Rate Option for an Advance, or prior to the expiration of an Interest Period, the Variable Rate Option shall be deemed to have been chosen by Debtor.

(e) At the option of Debtor, Debtor may elect to pay interest on the Indebtedness herein or portion(s) thereof, in minimum amounts of $50,000.00 at the Libor Rate Option for the Interest Period selected by the Debtor by giving notice of such election by the Secured Party by 11:00 a.m. at least three (3) Business Days before the first day of such Interest Period.

(f) All written notices of Interest Rate Selection and/or Requests for Advances shall be substantially in the form annexed hereto as Exhibit E, attached hereto and incorporated herein by this reference.

(g) At any time while the LIBOR Rate Option is in effect, Debtor agrees to pay to Secured Party and hold Secured Party harmless from any loss or expense ("breakage fees" or "breakage costs") which Secured Party may sustain or incur as a consequence of such prepayment. Such breakage fees shall equal the amount of the Indebtedness being prepaid, multiplied by a per annum interest rate equal to the difference between the then applicable Base Libor Rate and the 360-day equivalent interest yield (hereinafter the "Bank Bid Rate") reasonably selected by the Secured Party in its sole and absolute discretion, for an aggregate amount comparable to the then remaining principal balance of the Indebtedness, and with maturities comparable to the Rollover Date (as hereinafter defined) applicable to the principal balance of the Indebtedness, calculated over a period of time from and including the date of prepayment to, but not including, the Rollover Date applicable to the then remaining principal balance of the Indebtedness being prepaid. If the Base Libor Rate applicable to the principal balance of the portion of the Indebtedness being prepaid is equal to or less than the Bank Bid Rate, no Libor Rate breakage fee shall be due. The term "Rollover Date" applicable to a particular Libor Interest Period shall mean the last day of Libor Interest Period. The Secured Party shall submit a certificate to the Debtor setting forth in reasonable detail the amount of the breakage costs, which certificate shall be conclusive in the absence of manifest error. The breakage costs shall also apply to prepayments due as a result of a default. There shall be no breakage costs for any portion of the indebtedness being prepaid bearing interest at the Variable Rate Option.

7.3. PROMISE TO PAY FEES. Debtor promises to pay to Secured Party monthly, on the first day of each calendar month, an unused fee equal to one quarter of one percent (.25%) of $16,000,000. less the aggregate principal balance of all Advances outstanding

during the calendar month just ended under the Revolving Credit Facility.

7.4. PROMISE TO PAY COSTS AND EXPENSES.

(a) Debtor agrees to pay to Secured Party, on demand, all costs and expenses as provided in this Agreement, and all costs and expenses incurred by Secured Party from time to time in connection with this Agreement, including, without limitation, those incurred in: (i) preparing, negotiating, amending, waiving, or granting consent with respect to the terms of any or all of the Transaction Documents; (ii) enforcing the Transaction Documents; (iii) performing, pursuant to Section 13.2, Debtor's duties under the Transaction Documents upon Debtor's failure to perform them; (iv) filing financing statements, assignments, or other documents relating to the Collateral (e.g., filing fees, recording taxes, and documentary stamp taxes); (v) realizing upon or protecting any Collateral; (vi) enforcing or collecting any Indebtedness or guaranty thereof; and (vii) upon the occurrence of an Event of Default, employing collection agencies or other agents to collect any or all of the Receivable.

(b) Without limiting Section 7.4(a), Debtor also agrees to pay to Secured Party, on demand, the actual reasonable fees and disbursements incurred by Secured Party for attorneys retained by Secured Party for advice, suit, appeal, or insolvency or other proceedings under the Federal Bankruptcy Code or otherwise upon the occurrence of an Event of Default specified in Section 13.13.

7.5. METHOD OF PAYMENT OF PRINCIPAL, INTEREST, FEES AND COSTS AND EXPENSES.

7.7. ACCOUNT STATED. Debtor agrees that each monthly or other statement of account mailed or delivered by Secured Party to Debtor pertaining to the outstanding balance of Advances, the amount of interest due thereon, fees, and costs and expenses shall be final, conclusive, and binding on Debtor and shall constitute an "account stated" with respect to the matters contained therein unless, within thirty (30) calendar days from when such statement is mailed or, if not mailed, delivered to Debtor, Debtor shall deliver to Secured Party written notice of any objections which it may have as to such statement of account, and in such event, only the items to which objection is expressly made in such notice shall be considered to be disputed by Debtor.

8. Intentionally Deleted Prior to Execution.

9. AFFIRMATIVE COVENANTS. So long as any part of the Indebtedness remains unpaid, or this Agreement remains in effect, Debtor shall comply with the covenants contained elsewhere in

this Agreement, and with the covenants listed
below:

9.1. FINANCIAL STATEMENTS. Debtor shall furnish to Secured Party:

(a) Annual Audited Financial Statements of Debtor. Within one hundred twenty (120) days after the end of each fiscal year, audited consolidated financial statements of Debtor and each Consolidated Subsidiary as of the end of such year, fairly presenting Debtor's and each Consolidated Subsidiary's financial position, which statements shall consist of a balance sheet and related statements of income, retained earnings, and cash flow covering the period of Debtor's immediately preceding fiscal year, and which shall be prepared by Debtor and audited by independent certified public accountants satisfactory to Secured Party in the form submitted to the Securities and Exchange Commission, and in accordance with GAAP. At the same time, Debtor shall deliver to Secured Party a copy of the Form 10-K filed with the Securities and Exchange Commission, and internally prepared consolidating financial statements of Debtor and each Consolidated Subsidiary. All such financial statements and other documents delivered to Secured Party are to be certified as accurate by the chief financial officer of Debtor.

(b) Quarterly 10-Q Reports. Within sixty (60) days of each first, second and third fiscal quarter of each fiscal year, consolidated 10-Q report filed with the Securities and Exchange Commission of Debtor and each Consolidated Subsidiary as of the end of such period, fairly presenting Debtor's and each Consolidated Subsidiary's financial position, and internally prepared consolidating financial statements of Debtor and each Consolidated Subsidiary. All such reports shall be in such detail as the Securities and Exchange Commission shall request and in accordance with GAAP and shall be signed and certified to be correct by the chief financial officer of Debtor or such other financial officer satisfactory to Secured Party.

(c) Management Letters. Within sixty (60) days of each fiscal quarter of each fiscal year end (but in connection with year end statements, 120 days after each fiscal year end) a management letter certifying that there are no defaults to the Transaction Documents and the accounts receivable aging reports and inventory designation reports required to be submitted to Secured Party executed by the chairman, president or chief financial officer of Debtor or other financial officer satisfactory to Secured Party, and otherwise in form and substance satisfactory to Secured Party in its reasonable discretion. Simultaneously with the delivery of such financial statements, Debtor shall deliver to Secured Party a compliance certificate executed by the president or chief financial officer of Debtor or other financial officer satisfactory to Secured

Party in the form of Exhibit E attached hereto and made a part hereof. In addition, Debtor shall deliver to Secured Party, as soon as available, a true copy of any "Management Letter" or other communication to Debtor, from its certified public accountants regarding matters which arose or were ascertained during the course of their review and which such accountants determined ought to be brought to management's attention.

(d) Other Reporting. Within forty five days of each fiscal quarter of each fiscal year concerning Debtor and all Consolidated Subsidiaries, all such reports to be in form and substance satisfactory to Secured Party in its reasonable discretion:

(i) accounts receivable aging reports; and

(ii) inventory designation reports.

(e) Other Information. Copies of any and all proxy statements, financial statements, and reports which Debtor sends to its shareholders, and copies of any and all periodic and special reports and registration statements which Debtor files with the Securities and Exchange Commission, and such additional information as Secured Party may from time to time reasonably request regarding the financial and business affairs of Debtor or any Consolidated Subsidiary.

9.2. GOVERNMENT AND OTHER SPECIAL RECEIVABLES. Debtor shall promptly notify Secured Party in writing of the existence of any Receivable as to which the perfection, enforceability, or validity of Secured Party's Security Interest in such Receivable, or Secured Party's right or ability to obtain direct payment to Secured Party of the Proceeds of such Receivable, is governed by any federal or state statutory requirements other than those of the Uniform Commercial Code, including, without limitation, any Receivable subject to the Federal Assignment of Claims Act of 1940, as amended.

9.3. Intentionally Deleted.

9.4. BOOKS AND RECORDS. Debtor shall maintain, at its own cost and expense, accurate and complete books and records with respect to the Collateral, in form satisfactory to Secured Party, and including, without limitation, records of all payments received and all Credits and Extensions granted with respect to the Receivables, of the return, rejection, repossession, stoppage in transit, loss, damage, or destruction of any Inventory, and of all other dealings affecting the Collateral. Debtor shall deliver such books and records to Secured Party or its representative upon reasonable request. At Secured Party's request, Debtor shall mark all or any records to indicate the

Security Interest. Debtor shall further indicate the Security Interest on all financial statements issued by it or shall cause the Security Interest to be so indicated by its accountants.

9.5. INVENTORY IN POSSESSION OF THIRD PARTIES. If any Inventory remains in the hands or control of any of Debtor's agents, finishers, contractors, or processors, or any other third party, Debtor, if requested by Secured Party, shall notify such party of Secured Party's Security Interest in the Inventory and shall instruct such party to hold such Inventory for the account of Secured Party and subject to the instructions of Secured Party.

9.6. EXAMINATIONS. Debtor shall at all reasonable times and from time to time permit Secured Party or its agents upon reasonable advance notice to Debtor to inspect the Collateral and to examine and make extracts from, or copies of, any of Debtor's books, ledgers, reports, correspondence, and other records.

9.7. VERIFICATION OF COLLATERAL. Secured Party shall have the right to verify all or any Collateral in any manner and through any medium Secured Party may consider appropriate and Debtor agrees to furnish all assistance and information and perform any acts which Secured Party may require in connection therewith.

9.8. RESPONSIBLE PARTIES. Debtor shall notify Secured Party of the occurrence of any event specified in Section 11.1(v)(iv) with respect to any Responsible Party promptly after receiving notice thereof.

9.9. TAXES. Debtor shall promptly pay and discharge all of its taxes, assessments, and other governmental charges prior to the date on which penalties are attached thereto, establish adequate reserves for the payment of such taxes, assessments, and other governmental charges, make all required withholding and other tax deposits, and, upon request, provide Secured Party with receipts or other proof that such taxes, assessments, and other governmental charges have been paid in a timely fashion; provided, however, that nothing contained herein shall require the payment of any tax, assessment, or other governmental charge so long as its validity is being contested in good faith, and by appropriate proceedings diligently conducted, and adequate reserves for the payment thereof have been established.

9.10. LITIGATION.

(a) Debtor shall promptly notify Secured Party in writing of any litigation, proceeding, or counterclaim against, or of any investigation of, Debtor or any Consolidated Subsidiary if: (i) the outcome of such litigation, proceeding,

counterclaim, or investigation may materially and adversely affect the finances or operations of Debtor or any Consolidated Subsidiary or title to, or the value of, any Collateral; or (ii) such litigation, proceeding, counterclaim, or investigation questions the validity of any Transaction Document or any action taken, or to be taken, pursuant to any Transaction Document.

(b) Debtor shall furnish to Secured Party such information regarding any such litigation, proceeding, counterclaim, or investigation as Secured Party shall request.

9.11. INSURANCE.

(a) Debtor shall at all times carry and maintain in full force and effect such insurance as Secured Party may from time to time require, in coverage, form, and amount, and issued by insurers, satisfactory to Debtor and Secured Party, including, without limitation: workers' compensation or similar insurance; public liability insurance; business interruption insurance; and insurance against such other risks as are usually insured against by business entities of established reputation engaged in the same or similar businesses as Debtor and similarly situated.

(b) Debtor shall deliver to Secured Party the policies of insurance required by Secured Party, with appropriate endorsements designating Secured Party as an additional insured, mortgagee and loss payee as requested by Secured Party. Each policy of insurance shall provide that if such policy is cancelled for any reason whatsoever, if any substantial change is made in the coverage which affects Secured Party, or if such policy is allowed to lapse for nonpayment of premium, such cancellation, change, or lapse shall not be effective as to Secured Party until thirty (30) days after receipt by Secured Party of written notice thereof from the insurer issuing such policy.

9.12. GOOD STANDING; BUSINESS.

Debtor shall take all necessary steps to preserve its corporate existence and its right to conduct business in all states in which the nature of its business or ownership of its property requires such qualification.

9.13. PENSION REPORTS. Upon the occurrence of any Pension Event, Debtor shall furnish to Secured Party, as soon as possible and, in any event, within thirty (30) days after Debtor knows, or has reason to know, of such occurrence, the statement of the president or chief financial officer of Debtor setting forth the details of such Pension Event and the action which Debtor proposes to take with respect thereto.

9.14. NOTICE OF NON-COMPLIANCE. Debtor shall notify Secured Party in writing of any failure by Debtor or any Third Party to comply with any provision of any Transaction Document within ten (10) days of learning of such non-compliance, or if any representation or warranty contained in any Transaction Document is no longer true.

9.15. COMPLIANCE WITH ENVIRONMENTAL LAWS.

(a) Debtor shall comply with all Environmental Laws.

(b) Debtor shall not suffer, cause, or permit the Disposal of Hazardous Substances at any property owned, leased, or operated by it or any domestic Consolidated Subsidiary.

(c) Debtor shall promptly notify Secured Party in the event of the Disposal of any domestic Hazardous Substance at any property owned, leased, or operated by Debtor or any domestic Consolidated Subsidiary, or in the event of any Release, or threatened Release, of a Hazardous Substance, from any such property.

(d) Debtor shall, at Secured Party's request, provide, at Debtor's expense, updated Environmental Questionnaires concerning any property owned, leased, or operated by Debtor or any domestic Consolidated Subsidiary.

(e) Debtor shall deliver promptly to Secured Party (i) copies of any documents received from the United States Environmental Protection Agency or any state, county, or municipal environmental or health agency concerning Debtor's or any domestic Consolidated Subsidiary's operations and (ii) copies of any documents submitted by Debtor or any domestic Consolidated Subsidiary to the United States Environmental Protection Agency or any state, county, or municipal environmental or health agency concerning its operations.

9.16. DEFEND COLLATERAL. Debtor shall defend the Collateral against the claims and demands of all other parties (other than Secured Party), including, without limitation, defenses, setoffs, and counterclaims asserted by any Account Debtor against Debtor or Secured Party.

9.17. USE OF PROCEEDS. Debtor shall use the proceeds of Advances solely for Debtor's working capital and for such other legal and proper corporate purposes as are consistent with all applicable laws, Debtor's articles or certificate of incorporation and by-laws, resolutions of Debtor's Board of Directors, and the terms of this Agreement.

9.18. COMPLIANCE WITH LAWS. Debtor shall comply with all

applicable laws, rules, regulations, and other legal requirements with respect to its business and the use, maintenance, and operations of the real and personal property owned or leased by it in the conduct of its business.

9.19. MAINTENANCE OF PROPERTY. Debtor shall maintain its property, including, without limitation, the Collateral, in good condition and repair and shall prevent the Collateral, or any part thereof, from being or becoming an accession to other goods not constituting Collateral.

9.20 LICENSES, PERMITS, ETC. Debtor shall maintain all of its franchises, grants, authorizations, licenses, permits, easements, consents, certificates, and orders, if any, in full force and effect until their respective expiration dates.

9.21. TRADEMARKS AND PATENTS. Debtor shall maintain all of its trademarks, trademark rights, patents, patent rights, licenses, permits, tradenames, tradename rights, and approvals, if any, in full force and effect until their respective expiration dates.

9.22. ERISA. Debtor shall comply with the provisions of ERISA and the Internal Revenue Code with respect to each Pension Plan.

9.23. MAINTENANCE OF OWNERSHIP. Debtor shall at all times maintain ownership of the percentages of issued and outstanding capital stock of each Consolidated Subsidiary set forth in Exhibit B and notify Secured Party in writing prior to the incorporation of any new Consolidated Subsidiary.

9.24. ACTIVITIES OF CONSOLIDATED SUBSIDIARIES. Unless the provisions of this Section 9.24 are expressly waived by Secured Party in writing, Debtor shall cause each domestic Consolidated Subsidiary (except for Raltech Logic, Inc.) to comply with Sections 9.1(b) 9.9, 9.11(a), 9.12, 9.15, 9.26 and 9.18 through 9.22, inclusive, and any of the provisions contained in Schedule, and shall cause each domestic Consolidated Subsidiary to refrain from doing any of the acts proscribed by Sections 10.2, 10.3, and 10.5 through 10.14, inclusive.

9.25. LABOR DISPUTES. Debtor shall notify the Secured Party promptly upon Debtor's learning of any material labor dispute to which Debtor may become a party to, any strikes or walkouts relating to any of its plants or any of its facilities and/or the expiration of any labor contract to which Debtor is a party to or by which Debtor is bound.

9.26. FINANCIAL COVENANTS. The financial covenants to include the following:

(a) Debtor and its Consolidated Subsidiaries shall maintain, at all times, on a consolidated basis, a ratio of Total Liabilities to Tangible Net Worth of not greater than 1.00 to 1, to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(b) Debtor and its Consolidated Subsidiaries shall maintain, at fiscal year end June 30, 1997, on a consolidated basis, a minimum Tangible Net Worth of not less than $28,000,000., and at each fiscal year end thereafter, the required minimum Tangible Net Worth shall increase by $1,000,000. per fiscal year; to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(c) At all times, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Current Assets to Current Liabilities (i) of not less than 2.75 to 1 from the date hereof through June 29, 1998, (ii) of not less than 3.00 to 1 from June 30, 1998 through June 29, 1999, (iii) of not less than 3.25 to 1 from June 30, 1999 through June 29, 2000 and beyond, to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(d) Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a minimum "Debt Service Coverage Ratio" of 1.25 to 1, to be tested at the end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(e) At all times during the Loan Period, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of the aggregate of cash plus total Receivables to Current Liabilities (i) of not less than 1.00 to 1 from the date hereof through June 29, 1998, (ii) of not less than 1.25 to 1 from June 30, 1998 through June 29, 1999, (iii) of not less than 1.50 to 1 from June 30, 1999 through June 29, 2000 and beyond, to be tested each fiscal quarter of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

The above ratios of this Section 9.26. are being calculated assuming that in the last year of the Loan Agreement, the Advances under the Revolving Credit Facility are viewed as long term debt, unless there is an event of default which is

continuing under the Revolving Credit Facility.

10. NEGATIVE COVENANTS. So long as any part of the Indebtedness remains unpaid or this Agreement remains in effect, Debtor, without the written consent of Secured Party, shall not violate any covenant contained otherwise herein and shall not:

10.1. LOCATION OF INVENTORY, EQUIPMENT, AND BUSINESS RECORDS. Move the Inventory, Equipment or the records concerning the Collateral from the location where they are kept as specified herein, except in the ordinary course of business.

10.2. BORROWED MONEY. Create, incur, assume, or suffer to exist any liability for borrowed money, except to Secured Party and except for permitted Capital Expenditures.

10.3. SECURITY INTEREST AND OTHER ENCUMBRANCES. Create, incur, assume, or suffer to exist any mortgage, security interest, lien, or other encumbrance upon any of its properties or assets, whether now owned or hereafter acquired, except mortgages, security interests, liens, and encumbrances (a) except in favor of Secured Party, (b) except all existing liens, mortgages, or encumbrances, and (c) except in connection with the grant of a security interest in Equipment in connection with financing the purchase of Equipment or in connection with the leasing of Equipment, so long as Debtor is in compliance with Sections 10.10 and 10.11. herein.

10.4. STORING AND USE OF COLLATERAL. Place the Collateral in any warehouse which may issue a negotiable Document with respect thereto or use the Collateral in violation of any provision of the Transaction Documents, of any applicable statute, regulation, or ordinance, or of any policy insuring the Collateral.

10.5. MERGERS, CONSOLIDATIONS, OR SALES.

(a) Merge or consolidate with or into any corporation; (b) enter into any joint venture or partnership with any person, firm, or corporation; (c) convey, lease, or sell all or any material portion of its property or assets or business to any other person, firm, or corporation except for the sale of Inventory in the ordinary course of its business and in accordance with the terms of this Agreement; or (d) convey, lease, or sell any of its assets to any person, firm or corporation for less than the fair market value thereof.

10.6. CAPITAL STOCK. Purchase or retire any of its capital stock or issue any capital stock, except (1) in connection with its employee stock option plan and its non-employee stock option

plan and (2) pro rata to its present stockholders, or otherwise change the capital structure of Debtor or change the relative rights, preferences, or limitations relating to any of its capital stock.

10.7. DIVIDENDS OR DISTRIBUTIONS. Pay or declare any cash or other dividends or distributions on any of its corporate stock, or permit a Consolidated Subsidiary to pay or declare and cash or other dividends or distributions on any of the corporate stock of any Consolidated Subsidiary, or accept any such cash or other dividends or distributions from a Consolidated Subsidiary.

10.8. INVESTMENTS AND ADVANCES. Make any investment in, or advances to, any other person, firm, or corporation, except (a) advance payments or deposits against purchases made in the ordinary course of Debtor's regular business; (b) direct obligations of the United States of America, money-market funds or certificates of deposit; or (c) any existing investments in, or existing advances to, the Consolidated Subsidiaries.

10.9. GUARANTIES. Become a guarantor, a surety, or otherwise liable for the debts or other obligations of any other person, firm, or corporation, whether by guaranty or suretyship agreement, agreement to purchase indebtedness, agreement for furnishing funds through the purchase of goods, supplies, or services (or by way of stock purchase, capital contribution, advance, or loan) for the purpose of paying or discharging indebtedness, or otherwise, except as an endorser of instruments for the payment of money deposited to its bank account for collection in the ordinary course of business.

10.10. LEASES. Enter, as lessee, into any lease of real or personal property (whether such lease is classified on Debtor's financial statements as a capital lease or operating lease) in excess of $500,000 per fiscal year.

10.11. CAPITAL EXPENDITURES. During any fiscal year during the Loan Period, cause the Capital Expenditures of Debtor and its Consolidated Subsidiaries to exceed, on a combined basis, $1,500,000 per fiscal year.

10.12. Intentionally Deleted.

10.13. NAME CHANGE. Change its name without giving at least thirty (30) days prior written notice of its proposed new name to Secured Party, together with delivery to Secured Party of UCC-1 Financing Statements reflecting Debtor's new name, all in form and substance satisfactory to Secured Party.

10.14. DISPOSITION OF COLLATERAL. Sell, assign, or otherwise transfer, dispose of, or encumber the Collateral or any

interest therein, or grant a security interest therein, or license thereof, except to Secured Party and except the sale or lease of Inventory in the ordinary course of business of Debtor and in accordance with the terms of this Agreement.

10.15. FINANCIAL COVENANTS. Fail to comply with the financial covenants set forth in Section 9.26. hereinabove.

10.16. NEGATIVE PLEDGE. Encumber or cause to encumber, or cause NAPCO/Alarm Lock Grupo Internacional, S.A. f/k/a NSS Caribe S.A. to encumber, the assets (personal property, fixtures or real property) of NAPCO/Alarm Lock Grupo Internacional, S.A. f/k/a NSS Caribe S.A.

11. EVENTS OF DEFAULT.

11.1. EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an event of default (individually, an Event of Default and, collectively, Events of Default):

(a) Nonpayment. Nonpayment when due of any principal, interest, premium, fee, cost, or expense due under the Transaction Documents, and such nonpayment is not cured within ten (10) days after notice therof by Secured Party to Debtor.

(b) Negative Covenants. Default in the observance of any covenant or agreement of Debtor contained in Article 10,and any such default is not cured by Debtor or waived by Secured Party within ten (10) days after notice thereof by Secured Party to Debtor.

(c) Article 6. Default in the observance of any covenant or agreement of Debtor contained in Article 6,and such default is not cured by Debtor or waived by Secured Party within ten (10) days after notice thereof by Secured Party to Debtor.

(d) Other Covenants. Default in the observance of any of the covenants or agreements of Debtor contained in the Transaction Documents, other than in Article 10, Article 6 or Sections 7.1, 7.2, 7.3, or 7.4, or in any other agreement with Secured Party which is not remedied within the earlier of thirty (30) days after (i) notice thereof by Secured Party to Debtor, or (ii) ten (10) days after date Debtor was required to give notice to Secured Party under Section 9.14.

(e) Cessation of Business or Voluntary Insolvency Proceedings. The (i) cessation of operations of Debtor's business as conducted on the date of this Agreement; (ii) filing by Debtor of a petition or request for liquidation, reorganization, arrangement, adjudication as a bankrupt, relief as a debtor, or other relief under the bankruptcy, insolvency, or similar laws of the United States of America or any state or territory thereof or any foreign jurisdiction now or hereafter in effect; (iii) making by Debtor of a general assignment for the benefit of creditors; (iv) consent by the Debtor to the appointment of a receiver or trustee, including, without limitation, a "custodian," as defined in the Federal Bankruptcy Code, for Debtor or any of Debtor's assets; (v) making of any, or sending of any, notice of any intended bulk sale by Debtor; or (vi) execution by Debtor of a consent to any other type of insolvency proceeding (under the Federal Bankruptcy Code or otherwise) or any formal or informal proceeding for the dissolution or liquidation of, or settlement of, claims against or winding up of affairs of, Debtor.

(f) Involuntary Insolvency Proceedings. (i) The appointment of a receiver, trustee, custodian, or officer performing similar functions, including, without limitation, a "custodian," as defined in the Federal Bankruptcy Code, for Debtor or any of Debtors assets; or the filing against Debtor of a request or petition for liquidation, reorganization, arrangement, adjudication as a bankrupt, or other relief under the bankruptcy, insolvency, or similar laws of the United States of America, any state or territory thereof, or any foreign jurisdiction now or hereafter in effect; or of any other type of insolvency proceeding (under the Federal Bankruptcy Code or otherwise) or any formal or informal proceeding for the dissolution or liquidation of, settlement of claims against, or winding up of affairs of Debtor shall be instituted against Debtor; and (ii) such appointment shall not be vacated, or such petition or proceeding shall not be dismissed, within sixty (60) days after such appointment, filing, or institution.

(g) Other Indebtedness and Agreements. Failure by Debtor to pay, when due, (or, if permitted by the terms of any applicable documentation, within any applicable grace period) any indebtedness owing by Debtor to Secured Party or any other person or entity (other than the Indebtedness incurred, pursuant to this Agreement, and including, without limitation, indebtedness evidencing a deferred purchase price), whether such indebtedness shall become due by scheduled maturity, by required prepayment, by acceleration, by demand, or otherwise, or failure by the Debtor to perform any term, covenant, or agreement on its part to be performed under any agreement or instrument (other than a

Transaction Document) evidencing or securing or relating to any indebtedness owing by Debtor when required to be performed if the effect of such failure is to permit the holder to accelerate the maturity of such indebtedness, and such failure is not cured within thirty (30) days after such failure to pay when due.

(h) Judgments. Any judgment or judgments against Debtor (other than any judgment for which Debtor is fully insured) shall remain unpaid, unstayed on appeal, undischarged, unbonded, or undismissed for a period of thirty (30) days.

(i) Pension Default. Any Reportable Event which Secured Party shall determine in good faith constitutes grounds for the termination of any Pension Plan by the Pension Benefit Guaranty Corporation, or for the appointment by an appropriate United States district court of a trustee to administer any Pension Plan, shall occur and shall continue thirty (30) days after written notice thereof to Debtor by Secured Party; or the Pension Benefit Guaranty Corporation shall institute proceedings to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; or a trustee shall be appointed by an appropriate United States district court to administer any Pension Plan; or any Pension Plan shall be terminated; or Debtor or any Consolidated Subsidiary shall withdraw from a Pension Plan in a complete withdrawal or a partial withdrawal; or there shall arise vested unfunded liabilities under any Pension Plan that, in the good faith opinion of Secured Party, have or will or might have a material adverse effect on the finances or operations of Debtor; or Debtor or any Consolidated Subsidiary shall fail to pay to any Pension Plan any contribution which it is obligated to pay under the terms of such plan or any agreement or which is required to meet statutory minimum funding standards, and such pension default is not remedied within thirty (30) days of default;

(j) Collateral; Impairment. There shall occur with respect to the Collateral any (i) misappropriation, conversion, diversion, or fraud; (ii) levy, seizure, or attachment; or (iii) material loss, theft, or damage, and such impairment is not cured to the reasonable satisfaction of Secured Party within ten (10) days of written notice by Secured Party to Debtor.

(k) Insecurity; Change. Secured Party shall believe in good faith that the prospect of payment of all, or any part, of the Indebtedness or performance of Debtor's obligations under the Transaction Documents or any other agreement between Secured Party and Debtor is impaired; or there shall occur any materially adverse change in the business or financial condition of Debtor.

(l) Third Party Default. There shall occur with respect to any Third Party or any Consolidated Subsidiary,

including, without limitation, any guarantor or Consolidated Subsidiary (i) any event described in Section 11.1(e), 11.1(f), 11.1(g), or 11.1(h); (ii) any pension default event such as described in Section 11.1(i) with respect to any pension plan maintained by such Third Party or such Consolidated Subsidiary; or (iii) any failure by Third Party or such Consolidated Subsidiary to perform in accordance with the terms of any agreement between such Third Party and Secured Party, and such Third Party default remains unremedied within thirty (30) days of default.

(m) Representations. Any certificate, statement, representation, warranty, or financial statement furnished by, or on behalf of, Debtor or any Third Party, pursuant to, or in connection with, this Agreement (including, without limitation, representations and warranties contained herein) or as an inducement to Secured Party to enter into this Agreement or any other lending agreement with Debtor shall prove to have been false in any material respect at the time as of which the facts therein set forth were certified or to have omitted any substantial contingent or unliquidated liability or claim against Debtor or any such Third Party, or if on the date of the execution of this Agreement there shall have been any materially adverse change in any of the facts disclosed by any such statement or certificate which shall not have been disclosed in writing to Secured Party at, or prior to, the time of such execution.

(n) Challenge to Validity. Debtor or any Third Party commences any action or proceeding to contest the validity or enforceability of any Transaction Document or any lien or security interest granted or obligations evidenced by any Transaction Document.

(o) Death or Incapacity; Termination. Any Third Party dies or becomes incapacitated, or terminates or attempts to terminate, in accordance with its terms or otherwise, any guaranty or other Transaction Document executed by such Third Party.

(p) Intentionally deleted prior to execution.

(q) Location of Collateral Within the United States. If, at any time during the Loan Period, Debtor and its Consolidated Subsidiaries shall fail to maintain, on a consolidated basis, not less than fifty (50%) of the value of all of their identifiable assets (as disclosed in the 10k statement) in the United States, to be tested annually, at each fiscal year end.

11.2. EFFECTS OF AN EVENT OF DEFAULT.

(a) Upon the happening of one or more Events of Default (except an Event of Default under either Section 11.1(e) or 11.1(f)), Secured Party may declare any obligations it may have hereunder to be cancelled, and the principal of the Indebtedness then outstanding to be immediately due and payable, together with all interest thereon and costs and expenses accruing under the Transaction Documents. Upon such declaration, any obligations Secured Party may have hereunder shall be immediately cancelled, and the Indebtedness then outstanding shall become immediately due and payable without presentation, demand, or further notice of any kind to Debtor.

(b) Upon the happening of one or more Events of Default under Section 11.1(e) or 11.1(f), Secured Party's obligations hereunder shall be cancelled immediately, automatically, and without notice, and the Indebtedness then outstanding shall become immediately due and payable without presentation, demand, or notice of any kind to the Debtor.

12. SECURED PARTY'S RIGHTS AND REMEDIES.

12.1. GENERALLY. Secured Party's rights and remedies with respect to the Collateral, in addition to those rights granted herein and in any other agreement between Debtor and Secured Party now or hereafter in effect, shall be those of a secured party under the Uniform Commercial Code as in effect in the State and under any other applicable law.

12.2. INTENTIONALLY DELETED PRIOR TO EXECUTION.

12.3. POSSESSION OF COLLATERAL. Whenever Secured Party may take possession of the Collateral, pursuant to Section 12.1, Secured Party may take possession of the Collateral on Debtor's premises or may remove the Collateral, or any part thereof, to such other places as the Secured Party may, in its sole discretion, determine. If requested by Secured Party, Debtor shall assemble the Collateral and deliver it to Secured Party at such place as may be designated by Secured Party.

12.4. COLLECTION OF RECEIVABLES. Upon the occurrence of an Event of Default or an event which with notice or lapse of time, or both, would constitute an Event of Default, Secured Party may demand, collect, and sue for all monies and proceeds due, or to become due, on the Receivables (in either Debtor's or Secured Party's name at the latter's option) with the right to enforce, compromise, settle, or discharge any or all Receivables. If Secured Party takes any action contemplated by this Section with respect to any Receivable, Debtor shall not exercise any right that Debtor would otherwise have had to take such action with respect to such Receivable.

12.5. Intentionally Deleted Prior to Execution

12.6. LICENSE TO USE PATENTS, TRADEMARKS AND TRADENAMES. Debtor grants to Secured Party a royalty-free license to use any and all patents, trademarks, and tradenames now or hereafter owned by, or licensed to, Debtor for the purposes of manufacturing and disposing of Inventory after the occurrence of an Event of Default. All Inventory shall at least meet quality standards maintained by Debtor prior to such Event of Default.

13. MISCELLANEOUS.

13.1. PERFECTING THE SECURITY INTEREST; PROTECTING THE COLLATERAL. Debtor hereby authorizes Secured Party to file such financing statements relating to the Collateral without Debtor's signature thereon as Secured Party may deem appropriate, and appoints Secured Party as Debtor's attorney-in-fact (without requiring Secured Party) to execute any such financing statement or statements in Debtor's name and to perform all other acts which Secured Party deems appropriate to perfect and continue the Security Interest and to protect, preserve, and realize upon the Collateral.

13.2. PERFORMANCE OF DEBTOR'S DUTIES. Upon Debtor's failure to perform any of its duties under the Transaction Documents, including, without limitation, the duty to obtain insurance as specified in Section 9.11, Secured Party may, but shall not be obligated to, perform any or all such duties.

13.3. NOTICE OF SALE. Without in any way requiring notice to be given in the following manner, Debtor agrees that any notice by Secured Party of sale, disposition, or other intended action hereunder, or in connection herewith, whether required by the Uniform Commercial Code as in effect in the State or otherwise, shall constitute reasonable notice to Debtor if such notice is mailed by regular or certified mail, postage prepaid, at least five (5) days prior to such action, to Debtor's address or addresses specified above or to any other address which Debtor has specified in writing to Secured Party as the address to which notices hereunder shall be given to Debtor.

13.4. WAIVER BY SECURED PARTY. No course of dealing between Debtor and Secured Party and no delay or omission by Secured Party in exercising any right or remedy under the Transaction Documents or with respect to any Indebtedness shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy.

All rights and remedies of Secured Party are cumulative.

13.5. WAIVER BY DEBTOR. Secured Party shall have no obligation to take, and Debtor shall have the sole responsibility for taking, any and all steps to preserve rights against any and all Account Debtors and against any and all prior parties to any note, Chattel Paper, draft, trade acceptance or other instrument for the payment of money covered by the Security Interest, whether or not in Secured Party's possession. Secured Party shall not be responsible to Debtor for loss or damage resulting from Secured Party's failure to enforce any Receivables or to collect any moneys due, or to become due, thereunder or other Proceeds constituting Collateral hereunder. Debtor waives protest of any note, check, draft, trade acceptance, or other instrument for the payment of money constituting Collateral at any time held by Secured Party on which Debtor is in any way liable and waives notice of any other action taken by Secured Party, including, without limitation, notice of Secured Party's intent to accelerate the Indebtedness or any part thereof.

13.6 SETOFF. Without limiting any other right of Secured Party, whenever Secured Party has the right to declare any Indebtedness to be immediately due and payable (whether or not it has so declared), Secured Party, at its sole election, may setoff against the Indebtedness any and all monies then or thereafter owed to Debtor by Secured Party in any capacity, whether or not the Indebtedness or the obligation to pay such monies owed by Secured Party is then due, and Secured Party shall be deemed to have exercised such right of setoff immediately at the time of such election even though any charge therefor is made or entered on Secured Party's records subsequent thereto.

13.7. ASSIGNMENT. The rights and benefits of Secured Party hereunder shall, if Secured Party so agrees, inure to any party acquiring any interest in the Indebtedness or any part thereof. Prior to the occurrence of an Event of Default hereunder,Secured Party shall give Debtor ninety (90) days prior written notice of an assignment in full of its interest in the Indebtedness, with the exception of assignments of its interest in the Indebtedness due to acquisition, merger, consolidation, takeover or such other like activity.

13.8. SUCCESSORS AND ASSIGNS. Secured Party and Debtor, as used herein, shall include the successors or assigns of those parties, except that Debtor shall not have the right to assign its rights hereunder or any interest herein.

13.9. MODIFICATION. No modification, rescission, waiver, release, or amendment of any provision of this Agreement shall be made, except as may be provided in a written agreement signed by

Debtor and a duly authorized officer of Secured Party.

13.10. COUNTERPARTS. This Agreement may be executed in any number of counterparts, and by Secured Party and Debtor on separate counterparts, each of which, when so executed and delivered, shall be an original, but all of which shall together constitute one and the same Agreement.

13.11. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. Any financial calculation to be made, all financial statements and other financial information to be provided, and all books and records to be kept in connection with the provision of this Agreement, shall be in accordance with GAAP consistently applied during each interval and from interval to interval; provided, however, that in the event changes in GAAP shall be mandated by the Financial Accounting Standards Board or any similar accounting body of comparable standing, or should be recommended by Debtor's certified public accountants, to the extent such changes would affect any financial calculations to be made in connection herewith, such changes shall be implemented in making such calculations only from and after such date as Debtor and Secured Party shall have amended this Agreement to the extent necessary to reflect such changes in the financial and other covenants to which such calculations relate.

13.12. INDEMNIFICATION.

(a) If after receipt of any payment of all, or any part of, the Indebtedness, Secured Party is, for any reason, compelled to surrender such payment to any person or entity because such payment is determined to be void or voidable as a preference, an impermissible setoff, or a diversion of trust funds, or for any other reason, the Transaction Documents shall continue in full force and Debtor shall be liable, and shall indemnify and hold Secured Party harmless for, the amount of such payment surrendered. The provisions of this Section shall be and remain effective notwithstanding any contrary action which may have been taken by Secured Party in reliance upon such payment, and any such contrary action so taken shall be without prejudice to Secured Party's rights under the Transaction Documents and shall be deemed to have been conditioned upon such payment having become final and irrevocable. The provisions of this Section 13.12(a) shall survive the termination of this Agreement and the Transaction Documents.

(b) Debtor agrees to indemnify, defend and hold harmless Secured Party from, and against, any and all liabilities, claims, damages, penalties, expenditures, losses, or charges, including, but not limited to, all costs of investigation, monitoring, legal representations, remedial response, removal, restoration or permit acquisition, which may

now, or in the future, be undertaken, suffered, paid, awarded, assessed, or otherwise incurred by Secured Party or any other person or entity as a result of the presence of, Release of, or threatened Release of Hazardous Substances on, in, under, or near the property owned, leased or operated by Debtor or any Consolidated Subsidiary. The liability of Debtor under the covenants of this Section 13.12(b) is not limited by any exculpatory provisions in this Agreement or any other documents securing the Indebtedness and shall survive repayment of the Indebtedness or any transfer or termination of this Agreement regardless of the means of such transfer or termination. Debtor agrees that Secured Party shall not be liable in any way for the completeness or accuracy of any Environmental Report or the information contained therein. Debtor further agrees that Secured Party has no duty to warn Debtor or any other person or entity about any actual or potential environmental contamination or other problem that may have become apparent, or will become apparent, to Secured Party.

(c) Debtor agrees to pay, indemnify, and hold Secured Party harmless from, and against, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses, or disbursements of any kind or nature whatsoever (including, without limitation, counsel and special counsel fees and disbursements in connection with any litigation, investigation, hearing, or other proceeding) with respect, or in any way related, to the existence, execution, delivery, enforcement, performance, and administration of this Agreement and any other Transaction Document (all of the foregoing, collectively, the "Indemnified Liabilities"). The agreements in this Section 13.12(c) shall survive repayment of the Indebtedness.

13.13. TERMINATION.

This Agreement is, and is intended to be, a continuing Agreement and shall remain in full force and effect for the Term and for any renewal term, if any; provided, however, that Secured Party may terminate this Agreement by giving Debtor notice to terminate in writing at least one hundred twenty (120) days prior to the end of the Term whereupon at the end of the Term all Indebtedness shall be due and payable in full without presentation, demand, or further notice of any kind, whether or not all or any part of such Indebtedness is otherwise due and payable pursuant to the agreement or instrument evidencing same. Notwithstanding the above, Secured Party may terminate this

Agreement immediately and without further notice (except as specifically provided for herein or in the other Transaction Documents) upon the occurrence of an uncured or unremedied Event of Default herein or under any of the Transaction Documents. In addition, the one hundred twenty (120) day prior notice provision contained in this Section 13.13. does not apply and shall not be enforceable in the event that an uncured default has occurred and is continuing under the Transaction Documents with respect to payment covenants, bankruptcy covenants or bankruptcy events of default, financial covenants contained in Section 9.26. herein, the negative covenants contained in Sections 10.11, 10.15 and 10.16 herein, the cross-default with other creditors covenants, and the event of default specified in Section 11.1. (q). Notwithstanding the foregoing or anything in this Agreement or elsewhere to the contrary, the Security Interest, Secured Party's rights and remedies under the Transaction Documents and Debtor's obligations and liabilities under the Transaction Documents, shall survive any termination of this Agreement and shall remain in full force and effect until all of the Indebtedness outstanding, or contracted or committed for (whether or not outstanding), before the receipt of such notice by Secured Party, and any extensions or renewals thereof (whether made before or after receipt of such notice), together with interest accruing thereon after such notice, shall be finally and irrevocably paid in full. No Collateral shall be released or financing statement terminated until: (i) such final and irrevocable payment in full of the Indebtedness as described in the preceding sentence; and (ii) Debtor and Secured Party execute a mutual general release, subject to Section 13.12 of this Agreement, in form and substance satisfactory to the Secured Party and Debtor and their counsel.

13.14. FURTHER ASSURANCES. From time to time, Debtor shall take such action and execute and deliver to Secured Party such additional documents, instruments, certificates, and agreements as Secured Party may reasonably request to effectuate the purposes of the Transaction Documents.

13.15. HEADINGS. Article and Section headings used in this Agreement are for convenience only and shall not affect the construction of this Agreement.

13.16. CUMULATIVE SECURITY INTEREST, ETC. The execution and delivery of this Agreement shall in no manner impair or affect any other security (by endorsement or otherwise) for payment or performance of the Indebtedness, and no security taken hereafter as security for payment or performance of the Indebtedness shall impair in any manner or affect this Agreement, or the security interest granted hereby, all such present and future additional security to be considered as cumulative security.

13.17. SECURED PARTY'S DUTIES. Without limiting any other provision of this Agreement: (a) the powers conferred on Secured Party hereunder are solely to protect its interests and shall not impose any duty to exercise any such powers; and (b) except as may be required by applicable law, Secured Party shall not have any duty as to any Collateral or as to the taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral.

13.18. NOTICE GENERALLY. All notices and other communications hereunder shall be made by telegram, telex, electronic transmitter, overnight air courier, or certified or registered mail, return receipt requested, and shall be deemed to be received by the party to whom sent one Business Day after sending, if sent by telegram, telex, electronic transmitter or overnight air courier, and three Business Days after mailing, if sent by certified or registered mail. All such notices and other communications to a party hereto shall be addressed to such party at the address set forth on the cover page hereof or to such other address as such party may designate for itself in a notice to the other party given in accordance with this Section 13.18. Notices to Debtor shall be sent to the attention of the Senior Vice President for Operations and Finance. As of this date the Senior Vice President for Operations and Finance is Kevin Buchel.

13.19. SEVERABILITY. The provisions of this Agreement are independent of, and separable from, each other, and no such provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other such provision may be invalid or unenforceable in whole or in part. If any provision of this Agreement is prohibited or unenforceable in any jurisdiction, such provision shall be ineffective in such jurisdiction only to the extent of such prohibition or unenforceability, and such prohibition or unenforceability shall not invalidate the balance of such provision to the extent it is not prohibited or unenforceable nor render prohibited or unenforceable such provision in any other jurisdiction.

13.20. INCONSISTENT PROVISIONS. The terms of this Agreement and the other Transaction Documents shall be cumulative except to the extent that they are specifically inconsistent with each other, in which case the terms of this Agreement shall prevail.

13.21. ENTIRE AGREEMENT. This Agreement and the other Transaction Documents constitute the entire agreement and understanding between the parties hereto with respect to the transactions contemplated hereby and supersede all prior negotiations, understandings, and agreements between such parties with respect to such transactions, including, without limitation, those expressed in any commitment letter delivered by Secured

Party to Debtor.

13.22. APPLICABLE LAW. THIS AGREEMENT, AND THE TRANSACTIONS EVIDENCED HEREBY, SHALL BE GOVERNED BY, AND CONSTRUED UNDER, THE INTERNAL LAWS OF THE STATE, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, AS THE SAME MAY FROM TIME TO TIME BE IN EFFECT, INCLUDING, WITHOUT LIMITATION, THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN THE STATE.

13.23. CONSENT TO JURISDICTION. DEBTOR AND SECURED PARTY AGREE THAT ANY ACTION OR PROCEEDING TO ENFORCE, OR ARISING OUT OF, THE TRANSACTION DOCUMENTS MAY BE COMMENCED IN ANY COURT OF THE STATE IN ANY COUNTY, OR IN THE DISTRICT COURT OF THE UNITED STATES IN ANY DISTRICT, IN WHICH SECURED PARTY HAS AN OFFICE, AND DEBTOR WAIVES PERSONAL SERVICE OF PROCESS AND AGREES THAT A SUMMONS AND COMPLAINT COMMENCING AN ACTION OR PROCEEDING IN ANY SUCH COURT SHALL BE PROPERLY SERVED AND SHALL CONFER PERSONAL JURISDICTION IF SERVED BY REGISTERED OR CERTIFIED MAIL TO DEBTOR, OR AS OTHERWISE PROVIDED BY THE LAWS OF THE STATE OR THE UNITED STATES.

13.24. JURY TRIAL WAIVER. DEBTOR AND SECURED PARTY HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHT TO TRIAL BY JURY DEBTOR OR SECURED PARTY MAY HAVE IN ANY ACTION OR PROCEEDING, IN LAW OR IN EQUITY, IN CONNECTION WITH THE TRANSACTION DOCUMENTS OR THE TRANSACTIONS RELATED THERETO. DEBTOR REPRESENTS AND WARRANTS THAT NO REPRESENTATIVE OR AGENT OF SECURED PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SECURED PARTY WILL NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THIS RIGHT TO JURY TRIAL WAIVER. DEBTOR ACKNOWLEDGES THAT SECURED PARTY HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE PROVISIONS OF THIS SECTION 13.24.

Accepted at Garden City, New York by:

MARINE MIDLAND BANK	NAPCO SECURITY SYSTEMS, INC.
By: /s/	By: /s/
John S. Wamboldt	Kevin Buchel
Vice President	Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF NASSAU)

On this 12th day of May, 1997, before me personally came KEVIN BUCHEL, to me known, who being by me duly sworn, did depose and say that he resides at ; that he is the Senior Vice President of NAPCO SECURITY SYSTEMS, INC., the corporation described in and which executed the foregoing instrument; that he signed his name thereto by order of the Board of Directors of said corporation.

/s/
NOTARY PUBLIC

STATE OF NEW YORK)
) SS:
COUNTY OF NASSAU)

On the 12th day of May, 1997, before me personally came JOHN S. WAMBOLDT, to me known, who, being by me duly sworn, did depose and say that he has an office at 534 Broad Hollow Road, Melville, New York; that he is a Vice President of MARINE MIDLAND BANK, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

/s/
NOTARY PUBLIC

REVOLVING CREDIT NOTE # 1

Amount of Note:	$1,000,000.00
Date of Note:	As of May 12, 1997
Borrower:	NAPCO Security Systems, Inc., the undersigned borrower, having its principal office at the place indicated beneath its name, and including its successors and/or assigns.
Default Rate:	All overdue amounts shall bear interest, payable on demand, at a rate per annum equal to the Interest Rate, then in effect, plus three (3.0%) percent per annum.
Interest Rate:	Interest is to be computed from the date hereof at a rate per annum equal to either (a) the Variable Rate Option, or (b) the Libor Rate Option for the Interest Period selected by the Borrower. In all instances, interest shall be payable in arrears and computed on an actual/360-day basis (i.e., interest for each day during which the indebtedness evidenced by this Note, or any portion thereof, is outstanding), all as more specifically described in the Loan Agreement, incorporated herein by this reference.
Interest Period:	Interest Period, as the term "Interest Period" is defined in the Loan Agreement.
Lender:	Marine Midland Bank, including its successors and/or assigns, with a place of business at 534 Broad Hollow Road, Melville, New York 11747.
Libor Rate Option:	Libor Rate Option, as the term "Libor Rate Option" is defined in the Loan Agreement.
Loan Agreement:	The Loan and Security Agreement dated as of even date hereof, including all exhibits hereto, by and between the Borrower and the Lender, as the same may be amended or otherwise modified from time to time.
Prime Rate:	Prime Rate, as the term "Prime Rate" is defined in the Loan Agreement.
Note or Revolving Credit Note or Revolving Credit Note # 1	This Revolving Credit Note # 1, including all exhibits thereto, as the same may be amended or otherwise modified from time to time; the terms "herein", "hereunder" and like terms shall be taken in its entirety and shall not be limited to any particular paragraph or provision hereof.

Termination Date:	Termination Date, as the term "Termination Date is defined in the Loan Agreement.
Transaction Documents:	Transaction Documents, as the term "Transaction Documents" is defined in the Loan Agreement.
Variable Rate Option:	Variable Rate Option, as the term "Variable Rate Option" is defined in the Loan Agreement.

FOR VALUE RECEIVED, the Borrower does hereby covenant and promise to pay to the order of the Lender at its office at 534 Broad Hollow Road; Melville, New York 11747 or at such other place or places as the Lender may designate to the Borrower in writing from time to time, in check, coin or currency of the United States which is then legal tender for the payment of public or private debts, in immediately available funds, the lesser of (a) the principal amount of One Million ($1,000,000.00) Dollars; or (b) the aggregate unpaid principal amount of all loans (or Advances) made by the Lender to the Borrower from time to time hereunder (collectively the "Loans", or if used in the singular, the "Loan").

The Borrower agrees that each monthly or other statement of account mailed or delivered by the Lender to the Borrower pertaining to the outstanding balance of the Loans, the amount of interest due thereon, fees, and costs and expenses shall be final, conclusive, and binding on the Borrower and shall constitute an "account stated" with respect to the matters contained therein unless, within thirty (30) calendar days from when such statement is mailed or, if not mailed, delivered to the Borrower, the Borrower shall deliver to the Lender written notice of any objections which it may have as to such statement of account, and in such event, only the items to which objection is expressly made in such notice shall be considered to be disputed by the Borrower.

No legal proceedings or actions shall be brought by the Borrower against the Lender claiming any such error unless (a) the Borrower shall have given the written notice as provided hereinabove, and (b)

such legal proceeding or action shall be commenced within one (1) year of the date when such statement of account, notice or advice was delivered or mailed to the Borrower.

The Borrower also shall pay, in lawful money of the United States, and in immediately available funds, interest to the Lender on the unpaid principal balance of all Loans outstanding from time to time from the date hereof until fully paid at a rate per annum equal to at the election of Borrower the Libor Rate Option or the Variable Rate Option, subject to the provisions contained in the Loan Agreement and all as more specifically described in the Loan Agreement. All payments shall be credited, when collected, first to interest and then to principal.

Interest Rate and Interest Period selection shall be governed by the provisions contained in the Loan Agreement. All written notices of Interest Rate and/or Interest Period selection shall be in the form annexed hereto as Exhibit A, attached hereto and incorporated herein by this reference.

A late payment premium equal to five (5%) percent of any principal or interest payment made more than ten (10) days after the due date thereof shall be due with any such late payment (other than the final payment due on the Maturity Date).

This Note is secured by and the parties hereto are entitled to the benefits of that certain Second Mortgage and Security Agreement in the principal amount of $1,000,000., of even date herewith (the "Mortgage"), made by the Borrower to the Lender, encumbering, among other things, certain real property and improvements now or hereafter located on said real property, situate at 333 Bayview Avenue, a/k/a 359 Bayview Avenue, Amityville, in the Town of Babylon, County of Suffolk, State of New York, as more particularly described in the Mortgage ("Mortgaged Premises" or "Mortgaged Property"), and is executed and delivered pursuant to the Loan Agreement, all of the covenants, conditions and agreements of the Mortgage and the Loan Agreement being made a part hereof by this reference. This Note also is secured by the Collateral of the Borrower described in the Loan Agreement, and the pledged collateral described in certain pledge agreements dated of even date hereof, and the collateral of the domestic Consolidated Subsidiaries described in the general security agreements executed and delivered to the Lender by each of the domestic Consolidated Subsidiaries on even date hereof, and the Lender is entitled to the benefits of all of the collateral described therein and the collateral described in the other Transaction Documents.

This Revolving Credit Note is the Note # 1 referred to in the Loan Agreement, and the Lender shall be entitled to the benefit of all of the provisions contained therein and in the other Transaction Documents. The Loan Agreement, among other things, contains

provisions for payment of principal, interest, fees and charges in connection with the Revolving Credit Facility as well as provisions for acceleration of this Note upon the happening of certain stated events. The Loan Agreement also contains representations, warranties, covenants and conditions precedent to Advances under the Revolving Credit Facility, all of which are hereby made part of this Revolving Credit Note to the same extent and with the same effect as if set forth herein at length.

It is expressly agreed that, upon the failure of the Borrower timely to make any payment due hereunder, or upon the happening of any "Event of Default" under the Mortgage, the Loan Agreement and/or the other Transaction Documents, the principal sum hereof, together with accrued interest and all other expenses, including, but not limited to reasonable attorneys' fees for legal services incurred by the Lender in connection with the collection of this Note and/or the enforcement of payment hereof whether or not suit is brought, and if suit is brought, then through all appellate actions, shall immediately become due and payable at the option of the Lender, notwithstanding the Termination Date set forth herein. In the Event of Default, whether the Lender exercises any of its rights and remedies contained herein, including the right to declare all Indebtedness hereunder to be immediately due and payable, the Borrower shall pay interest on the unpaid principal balance hereunder at a rate equal to the Default Rate. The unpaid principal balance under the Note shall bear the Default Rate of Interest until the first to occur of the following: (i) all Indebtedness under this Note are paid in full; (ii) Borrower has cured said Event of Default to the satisfaction of the Lender; or (iii) the Lender, in writing, has waived said Event of Default. Notwithstanding anything to the contrary contained in this Note, the Note is subject to the express condition that at no time shall Borrower be obligated to be required to pay interest on the principal balance of this Note at a rate which could subject the Lender either to civil or criminal penalty as a result of being in excess of the maximum rate which Borrower is permitted by law to contract or agree to pay. If by the terms of this Note, Borrower at any time are required or obligated to pay interest on the principal balance of this Note at a rate in excess of such maximum rate then the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and any prior interest payments made in excess of such maximum rate shall be applied and shall be deemed to have been payments made in reduction of the principal balance of such note.

The indebtedness evidenced by this Note shall be prepayable, in whole or in part, subject to the provisions contained in the Loan Agreement.

Should the indebtedness represented by this Note or any part thereof be collected at law or in equity, or in bankruptcy, receivership or any other court proceedings (whether at the trial or

appellate level), or should this Note be placed in the hands of attorneys for collection upon an Event of Default, the Borrower agrees to pay, in addition to the principal, premium, breakage costs, and interest due and payable hereon, all costs of collection or attempting to collect this Note, including reasonable attorneys' fees and expenses.

The Borrower hereby waives valuation and appraisement, demand, presentment for payment, notice of dishonor, protest and notice of protest of this Note.

Any notice, demand or request relating to any matter set forth herein shall be in writing and shall be deemed effective when mailed, postage prepaid, by registered or certified mail, return receipt requested, to any party hereto at its address stated herein or at such other address of which it shall have notified the party giving such notice in writing as aforesaid.

This Note, being drawn, executed and delivered in the State of New York, where all advances and repayments shall be made, shall be construed and enforced in accordance with the laws of the State of New York.

This Note may not be changed or terminated orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

All capitalized terms used herein not specifically defined shall have the meanings assigned to such terms in the Loan Agreement.

THE BORROWER AND THE LENDER AGREE THAT ANY LITIGATION GROWING OUT OF ANY CONTROVERSY WITH RESPECT TO, IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO WILL BE TRIED BY A COURT BY A JUDGE SITTING WITHOUT A JURY. IN ADDITION, THE BORROWER WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE BASED UPON ANY STATUTE OF LIMITATIONS OR ANY CLAIM OF LACHES AND ANY SET-OFF OR COUNTERCLAIM EXCEPT FOR COMPULSORARY COUNTER CLAIMS OF ANY NATURE OR DESCRIPTION, EXCEPT FOR PAYMENT PROVIDED BORROWER MAY INSTITUTE A SEPARATE CLAUSE OF ACTION AS TO SUCH MATTERS. THE BORROWER AND THE LENDER CONFIRM THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

IN WITNESS WHEREOF, the Borrower has duly executed this Note as of the Date of Note.

NAPCO SECURITY SYSTEMS, INC.

BY: /s/

KEVIN BUCHEL
SENIOR VICE PRESIDENT

with offices at 333 Bayview Avenue
Amityville, New York 11701

STATE OF NEW YORK)
) SS:
COUNTY OF NASSAU)

On this 12th day of May, 1997, before me personally came Kevin Buchel, to me known, who being by me duly sworn, did depose and say that he resides at 64 Crescent Court, Old Bethpage, New York 11804, that he is the Senior Vice President of NAPCO Security Systems, Inc., the corporation described in and which executed the foregoing instrument; that he signed his name thereto by order of the Board of Directors of said corporation.

/s/

NOTARY PUBLIC

EXHIBIT "A"

REQUEST FOR ADVANCE AND
NOTICE OF INTEREST RATE SELECTION

TO: MARINE MIDLAND BANK
534 Broad Hollow Road
Melville, New York 11747
Attention: John S. Wamboldt
Fax No.: (516) 752-4340

This Request for Advance Notice of Interest Rate Selection is governed by the terms of the Loan and Security Agreement dated May 12, 1997 made by and between NAPCO Security Systems, Inc. ("Debtor") and MARINE MIDLAND BANK ("Secured Party") (the "Agreement").

The undersigned hereby GIVES THE SECURED PARTY IRREVOCABLE NOTICE that Debtor requests the following Interest Rate under the Agreement as follows:

1. Rate Option and Interest Period. The requested Interest Rate option and Interest Rate Period for the requested amount is ((a) or (b), checked as applicable):

[ ] (a) The Libor Rate Option for an Interest Period of (one checked as applicable):

[ ] one month;
[ ] two months; or
[ ] three months; or
[ ] four months; or
[ ] six months; or
[ ] nine months; or
[ ] twelve months; or

[ ] (b) The Variable Rate Option.

2. The Interest Rate shall be in effect for a requested Advance equalling $_____.

Dated: _____, 1997

NAPCO Security Systems, Inc.

By: _____
Kevin Buchel
Senior Vice President

REVOLVING CREDIT NOTE # 2

Amount of Note:	$15,000,000.00
Date of Note:	As of May 12, 1997
Borrower:	NAPCO Security Systems, Inc., the undersigned borrower, having its principal office at the place indicated beneath its name, and including its successors and/or assigns.
Default Rate:	All overdue amounts shall bear interest, payable on demand, at a rate per annum equal to the Interest Rate, then in effect, plus three (3.0%) percent per annum.
Interest Rate:	Interest is to be computed from the date hereof at a rate per annum equal to either (a) the Variable Rate Option, or (b) the Libor Rate Option for the Interest Period selected by the Borrower. In all instances, interest shall be payable in arrears and computed on an actual/360-day basis (i.e., interest for each day during which the indebtedness evidenced by this Note, or any portion thereof, is outstanding), all as more specifically described in the Loan Agreement, incorporated herein by this reference.
Interest Period:	Interest Period, as the term "Interest Period" is defined in the Loan Agreement.
Lender:	Marine Midland Bank, including its successors and/or assigns, with a place of business at 534 Broad Hollow Road, Melville, New York 11747.
Libor Rate Option:	Libor Rate Option, as the term "Libor Rate Option" is defined in the Loan Agreement.
Loan Agreement:	The Loan and Security Agreement dated as of even date hereof, including all exhibits hereto, by and between the Borrower and the Lender, as the same may be amended or otherwise modified from time to time.
Prime Rate:	Prime Rate, as the term "Prime Rate" is defined in the Loan Agreement.

Note or Revolving Credit Note or Revolving Credit Note # 2	This Revolving Credit Note # 2, including all exhibits thereto, as the same may be amended or otherwise modified from time to time; the terms "herein", "hereunder" and like terms shall be taken in its entirety and shall not be limited to any particular paragraph or provision hereof.
Termination Date:	Termination Date, as the term "Termination Date is defined in the Loan Agreement.
Transaction Documents:	Transaction Documents, as the term "Transaction Documents" is defined in the Loan Agreement.
Variable Rate Option:	Variable Rate Option, as the term "Variable Rate Option" is defined in the Loan Agreement.

FOR VALUE RECEIVED, the Borrower does hereby covenant and promise to pay to the order of the Lender at its office at 534 Broad Hollow Road; Melville, New York 11747 or at such other place or places as the Lender may designate to the Borrower in writing from time to time, in check, coin or currency of the United States which is then legal tender for the payment of public or private debts, in immediately available funds, the lesser of (a) the principal amount of Fifteen Million ($15,000,000.00) Dollars; or (b) the aggregate unpaid principal amount of all loans (or Advances) made by the Lender to the Borrower from time to time hereunder (collectively the "Loans", or if used in the singular, the "Loan").

The Borrower agrees that each monthly or other statement of account mailed or delivered by the Lender to the Borrower pertaining to the outstanding balance of the Loans, the amount of interest due thereon, fees, and costs and expenses shall be final, conclusive, and binding on the Borrower and shall constitute an "account stated" with respect to the matters contained therein unless, within thirty (30) calendar days from when such statement is mailed or, if not mailed, delivered to the Borrower, the Borrower shall deliver to the Lender written notice of any objections which it may have as to such statement of account, and in such event, only the items to which objection is expressly made in such notice shall be considered to be disputed by the Borrower. No legal proceedings or actions shall be brought by the Borrower against the Lender claiming any such error unless (a) the Borrower

shall have given the written notice as provided hereinabove, and (b) such legal proceeding or action shall be commenced within one (1) year of the date when such statement of account, notice or advice was delivered or mailed to the Borrower.

The Borrower also shall pay, in lawful money of the United States, and in immediately available funds, interest to the Lender on the unpaid principal balance of all Loans outstanding from time to time from the date hereof until fully paid at a rate per annum equal to at the election of Borrower the Libor Rate Option or the Variable Rate Option, subject to the provisions contained in the Loan Agreement and all as more specifically described in the Loan Agreement. All payments shall be credited, when collected, first to interest and then to principal.

Interest Rate and Interest Period selection shall be governed by the provisions contained in the Loan Agreement. All written notices of Interest Rate and/or Interest Period selection shall be in the form annexed hereto as Exhibit A, attached hereto and incorporated herein by this reference.

A late payment premium equal to five (5%) percent of any principal or interest payment made more than ten (10) days after the due date thereof shall be due with any such late payment (other than the final payment due on the Maturity Date).

This Note is executed and delivered pursuant to the Loan Agreement, all of the covenants, conditions and agreements of the Loan Agreement being made a part hereof by this reference. This Note also is secured by the Collateral of the Borrower described in the Loan Agreement, and the pledged collateral described in certain pledge agreements dated of even date hereof, and the collateral of the domestic Consolidated Subsidiaries described in the general security agreements executed and delivered to the Lender by each of the domestic Consolidated Subsidiaries on even date hereof, and the Lender is entitled to the benefits of all of the collateral described therein and the collateral described in the other Transaction Documents.

This Revolving Credit Note is the Note # 2 referred to in the Loan Agreement, and the Lender shall be entitled to the benefit of all of the provisions contained therein and in the other Transaction Documents. The Loan Agreement, among other things, contains provisions for payment of principal, interest, fees and charges in connection with the Revolving Credit Facility as well as provisions for acceleration of this Note upon the happening of certain stated events. The Loan Agreement also contains representations, warranties, covenants and conditions precedent to Advances under the Revolving Credit Facility, all of which are hereby made part of this Revolving Credit Note to the same extent and with the same effect as if set forth herein at length.

It is expressly agreed that, upon the failure of the Borrower timely to make any payment due hereunder, or upon the happening of any "Event of Default" under the Loan Agreement and/or the other Transaction Documents, the principal sum hereof, together with accrued interest and all other expenses, including, but not limited to reasonable attorneys' fees for legal services incurred by the Lender in connection with the collection of this Note and/or the enforcement of payment hereof whether or not suit is brought, and if suit is brought, then through all appellate actions, shall immediately become due and payable at the option of the Lender, notwithstanding the Termination Date set forth herein. In the Event of Default, whether the Lender exercises any of its rights and remedies contained herein, including the right to declare all Indebtedness hereunder to be immediately due and payable, the Borrower shall pay interest on the unpaid principal balance hereunder at a rate equal to the Default Rate. The unpaid principal balance under the Note shall bear the Default Rate of Interest until the first to occur of the following: (i) all Indebtedness under this Note are paid in full; (ii) Borrower has cured said Event of Default to the satisfaction of the Lender; or (iii) the Lender, in writing, has waived said Event of Default. Notwithstanding anything to the contrary contained in this Note, the Note is subject to the express condition that at no time shall Borrower be obligated to be required to pay interest on the principal balance of this Note at a rate which could subject the Lender either to civil or criminal penalty as a result of being in excess of the maximum rate which Borrower is permitted by law to contract or agree to pay. If by the terms of this Note, Borrower at any time are required or obligated to pay interest on the principal balance of this Note at a rate in excess of such maximum rate then the rate of interest under this Note shall be deemed to be immediately reduced to such maximum rate and interest payable hereunder shall be computed at such maximum rate and any prior interest payments made in excess of such maximum rate shall be applied and shall be deemed to have been payments made in reduction of the principal balance of such note.

The indebtedness evidenced by this Note shall be prepayable, in whole or in part, subject to the provisions contained in the Loan Agreement.

Should the indebtedness represented by this Note or any part thereof be collected at law or in equity, or in bankruptcy, receivership or any other court proceedings (whether at the trial or appellate level), or should this Note be placed in the hands of attorneys for collection upon an Event of Default, the Borrower agrees to pay, in addition to the principal, premium, breakage costs, and interest due and payable hereon, all costs of collection or attempting to collect this Note, including reasonable attorneys' fees and expenses.

The Borrower hereby waives valuation and appraisement, demand, presentment for payment, notice of dishonor, protest and notice of protest of this Note.

Any notice, demand or request relating to any matter set forth herein shall be in writing and shall be deemed effective when mailed, postage prepaid, by registered or certified mail, return receipt requested, to any party hereto at its address stated herein or at such other address of which it shall have notified the party giving such notice in writing as aforesaid.

This Note, being drawn, executed and delivered in the State of New York, where all advances and repayments shall be made, shall be construed and enforced in accordance with the laws of the State of New York.

This Note may not be changed or terminated orally, but only by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

All capitalized terms used herein not specifically defined shall have the meanings assigned to such terms in the Loan Agreement.

THE BORROWER AND THE LENDER AGREE THAT ANY LITIGATION GROWING OUT OF ANY CONTROVERSY WITH RESPECT TO, IN CONNECTION WITH OR ARISING OUT OF THIS NOTE OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO WILL BE TRIED BY A COURT BY A JUDGE SITTING WITHOUT A JURY. IN ADDITION, THE BORROWER WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE BASED UPON ANY STATUTE OF LIMITATIONS OR ANY CLAIM OF LACHES AND ANY SET-OFF OR COUNTERCLAIM EXCEPT FOR COMPULSORARY COUNTER CLAIMS OF ANY NATURE OR DESCRIPTION, EXCEPT FOR PAYMENT, PROVIDED BORROWER MAY INSTITUTE A SEPARATE CAUSE OF ACTION AS TO SUCH MATTERS. THE BORROWER AND THE LENDER CONFIRM THAT THE FOREGOING WAIVERS ARE INFORMED AND FREELY MADE.

IN WITNESS WHEREOF, the Borrower has duly executed this Note as of the Date of Note.

NAPCO SECURITY SYSTEMS, INC.

BY: /s/

KEVIN BUCHEL
SENIOR VICE PRESIDENT

with offices at 333 Bayview Avenue
Amityville, New York 11701

STATE OF NEW YORK)
) SS:
COUNTY OF NASSAU)

On this 12th day of May, 1997, before me personally came Kevin Buchel, to me known, who being by me duly sworn, did depose and say that he resides at 64 Crescent Court, Old Bethpage, New York 11804, that he is the Senior Vice President of NAPCO Security Systems, Inc., the corporation described in and which executed the foregoing instrument; that he signed his name thereto by order of the Board of Directors of said corporation.

/s/

NOTARY PUBLIC

EXHIBIT "A"

REQUEST FOR ADVANCE AND
NOTICE OF INTEREST RATE SELECTION

TO: MARINE MIDLAND BANK
534 Broad Hollow Road
Melville, New York 11747
Attention: John S. Wamboldt
Fax No.: (516) 752-4340

This Request for Advance Notice of Interest Rate Selection is governed by the terms of the Loan and Security Agreement dated May 12, 1997 made by and between NAPCO Security Systems, Inc. ("Debtor") and MARINE MIDLAND BANK ("Secured Party") (the "Agreement").

The undersigned hereby GIVES THE SECURED PARTY IRREVOCABLE NOTICE that Debtor requests the following Interest Rate under the Agreement as follows:

1. Rate Option and Interest Period. The requested Interest Rate option and Interest Rate Period for the requested amount is ((a) or (b), checked as applicable):

[ ] (a) The Libor Rate Option for an Interest Period of (one checked as applicable):

[ ] one month;
[ ] two months; or
[ ] three months; or
[ ] four months; or
[ ] six months; or
[ ] nine months; or
[ ] twelve months; or

[ ] (b) The Variable Rate Option.

2. The Interest Rate shall be in effect for a requested Advance equalling $_____.

Dated: _____, 1997

NAPCO Security Systems, Inc.

By: _____
Kevin Buchel
Senior Vice President

EXHIBIT 10.F

PROMISSORY NOTE

Dated: May 12, 1997

ON DEMAND, FOR VALUE RECEIVED, the undersigned, NAPCO Security Systems, Inc. (the "Company"), a corporation formed under the laws of the State of Delaware, having its principal office located at 333 Bayview Avenue, Amityville, New York 11701, hereby promises to pay to the order of MARINE MIDLAND BANK (the "Bank") at its office at 534 Broad Hollow Road, Melville, New York 11747, or at such other place as the holder of this Promissory Note may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal sum of TWO MILLION FIVE HUNDRED THOUSAND AND 00/100 ($2,500,000) DOLLARS, or so much as may be drawn on the Letter of Credit (as defined in the Reimbursement Agreement [hereinafter defined]) and such other amounts as may be owed to the Bank pursuant to the Loan Documents (as defined in the Reimbursement Agreement) including, but not limited to, the Bank's reasonable attorney's fees upon the occurrence of an Event of Default under the Reimbursement Agreement together with interest on the principal amount remaining unpaid hereunder from time to time from the date of any draw on the Letter of Credit until such principal amount has been paid in full. Any amount owed the Bank pursuant to this Promissory Note shall bear interest at a rate per annum equal to the Prime Rate plus three (3%) percent per annum in accordance with the terms herein and as set forth in the Reimbursement Agreement.

The interest rate shall be adjusted, without notice, as of the effective date of any change in the Prime Rate and shall be computed hereunder on the basis of a 360 day year for the actual number of days elapsed. "Prime Rate" shall mean that floating rate of interest per annum announced by the Bank from time to time as being the Bank's prime rate, which is a base for calculating interest on certain loans.

In no event shall the interest rate and charges herein or in the Reimbursement Agreement or other Loan Documents, exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that a court determines that the Bank has received interest and other charges in excess of the highest rate applicable hereto, such excess shall be deemed received on account of, and shall automatically be applied to reduce the obligations arising under or in connection with this Promissory Note other than interest, and the provisions hereof shall be deemed amended to provide for the highest permissible rate. If there is no indebtedness outstanding, the Bank shall refund such excess to the Borrower.

Capitalized words and phrases not otherwise defined herein shall have the meanings ascribed to such terms in the standby letter of credit application and reimbursement agreement by and between the Company and the Bank dated as of May 12, 1997 (the "Reimbursement Agreement").

Notwithstanding the foregoing, this Promissory Note is also intended to evidence the

Letter of Credit fees, commissions and expenses of the Company to the Bank and any and all charges and expenses which the Bank may pay or incur relative to the draw on the Letter of Credit.

This Promissory Note is the Promissory Note (or Note) referred to in the Reimbursement Agreement and shall be entitled to the benefit of all security granted in the Loan Documents and all benefits thereof. The Loan Documents, among other things, contain provisions for payment of fees, charges and expenses and regarding the remedies of the Bank upon the occurrence of an Event of Default. The Loan Documents also contain representations, warranties, covenants and conditions, all of which are hereby made part of this Promissory Note to the same extent and with the same effect as if set forth herein at length. Without limiting the foregoing, this Promissory Note is secured by and the parties hereto are entitled to the benefits of that certain mortgage and security agreement, dated of even date herewith (the "Mortgage"), made by the Company to the Bank, encumbering, among other things, certain real property and improvements now or hereafter located on said real property, situate at 359 Bayview Avenue, a\k\a 333 Bayview Avenue, Amityville, New York 11701 in the Town of Babylon, County of Suffolk, State of New York, as more particularly described in the Mortgage ("Mortgaged Premises" or "Mortgaged Property"), and is executed and delivered pursuant to the Reimbursement Agreement, all of the covenants, conditions and agreements of the Mortgage and the Reimbursement Agreement being made a part hereof by this reference.

The holder of this Promissory Note at its option may extend the time for payment of this Promissory Note, postpone the enforcement hereof, or grant any other indulgences, without affecting or diminishing the holder's right to recourse against the Company or any endorsers, sureties or guarantors, which right is expressly reserved.

The Company and any endorsers, sureties and guarantors of this Promissory Note waive presentment for payment, demand, protest, notice of protest and notice of dishonor hereof, and, except as expressly set forth in the other Bank Documents, all other notices to which they may be entitled.

The terms and provisions hereof shall inure to the benefit of the Bank, and its successors and assigns and shall be binding upon the respective successors and assigns of the Company.

In the event the Bank, for any reason whatsoever, shall deem it necessary to refer this Promissory Note to an attorney for the enforcement thereof or any rights thereunder, by suit or

otherwise or for the protection or preservation of any rights hereunder, there shall be due and owing reasonable attorneys' fees, together with all costs and expenses of any such action, and the Bank may take judgment for all such amounts.

This Promissory Note and the rights and obligations of the parties hereunder shall be governed and construed in accordance with the laws of the State of New York.

The Company agrees that any action or proceeding to enforce this Promissory Note or arising out of or related to this Promissory Note may be commenced in any State court of competent jurisdiction in Nassau, Suffolk or Kings County, New York, or in the United States District Court for the Eastern District of New York, and the Company consents and submits in advance to such jurisdiction and agrees that venue shall be proper in such courts on any such matter.

The Company acknowledges that this Promissory Note is and shall be effective upon its execution by the Company and delivery hereof to the Bank and it shall not be necessary for the Bank to execute any acceptance hereto or to otherwise signify or express its acceptance hereof.

THE COMPANY AGREES THAT ANY LITIGATION GROWING OUT OF ANY CONTROVERSY WITH RESPECT TO, IN CONNECTION WITH OR ARISING OUT OF THIS PROMISSORY NOTE, THE AGREEMENT OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO AND THERETO WILL BE TRIED BY A COURT BY A JUDGE SITTING WITHOUT A JURY. THE COMPANY CONFIRMS THAT THE FOREGOING WAIVER OF A TRIAL BY JURY IS INFORMED AND FREELY MADE.

IN WITNESS WHEREOF, the Company has caused this Promissory Note to be executed by it by its officer on the date first written above.

NAPCO Security Systems, Inc.

By: /s/

Kevin Buchel
Senior Vice President

AMENDMENT NO. 1 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 1 to the Loan and Security Agreement dated as of May 28, 1998 ("Amendment No. 1") 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 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 further amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party advance the sum of $2,500,000.00 pursuant to the terms of the Term Loan Note (as hereinafter defined) 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. 1.

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 "Transaction Documents" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

> "Transaction Documents" shall mean, individually, jointly, severally and collectively, the Agreement (including this Amendment No. 1) and all documents, including, without limitation, the Term Loan Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, any Third Party, or any Responsible Party pursuant hereto or in connection herewith, in connection with the issuance of a certain standby letter of credit in the amount not to exceed $2,500,000.00 by Secured Party in favor of Citibank, N.A., at the request of and for the benefit of Debtor, the reimbursement obligations being evidenced by a promissory note in the principal sum not to exceed $2,500,000.00, and a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, and a certain uncommitted trade line established by Marine in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, and the Term Loan Note in the principal sum of $2,500,000.00, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably

require from time to time in order to evidence and/or secure the indebtedness of Debtor to Secured Party or to create, perfect, continue the perfection or protect the Secured Party's security interest in the Collateral.

2. The definition "Term Loan" shall be added to Section 1.1. of the Agreement and shall read as follows:

"Term Loan" shall mean the $2,500,000.00 term loan made available to Debtor to Secured Party pursuant to the Term Loan Note.

3. The definition of "Term Loan Note" shall be added to Section 1.1. of the Agreement and shall read as follows:

"1998 Term Loan Note" shall mean the $2,500,000.00 note evidencing the Term Loan executed by Debtor and delivered to Secured Party as of even date hereof; Debtor has used or will use the proceeds of the Term Loan Note to finance the purchase by Debtor of 889,576 shares of Debtor's common stock, $.01 par value, owned by Kenneth Rosenberg, pursuant to a certain stock purchase agreement dated as of even date hereof by and between Kenneth Rosenberg and the Corporation (the "Stock Purchase Agreement").

4. New Sections 4.26. and 4.27 are added as follows:

Section 4.26. Stock Purchase Agreement, etc.

Debtor has heretofore delivered to Secured Party true and complete copies of the Stock Purchase Agreement, the promissory note in the principal sum of $1,947,880.00, executed by Debtor in favor of Kenneth Rosenberg, and all other agreements and documents by and between Debtor and Kenneth Rosenberg or by Debtor in favor of Kenneth Rosenberg, including all amendments thereof. Debtor represents and warrants to Secured Party that it has disclosed in writing all of the terms of the purchase by Debtor of 889,576 shares of the Debtor's common stock, $.01 par value, owned by Kenneth Rosenberg, and any other ancillary transactions by and between Debtor and Kenneth Rosenberg in connection therewith.

Section 4.27. Term Loan Note Proceeds

The proceeds of the Term Loan shall be used by Debtor to finance the purchase by Debtor of 889,576 shares of Debtor's common stock, $.01 par value, owned by Kenneth Rosenberg, pursuant to the Stock Purchase Agreement.

5. Section 9.26. of the Agreement shall be deleted in its entirety replaced with the following:

9.26. FINANCIAL COVENANTS. The financial covenants to include the following:

(a) Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Total Liabilities to Tangible Net Worth of not greater than (to be tested quarterly based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1.):

(i) during the period commencing as of the date hereof through June 29, 1999, 1.35 to 1.0,

(ii) during the period commencing on June 30, 1999 through June 29, 2000, 1.25 to 1, and

(iii) during the period commencing on June 30, 2000 through June 29, 2001, and thereafter while any Indebtedness remains outstanding, 1.10 to 1.

(b) Debtor and its Consolidated Subsidiaries shall maintain, at fiscal year end June 30, 1998, on a consolidated basis, a minimum Tangible Net Worth of not less than $25,400,000.00, and at each fiscal year end thereafter, the required minimum Tangible Net Worth shall increase by $1,000,000.00 per fiscal year; to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(c) At all times, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Current Assets to Current Liabilities (i) of not less than 2.75 to 1 from the date hereof through June 29, 1998, (ii) of not less than 3.00 to 1 from June 30, 1998 through June 29, 1999, (iii) of not less than 3.25 to 1 from June 30, 1999 through June 29, 2000 and beyond, to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(d) Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a minimum "Debt Service Coverage Ratio" of 1.25 to 1, to be tested at the end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

(e) At all times during the Loan Period, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of the aggregate of cash plus total Receivables to Current Liabilities of not less than 1.25 to 1 from the date hereof until all indebtedness owed to Secured Party is paid in full, to be tested each fiscal quarter of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereinabove.

The above ratios of this Section 9.26. are being calculated assuming that in the last year of the Loan Agreement, the Advances under the Revolving Credit Facility are viewed as long-term debt, unless there is an event of default which is continuing under the Revolving Credit Facility.

6. As an inducement to the Bank extending the Term Loan, and modifying the provisions of the Agreement pursuant to the terms herein, Debtor represents

and warrants to Secured Party that, as of the date of execution of this Amendment No. 1, (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.

7. 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.

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

18. This Amendment No. 1 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 as of the day and year first above written.

WITNESS: MARINE MIDLAND BANK

_____ By: /s/ JAMES P. JOHNIS
James P. Johnis
Vice President

WITNESS: NAPCO SECURITY SYSTEMS, INC.

_____ By: /s/ KEVIN BUCHEL
Kevin Buchel
Senior Vice President

EXHIBIT 10.H

May 28, 1998

$1,947,880.00 New York, New York

PROMISSORY NOTE

Napco Security Systems, Inc., a Delaware corporation, (the "Company"), for value received, hereby promises to pay to Kenneth Rosenberg (the "Holder"), the sum of $1,947,880.00 plus interest thereon at the rate of 8% per annum as follows: (i) on April 1, 1999, the Company shall pay Holder $400,000.00, which shall be applied first to pay the accrued interest from the date hereof to the date of payment, and second to reduce the principal balance of the Note; and (ii) the balance of the principal amount of the Note, plus interest thereon, at the rate of 8% per annum, from April 1, 1999 through July 31, 1999, shall be payable in 36 consecutive equal monthly installments of principal and interest beginning on August 1, 1999 in accordance with the payment schedule annexed hereto. Notwithstanding the foregoing, if the Company sells all or substantially all of the Company's assets or common stock for cash, all amounts outstanding hereunder shall become immediately due and payable. The Company may prepay this Note in whole or in part without premium or penalty at any time.

1. Payments.

(a) The Company hereby expressly waives demand and presentment for payment, notice of nonpayment, notice of dishonor, protest, notice of protest, bringing of suit and diligence in taking any action to collect any amount called for hereunder, and shall be directly and primarily liable for the payment of all sums owing and to be owing hereon, regardless of and without any notice, diligence, act or omission with respect to the collection of any amount called for hereunder.

(b) In the event that a court of competent jurisdiction shall finally determine that the Company shall have paid or agreed to pay hereunder or under any other agreement between the parties interest or other charges in excess of the maximum rate permitted by law, it is the express intent of the Company and the Holder that all such excess amounts shall, at the option of the Holder, be held as cash collateral to secure the payment of this Note (reimbursable to the Company to the extent of any excess after payment to the Holder of all sums lawfully payable hereunder), and the provisions of this Note shall be immediately deemed reformed and amounts thereafter collectible hereunder reduced, without necessity of execution of a new document, so as to comply with the determination of such court, but so as to permit the recovery of the fullest amount otherwise provided for in this Note.

2. Events of Default. The occurrence of any of the following events shall constitute an event of default (an "Event of Default"):

(a) A default in the payment of any amount due on the Note, when and as the same shall become due and payable, which remains uncured for a period of 10 days after written notice from Holder.

(b) The entry of a decree or order by a court having jurisdiction adjudging the Company a bankrupt or insolvent, or approving a petition seeking reorganization, arrangement, adjustment or composition of, or in respect of, the Company, under federal bankruptcy law, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law,

and the continuance of any such decree or order unstayed and in effect for a period of 60 days; or the commencement by the Company of a voluntary case under federal bankruptcy law, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under federal bankruptcy law or any other applicable federal or state law, or the consent by it to the filing of such petition or to the appointment of a receiver, liquidator, assignee, trustee, sequestrator or similar of official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it, in writing, of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

3. Remedies Upon Default. Upon the occurrence and during the continuance of an Event of Default under this Note, in addition to all other legal and equitable rights and remedies available to the Holder hereunder, all amounts outstanding under this Note shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Company and the Company shall immediately issue that number of Shares, defined below, then subject to the Security Interest also defined below. Pending such issuance, the Holder shall nevertheless immediately upon an Event of Default be deemed to be a Shareholder of the Company for any and all purposes and have all rights attendant thereto, including voting rights for the amount of Shares so required to be issued.

4. Security. As security for the performance of the Company's obligations hereunder, the Company hereby grants the Holder a first priority security interest (the "Security Interest") in 650,000 shares of the Company's common stock (the "Shares") which are in the Company's treasury and which are part of the shares that the Company is acquiring from the Holder simultaneously with the execution and delivery of this Note. The Security Interest granted hereby shall also extend to: (i) all shares representing a dividend on any of the Shares, or resulting from a split-up, revision, reclassification or other like change of the Shares or otherwise received in exchange therefor; and (ii) in case of any consolidation or merger in which the Company is not the surviving corporation, all shares of each class of the capital stock of the successor corporation formed by or resulting from such consolidation or merger (collectively, the "Collateral"). The Security Interest on such Shares shall be released as follows: 150,000 Shares shall be released upon payment of $400,000.00 on April 1, 1999 and 1/3 of the balance of the Shares shall be released on July 31, 2001 provided all payments due prior to such date shall have been made on a timely basis. Upon payment in full, all Shares shall be released from the Security Interest. The Company hereby agrees that the financial statements contained in its filings with the Securities and Exchange Commission shall disclose the existence and extent of the Holder's lien on the Shares and his rights and remedies with respect to an Event of Default hereunder.

5. Rights with Respect to the Collateral

(a) If an Event of Default shall have occurred, then while such Event of Default shall continue, all dividends and other distributions on the Collateral shall be paid directly to the Holder in reduction of the obligations under this Note.

(b) During the period during which an Event of Default shall have occurred and be continuing:

(i) the Holder shall have all of the rights and remedies with respect to the Collateral of a secured party under the Uniform Commercial Code (whether or not said Code is in effect in the jurisdiction where the rights and remedies are asserted) and such additional rights and remedies to which a secured party is entitled under the laws in effect in any jurisdiction where any rights and remedies hereunder may be asserted, including the right, to the maximum extent permitted by law, to exercise all voting, consensual and other powers of ownership pertaining to the Collateral as if the Holder were the sole and absolute owner thereof (and the Pledgor shall take all such action as may be appropriate to give effect to such right);

(ii) the Holder, upon 10 business days' prior written notice to the Company of the time and place, with respect to the Collateral or any part thereof which shall then be or shall thereafter come into the possession, custody or control of the Holder, may sell all or any part of such Collateral, at such place or places as the Holder deems best, at public or private sale, without demand of performance or notice of intention to effect any such disposition or of the time or place thereof (except such notice as may be required above or by applicable statute and cannot be waived).

(c) If the proceeds of sale, collection or other realization of or upon the Collateral pursuant to clause (b) above are insufficient to cover the costs and expenses of such realization and the payment in full of the amounts due under this Note, the Company shall remain liable for any deficiency.

(d) Except as otherwise herein expressly provided, the proceeds of any sale of all or any part of the Collateral pursuant hereto, shall be applied:

First, to the payment of the reasonable costs and expenses of such collection, sale or other realization, including reasonable out-of-pocket costs and expenses to the Holder and the reasonable fees and expenses of its agents and counsel;

Next, to the payment in full of the obligations under the Note, and;

Finally, to the payment to the Company of any surplus then remaining.

6. Miscellaneous.

(a) Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Note (and upon surrender of this Note if mutilated), the Company shall execute and deliver to the Holder a new Note of like date, tenor and denomination.

(b) No course of dealing and no delay or omission on the part of the Holder in exercising any right or remedy shall operate as a waiver thereof or otherwise prejudice the Holder's rights, powers or remedies. No right, power or remedy conferred by this Note upon the Holder shall be exclusive of any other right, power or remedy referred to herein or now or hereafter available at law, in equity, by statute or otherwise, and all such

remedies may be exercised singly or concurrently.

(c) This Note may be amended only by a written instrument executed by the Company and the Holder hereof. Any amendment shall be endorsed upon this Note, and all future Holders shall be bound thereby.

(d) In any action, suit or proceeding to enforce the Holder's rights hereunder, as part of any judgment, the Court shall award Holder his reasonable costs and expenses (including reasonable attorneys fees) incurred in connection with enforcing such rights.

(e) The Company irrevocably consents to the jurisdiction of the courts of the States of New York and Florida and of any federal court located in such States in connection with any action or proceeding arising out of or relating to this Note. By accepting this Note, Holder and the Company each agree to waive their right to a jury trial.

(f) The Company shall be responsible and pay any and all documentary stamps and/or fees and taxes, if any, which may be applicable in connection with issuance of this Note.

IN WITNESS WHEREOF, the Company has caused this Note to be executed and dated the day and year first above written.

NAPCO Security Systems, Inc.

By: /s/ RICHARD SOLOWAY
Richard Soloway, an Authorized Officer

AMENDMENT NO. 3 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 3 to the Loan and Security Agreement dated as of February 9, 2000 ("Amendment No. 3") 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 amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, 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. 3.

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) May 31, 2001 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. The definition of "Transaction Documents" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

> "Transaction Documents" shall mean, individually, jointly, severally and collectively, the Agreement (including this Amendment No. 3) and all documents, instruments, notes and agreements by Debtor, any Third Party or any Responsible Party in

favor of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, any Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of $2,500,000., as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facility pursuant to the terms that the Secured Party shall request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence and/or secure any and all indebtedness of Debtor to Secured Party or to create, perfect, continue the perfection or protect the Secured Party's security interest in the Collateral.

3. The following paragraphs shall be added to Section 9.26 of the Agreement:

(f) Debtor and its Consolidated Subsidiaries shall maintain, for the fiscal quarter ended March 31, 2000, minimum net income of not less than $500,000.00, to be tested at the end of such fiscal quarter based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1 of the Agreement, with net income determined in accordance with GAAP.

(g) Debtor and its Consolidated Subsidiaries shall maintain, for the fiscal quarter ended June 30, 2000, minimum net income of not less than $985,000.00, to be tested at the end of such fiscal quarter based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1 of the Agreement, with net income to be determined in accordance with GAAP.

(h) Debtor and its Consolidated Subsidiaries, shall maintain, for the fiscal year ended June 30, 2000, annual minimum net income of not less than $1,230,000.00, to be tested at the end of such fiscal year based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1 of the Agreement, with net income to be determined in accordance with GAAP.

4. 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. 3, (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.

5. 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.

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

7. This Amendment No. 3 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 3 as of the day and year first above written.

HSBC BANK USA F/K/A MARINE MIDLAND BANK

By:
Roger Coleman
Vice President

NAPCO SECURITY SYSTEMS, INC.

By:
Kevin Buchel
Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF _____)

On this 14th day of February, 2000, before me, the undersigned, a Notary Public in and for said State, personally came ROGER COLEMAN, 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.

Notary Public

STATE OF NEW YORK)
) SS:
COUNTY OF _____)

On this 14th day of February, 2000, 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.

Notary Public

AMENDMENT NO. 9 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 9 to the Loan and Security Agreement dated as of September 30, 2001 ("Amendment No. 9") 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 amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, as amended by amendment no. 3 to the loan and security agreement dated as of February 9, 2000, as amended by amendment no.4 to the loan and security agreement dated as of July 27, 2000, as amended by amendment no. 5 to the loan and security agreement dated as of September 22, 2000, as amended by amendment no. 6 to the loan and security agreement dated as of November 22, 2000, as amended by amendment no. 7 to the loan and security agreement dated as of February 14, 2001, as amended by amendment no. 8 to the loan and security agreement dated as of May 15, 2001, as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party modify certain financial covenants 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. 9.

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 "Transaction Documents" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

TRANSACTION DOCUMENTS means, individually, jointly, severally and collectively, the Agreement (including all amendments to date, including this Amendment No. 9) and all documents, instruments, notes and agreements by Debtor, Continental Systems or any other Third Party or any Responsible Party in favor

of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, the Continental Term Loan Note, the Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, Continental Systems any other Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, as may be reaffirmed or restated from time to time, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of $2,500,000.00, as may be extended or otherwise modified from time to time, the Note, the Continental Term Loan Note in the principal sum of $8,250,000, that certain ISDA master agreement dated as of July 27, 2000 by and between Continental Systems and Secured Party, inclusive of all schedules thereto, as the same may be modified from time to time (the "Master Agreement") and all such other mortgages, security agreements, guaranties and other documents as may be executed and delivered to Secured Party to evidence, guaranty and secure the Continental Term Loan Note, and the obligations thereunder, as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facilities pursuant to the terms that the Secured Party shall

request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note, Note, the Continental Term Loan Note, and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence, guaranty and/or secure any and all indebtedness of Debtor and/or Continental Systems, as the case may be, to Secured Party or to create, perfect, continue the perfection or protect the Secured Party's security interest in the Collateral or any of the other collateral specified in the other Transaction Documents.

2. Section 9.26. of the Agreement is hereby amended in its entirety to read as follows:

(a) The Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Total Liabilities to Tangible Net Worth of not greater than (to be tested quarterly based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. of the Agreement):

during the period commencing as of the date hereof and thereafter, while any Indebtedness remains outstanding, 1.50 to 1.

(b) The Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a minimum Tangible Net Worth (to be tested quarterly based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. hereof) of not less than:

(i) during the period commencing on June 30, 2001 through June 30, 2002, $23,258,000, and

(ii) during the period commencing on July 1, 2002 through June 29, 2003, $27,000,000, and

(iii) during the period commencing on June 30, 2003 through June 29, 2004, and thereafter while any Indebtedness remains outstanding, $30,000,000.

(c) At all times, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Current Assets to Current Liabilities, to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. of the Agreement:

(i) of not less than 3.50 to 1 from the date hereof through the fiscal year ending June 30, 2001, and

(ii) of not less than 3.75 to 1 from July 1, 2001 through the fiscal year ending June 30, 2002, and

(iv) of not less than 4.00 to 1 from July 1, 2002 through the fiscal year ending June 30, 2003, and thereafter while any Indebtedness remains outstanding.

(d) From the period commencing on June 30, 2001 and through June 30, 2001, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a minimum Debt Service Coverage Ratio of .76 to 1, and from the period commencing on July 1, 2002 and thereafter, while any Indebtedness remains outstanding, Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a minimum Debt Service Coverage Ratio of 1.25 to 1, to be tested at the end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1 of the Agreement.

(e) At all times, Debtor and its Consolidated Subsidiaries shall maintain, on

a consolidated basis, a ratio of the aggregate of cash plus total Receivables to Current Liabilities, to be tested each fiscal quarter end of each fiscal year, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1. of the Agreement:

from the date hereof through the fiscal year ending June 30, 2001, and thereafter while any Indebtedness remains outstanding, of not less than 1.25 to 1.

(f) During any fiscal year, the Debtor and its Consolidated Subsidiaries shall not cause Capital Expenditures of Debtor and its Consolidated Subsidiaries to exceed, on a combined basis, $1,250,000 per fiscal year.

(g) The Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, a ratio of Funded Debt to EBIDTA (to be tested quarterly, on a rolling four quarter basis, based upon the financial statements required to be presented to Secured Party pursuant to Section 9.1 hereof):

(i) of not greater than 6.124 to 1 from June 30, 2001 through the period ending June 30, 2002, and

(ii) of not greater than 3.00 to 1 from July 1, 2002 through the period ending June 29, 2003, and

(iii) of not greater than 2.00 to 1 from June 30, 2003 through the period ending June 29, 2004, and thereafter while any Indebtedness remains outstanding.

(h) At all times while any Indebtedness remains outstanding, the Debtor and its Consolidated Subsidiaries shall maintain,

on a consolidated basis, not less than fifty (50%) of the value of all of their identifiable assets (as disclosed in the 10K statement) in the United States, to be tested annually, at each fiscal year end.

The above ratios of this Section 9.26. are being calculated assuming that in the last year of the Agreement; and Advances under the Revolving Credit Facility are viewed as long term debt, unless there is an event of default which is continuing under the Revolving Credit Facility.

3. As an inducement to the Bank modifying some of the provisions of Section 9.26. of the Agreement pursuant to the terms hereof, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 9, (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"), (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement, as modified herein; and(iv) Debtor will pay Secured Party's reasonable legal fees and disbursements thereof.

4. 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.

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

6. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

7. This Amendment No. 9 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 9 to the Loan and Security Agreement as of the day and year first above written.

HSBC BANK USA F/K/A MARINE MIDLAND BANK

By:
Roger Coleman
Vice President

NAPCO SECURITY SYSTEMS, INC.

By:
Kevin Buchel
Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF _____)

On this ___ day of _____, 2001, before me, the undersigned, a Notary Public in and for said State, personally came ROGER COLEMAN, 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.

Notary Public

STATE OF NEW YORK)
) SS:
COUNTY OF _____)

On this ___ day of _____, 2001, 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.

Notary Public

EXHIBIT 10.U

AMENDMENT NO. 11 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 11 to the Loan and Security Agreement dated as of February 6, 2004 ("Amendment No. 11") 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 amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, as amended by amendment no. 3 to the loan and security agreement dated as of February 9, 2000, as amended by amendment no.4 to the loan and security agreement dated as of July 27, 2000, as amended by amendment no. 5 to the loan and security agreement dated as of September 22, 2000, as amended by amendment no. 6 to the loan and security agreement dated as of November 22, 2000, as amended by amendment no. 7 to the loan and security agreement dated as of February 14, 2001, as amended by amendment no. 8 to the loan and security agreement dated as of May 15, 2001, as amended by amendment no. 9 to the loan and security agreement dated as of September 30, 2001, as amended by amendment no. 10 to the loan and security agreement dated as of March 13, 2003, as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that Secured Party extend the Termination Date 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. 11.

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 ATransaction Documents@ contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

> TRANSACTION DOCUMENTS means, individually, jointly, severally and collectively, the Agreement (including all amendments to date, including this Amendment No. 11), the term loan note dated as of even date hereof by Debtor in favor of Secured Party evidencing the 2003 Term Loan, as the same may be extended, re-executed, modified or otherwise amended from time to time, and all documents, instruments, notes and agreements by

Debtor, Continental Systems or any other Third Party or any Responsible Party in favor of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, the Continental Term Loan Note, the Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, Continental Systems any other Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, as may be reaffirmed or restated from time to time, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of $2,500,000.00, as may be extended or otherwise modified from time to time, the Note, the Continental Term Loan Note in the principal sum of $8,250,000, that certain ISDA master agreement dated as of July 27, 2000 by and between Continental Systems and Secured Party, inclusive of all schedules thereto, as the same may be modified from time to time (the AMaster Agreement@) and all such other mortgages, security agreements, guaranties and other documents as may be executed and delivered to Secured Party to evidence, guaranty and secure the Continental Term Loan Note, and the obligations thereunder, as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facilities pursuant to the terms that the Secured Party shall request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note, Note, the Continental Term Loan Note, and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence, guaranty and/or secure any and all indebtedness of

Debtor and/or Continental Systems, as the case may be, to Secured Party or to create, perfect, continue the perfection or protect the Secured Party's security interest in the Collateral or any of the other collateral specified in the other Transaction Documents.

2. The definition of ATermination 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) January 15, 2005, 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.

3. As an inducement to the Bank extending the Revolving Credit Facility and the Agreement pursuant to the terms hereof, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 11, (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"), (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement, as modified herein; and(iv) Debtor will pay Secured Party=s reasonable legal fees and disbursements thereof.

4. 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.

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

6. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

7. This Amendment No. 11 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 11 to the Loan and Security Agreement as of the day and year first above written.

HSBC BANK USA F/K/A MARINE MIDLAND BANK

By: ,

Roger Coleman
Vice President

NAPCO SECURITY SYSTEMS, INC.

By: ,

Kevin Buchel
Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF ____)

On this ____ day of _____, 2004, before me, the undersigned, a Notary Public in and for said State, personally came ROGER COLEMAN, 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.

_____ Notary Public

STATE OF NEW YORK)
) SS:
COUNTY OF _____)

On this ____ day of _____, 2004, 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.

_____ Notary Public

AMENDMENT NO. 12 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 12 to the Loan and Security Agreement dated as of April 29, 2004 ("Amendment No. 12") 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 amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, as amended by amendment no. 3 to the loan and security agreement dated as of February 9, 2000, as amended by amendment no.4 to the loan and security agreement dated as of July 27, 2000, as amended by amendment no. 5 to the loan and security agreement dated as of September 22, 2000, as amended by amendment no. 6 to the loan and security agreement dated as of November 22, 2000, as amended by amendment no. 7 to the loan and security agreement dated as of February 14, 2001, as amended by amendment no. 8 to the loan and security agreement dated as of May 15, 2001, as amended by amendment no. 9 to the loan and security agreement dated as of September 30, 2001, as amended by amendment no. 10 to the loan and security agreement dated as of March 13, 2003, as amended by amendment no. 11 to the loan and security agreement dated as of February 6, 2004, as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that Secured Party extend the Termination Date 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. 12.

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 "Transaction Documents" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

> TRANSACTION DOCUMENTS means, individually, jointly, severally and collectively, the Agreement (including all amendments to date, including this Amendment No. 12), the term loan note dated as of even date hereof by Debtor in favor of Secured Party evidencing the 2003 Term Loan, as the same may be extended, re-executed, modified or otherwise amended from time to time, and all documents, instruments, notes and agreements by Debtor, Continental Systems or

any other Third Party or any Responsible Party in favor of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, the Continental Term Loan Note, the Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, Continental Systems any other Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, as may be reaffirmed or restated from time to time, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of $2,500,000.00, as may be extended or otherwise modified from time to time, the Note, the Continental Term Loan Note in the principal sum of $8,250,000, that certain ISDA master agreement dated as of July 27, 2000 by and between Continental Systems and Secured Party, inclusive of all schedules thereto, as the same may be modified from time to time (the "Master Agreement") and all such other mortgages, security agreements, guaranties and other documents as may be executed and delivered to Secured Party to evidence, guaranty and secure the Continental Term Loan Note, and the obligations thereunder, as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facilities pursuant to the terms that the Secured Party shall request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note, Note, the Continental Term Loan Note, and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence, guaranty and/or secure any and all indebtedness of Debtor and/or Continental Systems, as the case may be, to Secured Party or to create, perfect, continue the perfection or protect the Secured

Party's security interest in the Collateral or any of the other collateral specified in the other Transaction Documents.

2. 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) April 15, 2005, 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.

3. As an inducement to the Bank extending the Revolving Credit Facility and the Agreement pursuant to the terms hereof, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 12, (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"), (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement, as modified herein; and (iv) Debtor will pay Secured Party's reasonable legal fees and disbursements thereof.

4. 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.

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

6. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

7. This Amendment No. 12 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 12 to the Loan and Security Agreement as of the day and year first above written.

HSBC BANK USA F/K/A MARINE MIDLAND BANK

By: /s/ Philip M. Panarelli

Philip M. Panarelli
Senior Vice President

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin Buchel

Kevin Buchel
Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF)

On this ____ day of _____, 2004, before me, the undersigned, a Notary Public in and for said State, personally came PHILIP M. PANARELLI, 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.

Notary Public

STATE OF NEW YORK)
) SS:
COUNTY OF)

On this ____ day of _____, 2004, 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.

Notary Public

AMENDMENT NO. 13 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 13 to the Loan and Security Agreement dated as of September 10, 2004 ("Amendment No. 13") 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, NATIONAL ASSOCIATION, SUCCESSOR BY MERGER TO 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 amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, as amended by amendment no. 3 to the loan and security agreement dated as of February 9, 2000, as amended by amendment no.4 to the loan and security agreement dated as of July 27, 2000, as amended by amendment no. 5 to the loan and security agreement dated as of September 22, 2000, as amended by amendment no. 6 to the loan and security agreement dated as of November 22, 2000, as amended by amendment no. 7 to the loan and security agreement dated as of February 14, 2001, as amended by amendment no. 8 to the loan and security agreement dated as of May 15, 2001, as amended by amendment no. 9 to the loan and security agreement dated as of September 30, 2001, as amended by amendment no. 10 to the loan and security agreement dated as of March 13, 2003, as amended by amendment no. 11 to the loan and security agreement dated as of February 6, 2004, as amended by amendment no. 12 to the loan and security agreement dated as of April 29, 2004, as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that Secured Party extend the Termination Date 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. 13.

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 "Transaction Documents" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

> TRANSACTION DOCUMENTS means, individually, jointly, severally and collectively, the Agreement (including all amendments to date, including this Amendment No. 13), the term loan note by Debtor in favor of Secured Party evidencing the 2003 Term Loan, as the same may be extended, re-executed, modified or otherwise

amended from time to time, and all documents, instruments, notes and agreements by Debtor, Continental Systems or any other Third Party or any Responsible Party in favor of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, the Continental Term Loan Note, the Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, Continental Systems any other Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, as may be reaffirmed or restated from time to time, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of $2,500,000.00, as may be extended or otherwise modified from time to time, the Note, the Continental Term Loan Note in the principal sum of $8,250,000 and all such other mortgages, security agreements, guaranties and other documents as may be executed and delivered to Secured Party to evidence, guaranty and secure the Continental Term Loan Note, and the obligations thereunder, as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facilities pursuant to the terms that the Secured Party shall request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the Term Loan Note, Note, the Continental Term Loan Note, and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence, guaranty and/or secure any and all indebtedness of Debtor and/or Continental Systems, as the case may be, to Secured Party or to create, perfect, continue the perfection or protect the Secured

Party's security interest in the Collateral or any of the other collateral specified in the other Transaction Documents.

2. 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) July 15, 2005, 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.

3. As an inducement to the Bank extending the Revolving Credit Facility and the Agreement pursuant to the terms hereof, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 13, (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"), (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement, as modified herein; and (iv) Debtor will pay Secured Party's reasonable legal fees and disbursements thereof.

4. 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.

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

6. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

7. This Amendment No. 13 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 13 to the Loan and Security Agreement as of the day and year first above written.

HSBC BANK USA, NATIONAL ASSOCIATION, SUCCESSOR BY MERGER TO HSBC BANK USA, F/K/A MARINE MIDLAND BANK

By: /s/ Christopher J. Mendelsohn

Christopher J. Mendelsohn
First Vice President

NAPCO SECURITY SYSTEMS, INC.

By: /s/Kevin Buchel

Kevin Buchel
Senior Vice President

STATE OF NEW YORK)
) SS:
COUNTY OF)

On this ____ day of _____, 2004, before me, the undersigned, a Notary Public in and for said State, personally came CHRISTOPHER J. MENDELSOHN, 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.

Notary Public

STATE OF NEW YORK)
) SS:
COUNTY OF)

On this ____ day of _____, 2004, 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.

Notary Public

EXHIBIT 21.0

SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 2004. 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
Continental Instruments, LLC	New York
Napco Security Systems International, Inc.	New York
Napco/Alarm Lock Exportadora, S.A.	Dominican Republic
Napco/Alarm Lock Grupo Internacional, S.A. (formerly known as NSS Caribe, S.A.)	Dominican Republic
Napco Group Europe, Limited	England

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Form S-8 (numbers 333-104700 and 333-14743) of Napco Security Systems, Inc. of our report dated September 14, 2004, appearing in this annual report on Form 10-K of Napco Security Systems, Inc. for the year ended June 30, 2004.

Woodbury, New York
September 23, 2004

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Richard Soloway, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:September 27, 2004

/s/ Richard Soloway

Richard Soloway
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Kevin S. Buchel, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date September 27, 2004

/s/ Kevin S. Buchel

Kevin S. Buchel
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Napco Security Systems, Inc. (the "Company") on Form 10-K for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Soloway, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 27, 2004

/s/ Richard Soloway

Richard Soloway
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Napco Security Systems, Inc. (the "Company") on Form 10-K for the period ending June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Buchel, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 27, 2004

/s/ Kevin S. Buchel

Kevin S. Buchel
Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Form 10-K or as a separate disclosure document.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.