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## **FORM 10-K**

**NAPCO SECURITY TECHNOLOGIES, INC - NSSC**

**Filed: September 10, 2015 (period: June 30, 2015)**

Annual report with a comprehensive overview of the company

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

FORM 10-K

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2015

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition period from \_\_\_ to \_\_\_

Commission File Number 0-10004

**NAPCO SECURITY TECHNOLOGIES, INC.**

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

11-2277818

(I.R.S. Employer I.D. Number)

333 Bayview Avenue, Amityville, New York

(Address of principal executive offices)

11701

(Zip Code)

Registrant's telephone number, including area code: (631) 842-9400

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$.01 per share  
(Title of Each Class)

The NASDAQ Stock Market LLC  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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. Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "Large accelerated filer", "Accelerated filer" and "Smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of December 31, 2014, the aggregate market value of the common stock of Registrant held by non-affiliates based upon the last sale price of the stock on such date was \$46,623,347.

As of September 09, 2015, 18,966,028 shares of common stock of Registrant 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 2015 Annual Meeting of Stockholders.

## **PART I**

### **ITEM 1: BUSINESS.**

NAPCO Security Technologies, Inc. ("NAPCO" or the "Company") was incorporated in December 1971 in the State of Delaware. Its executive offices are located at 333 Bayview Ave, Amityville NY 11701. Its telephone number is (631) 842-9400.

The Company is a diversified manufacturer of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products for commercial and residential use. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment.

#### **Website Access to Company Reports**

Copies of our filings under the Securities Exchange Act of 1934 (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports) are available free of charge on our website ([www.napcosecurity.com](http://www.napcosecurity.com)) on the same day they are electronically filed with the Securities and Exchange Commission.

#### **Products**

The Company's products ("Products") are comprised of the following:

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), 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 or not to grant access by electronically deactivating the door locking device. An electronic log is kept which records various types of data regarding access activity.

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

Door Security Products. The Company manufactures a variety of door locking devices including microprocessor-based electronic door locks with push button, card reader and bio-metric operation, door alarms, mechanical door locks and simple dead bolt locks. These devices may control a single door or, in the case of some of the Company's microprocessor-based door locks, may be networked with the Company's access control systems and controlled remotely.

Intrusion and Fire 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 utilizing wired ("landline") or cellular communications systems. 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 signals 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.

Combination Control Panels/Digital Communicators and Digital Keypad Systems. A combination control panel, digital communicator and a digital keypad has continued to be the leading configuration 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.

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.

Video Surveillance Systems. Video surveillance systems typically consist of one or more video cameras, a control panel and a video monitor or PC. More advanced systems can also include a recording device and some type of remote communication device such as an internet connection to a PC or browser-enabled cell phone. The system allows the user to monitor various locations at once while recorders save the video images for future use. Remote communication devices can allow the user to view and control the system from a remote location.

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

### **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. Research and development costs incurred by the Company are charged to expense as incurred and are included in "Cost of Sales" in the consolidated statements of operations. During the fiscal years ended June 30, 2015 and 2014, the Company expended approximately \$5,382,000 and \$5,059,000, respectively, on Company-sponsored research and development activities conducted primarily by its engineering department to develop and improve the Products. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

### **Employees**

As of June 30, 2015, the Company had 1,013 full-time employees.

### **Marketing**

The Company's staff of 54 sales and marketing support employees located at the Company's Amityville 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 53% of the Company's total sales for each of the fiscal years ended June 30, 2015 and 2014. The remaining revenues are primarily from 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.

In the ordinary course of the Company's business the Company grants extended payment terms to certain customers. For further discussion on Concentration of Credit Risk see disclosures included in Item 1A and Item 7.

### **Competition**

The security 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. Most 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 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.

### **Seasonality**

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of Napco's products want to install its products prior to the summer; therefore sales of its products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand is affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend.

### **Raw Materials**

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.

### **Sales Backlog**

In general, orders for the Products are processed by the Company from inventory. A sales backlog of approximately \$2,044,000 and \$1,278,000 existed as of June 30, 2015 and 2014, respectively. The increase in the backlog as of June 30, 2015 was due primarily to the Company receiving several large purchase orders for its Marks brand door-locking products towards the end of fiscal 2015. The Company expects to fill the entire backlog that existed as of June 30, 2015 during fiscal 2016.

### **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 with these regulations 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 two fiscal years are summarized in the following table:

	<u>Financial Information Relating to Domestic and Foreign Operations</u>	
	<u>2015</u>	<u>2014</u>
	<u>(in thousands)</u>	
Sales to external customers(1):		
Domestic	\$ 74,736	\$ 70,800
Foreign	3,023	3,582
Total Net Sales	<u>\$ 77,762</u>	<u>\$ 74,382</u>
Identifiable assets:		
United States	\$ 50,998	\$ 49,529
Dominican Republic (2)	14,039	13,835
Total Identifiable Assets	<u>\$ 65,037</u>	<u>\$ 63,364</u>

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

(2) Consists primarily of inventories (2015 = \$10,546; 2014 = \$10,216) and fixed assets (2015 = \$3,347; 2014 = \$3,457) located at the Company's principal manufacturing facility in the Dominican Republic.

## ITEM 1A: RISK FACTORS

The risks described below are among those that could materially and adversely affect the Company's business, financial condition or results of operations. These risks could cause actual results to differ materially from historical results and from any results predicted by any forward-looking statements related to conditions or events that may occur in the future.

### Our Business Could Be Materially Adversely Affected as a Result of General Economic and Market Conditions

We are subject to the effects of general economic and market conditions. In the event that the U.S. or international economic conditions deteriorate, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our expenses being too high in relation to our revenues and cash flows.

### We Are Dependent Upon the Efforts of Richard L. Soloway, Our Chief Executive Officer and There is No Succession Plan in Place

The success of the Company is largely dependent on the efforts of Richard L. Soloway, Chief Executive Officer. The loss of his services could have a material adverse effect on the Company's business and prospects. There is currently no succession plan to address the loss of Mr. Soloway's services.

#### Competitors May Develop New Technologies or Products in Advance of Us

Our business may be materially adversely affected by the announcement or introduction of new products and services by our competitors, and the implementation of effective marketing or sales strategies by our competitors. The industry in which the Company operates is characterized by constantly improved products. There can be no assurance that competitors will not develop products that are superior to the Company's products. The Company has historically invested approximately 6% to 8% of annual revenues on Research and Development to mitigate this risk. Future success will depend, in part, on our ability to continue to develop and market products and product enhancements cost-effectively. The Company's research and development expenditures are principally targeted at enhancing existing products, and to a lesser extent at developing new ones. Further, there can be no assurance that the Company will not experience additional price competition, and that such competition may not adversely affect the Company's revenues and results of operations.

#### Our Business Could Be Materially Adversely Affected by the Inability to Maintain Expense Levels Proportionate to Sales Volume

While expense levels relative to current sales levels result in positive net income and cash flows, if sales levels decrease significantly and we are unable to decrease expenses proportionately, our business may be adversely affected.

#### Our Business Could Be Materially Adversely Affected as a Result of Housing and Commercial Building Market Conditions

We are subject to the effects of housing and commercial building market conditions. If these conditions deteriorate, resulting in declines in new housing or commercial building starts, existing home or commercial building sales or renovations, our business, results of operations or financial condition could be materially adversely affected, particularly in our intrusion and door locking product lines.

#### Our Business Could Be Materially Adversely Affected as a Result of Lessening Demand in the Security Market

Our revenue and profitability depend on the overall demand for our products. Delays or reductions in spending, domestically or internationally, for electronic security systems could materially adversely affect demand for our products, which could result in decreased revenues or earnings.

#### The Markets We Serve Are Highly Competitive and We May Be Unable to Compete Effectively

We compete with approximately 20 other companies that manufacture and market security equipment to distributors, dealers, control stations and original equipment manufacturers. Some of these companies may have substantially greater financial and other resources than the Company. The Company competes primarily on the basis of the features, quality, reliability and 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.

#### Our Business Could be Materially Adversely Affected as a Result of Offering Extended Payment Terms to Customers

We regularly grant credit terms beyond 30 days to certain customers. These terms are offered in an effort to keep a full line of our products in-stock at our customers' locations. The longer terms that are granted, the more risk is inherent in collection of those receivables. We believe that our Bad Debt reserves are adequate to account for this inherent risk.

We Rely On Distributors To Sell Our Products And Any Adverse Change In Our Relationship With Our Distributors Could Result In A Loss Of Revenue And Harm Our Business.

We distribute our products primarily through independent distributors and wholesalers of security alarm and security hardware equipment. Our distributors and wholesalers also sell our competitors' products, and if they favor our competitors' products for any reason, they may fail to market our products as effectively or to devote resources necessary to provide effective sales, which would cause our results to suffer. In addition, the financial health of these distributors and wholesalers and our continuing relationships with them are important to our success. Some of these distributors and wholesalers may be unable to withstand adverse changes in business conditions. Our business could be seriously harmed if the financial condition of some of these distributors and wholesalers substantially weakens.

Members of Management and Certain Directors Beneficially Own a Substantial Portion of the Company's Common Stock and May Be in a Position to Determine the Outcome of Corporate Elections

Richard L. Soloway, our Chief Executive Officer, members of management and the Board of Directors beneficially own approximately 39% of the currently outstanding shares of Common Stock. By virtue of such ownership and their positions with Napco, they may have the practical ability to determine the election of all directors and control the outcome of substantially all matters submitted to Napco's stockholders.

In addition, Napco has a staggered Board of Directors. Such concentration of ownership and the staggered Board could have the effect of making it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of Napco.

Our Business Could be Materially Adversely Affected by Adverse Tax Consequences of Offshore Operations

We operate on a global basis, with a portion of our operating income generated outside the United States.

We intend to reinvest these earnings in our foreign operations indefinitely, except where we are able to repatriate these earnings to the United States without material incremental tax provision. A significant portion of our assets that result from these earnings remain outside the United States. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional taxes.

Our Business Could Be Materially Adversely Affected as a Result of the Inability to Maintain Adequate Financing

Our business is dependent on maintaining adequate levels of financing used to fund operations and capital expenditures. The current debt facilities provide for quarterly principal debt repayments of approximately \$400,000 plus interest as well as certain financial covenants relating to ratios affected by profit, asset and debt levels. If the Company's profits, asset or cash-flow levels decline below the minimums required to meet these covenants or to make the minimum debt payments, the Company may be materially adversely affected. Effects on the Company could include higher interest costs, reduction in borrowing availability or revocation of these credit facilities.

Our Business Could Be Materially Adversely Affected by a weakening of the US Dollar against the Dominican Peso

We are exposed to foreign currency risks due to our operations in the Dominican Republic. We have significant operations in the Dominican Republic which are denominated in Dominican pesos. We are subject to the risk that currency exchange rates between the United States and the Dominican Republic will fluctuate significantly, potentially resulting in an increase in some of our expenses when US dollars are transferred to Dominican pesos to pay these expenses.

**ITEM 1B: UNRESOLVED STAFF COMMENTS.**

Not applicable.

**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. These facilities are pledged as security in the Company's credit facilities with its primary bank.

The Company's foreign subsidiary located in the Dominican Republic, Napco DR, S.A. (formerly known as NAPCO/Alarm Lock Grupo International, 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 at an annual cost of approximately \$288,000. As of June 30, 2015, a majority of the Company's products were manufactured at this facility, utilizing U.S. quality control standards.

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

**ITEM 3: LEGAL PROCEEDINGS.**

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

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: MINE SAFETY DISCLOSURE.**

Not Applicable.

**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, Global 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 Global Market System.

Common Stock	Quarter Ended Fiscal 2015			
	Sept. 30	Dec. 31	March 31	June 30
High	\$ 5.43	\$ 4.78	\$ 5.82	\$ 6.09
Low	\$ 4.33	\$ 4.07	\$ 4.63	\$ 5.03

  

Common Stock	Quarter Ended Fiscal 2014			
	Sept. 30	Dec. 31	March 31	June 30
High	\$ 5.70	\$ 6.49	\$ 7.57	\$ 6.74
Low	\$ 4.75	\$ 4.93	\$ 6.15	\$ 5.00

### Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 08 2015 was 101 (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. Any cash dividends must be approved by the Company's lenders.

### Equity Compensation Plan Information as of June 30, 2015

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:	356,000(1)	\$ 6.16	852,500(2)
Equity compensation plans not approved by security holders:			
Total	<u>356,000(1)</u>	<u>\$ 6.16</u>	<u>852,500(2)</u>

- (1) The 2002 Employee Stock Option Plan expired in 2012. 208,500 options are outstanding under the 2002 Plan. No further options may be granted under this plan.
- (2) In December 2012, the stockholders approved the 2012 Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 950,000 shares of the Company's common stock to be acquired by the holders of such awards. In December 2012, the stockholders also approved the 2012 Non-Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 50,000 shares of the Company's common stock to be acquired by the holders of such awards.

### Unregistered Sales of Equity Securities and Use of Proceeds

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
April 1, 2015 – April 30, 2015	35,889	\$ 5.78	35,889	565,394
May 1, 2015 – May 31, 2015	21,731	\$ 5.23	21,731	543,663
June 1, 2015 – June 30, 2015	—	\$ —	—	543,663
Total for the Quarter ended June 30, 2015	<u>57,620</u>	<u>\$ 5.57</u>	<u>57,620</u>	<u>543,663</u>

On September 16, 2014 the Company's board of directors authorized the repurchase of up to 1 million of the approximately 19.4 million shares of the Company's common stock then outstanding. The repurchase will be made from time to time in the open market or in privately negotiated transactions subject to market conditions and the market price of the common stock.

**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 and at June 30				
	(In thousands, except share and per share data)				
	2015	2014	2013	2012	2011
<b>Statement of earnings data:</b>					
Net Sales	\$ 77,762	\$ 74,382	\$ 71,386	\$ 70,928	\$ 71,392
Gross Profit	26,047	23,713	21,724	21,152	20,101
Impairment of Goodwill and intangible assets	—	—	—	—	400
Income from Operations	5,281	4,316	3,717	3,761	2,428
Net Income	4,845	3,476	3,021	2,286	1,121
<b>Cash Flow Data:</b>					
Net cash flows provided by operating activities	3,887	4,743	4,899	4,096	4,364
Net cash flows used in investing activities	(730)	(753)	(383)	(606)	(737)
Net cash flows used in financing activities	(3,294)	(4,736)	(4,266)	(3,588)	(6,072)
<b>Per Share Data:</b>					
Net earnings per common share:					
Basic	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.12	\$ 0.06
Diluted	\$ 0.25	\$ 0.18	\$ 0.16	\$ 0.12	\$ 0.06
Weighted average common shares outstanding:					
Basic	19,164,000	19,392,000	19,210,000	19,096,000	19,096,000
Diluted	19,169,000	19,428,000	19,362,000	19,303,000	19,176,000
Cash Dividends declared per common share (1)	\$ .00	\$ .00	\$ .00	\$ .00	\$ .00
<b>Balance sheet data:</b>					
Working capital (2)	\$ 35,590	\$ 33,436	\$ 33,221	\$ 32,205	\$ 29,185
Total assets	65,037	63,364	63,903	64,750	68,795
Long-term debt	9,100	10,200	14,800	18,657	20,205
Stockholders' equity	46,504	43,752	40,335	37,723	35,429

(1) The Company has never paid a dividend on its common stock. Any dividends must be approved by the Company's primary lenders.

(2) 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.

### Overview

The Company is a diversified manufacturer of security products, encompassing access control systems, door security products, intrusion and fire alarm systems and video surveillance products for commercial and residential use. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. International sales accounted for approximately 4% and 5% of our revenues for the fiscal years ended June 30, 2015 and 2014, respectively.

The Company owns and operates manufacturing facilities in Amityville, New York and the Dominican Republic. A significant portion of our operating costs are fixed, and do not fluctuate with changes in production levels or utilization of our manufacturing capacity. As production levels rise and factory utilization increases, the fixed costs are spread over increased output, which should improve profit margins. Conversely, when production levels decline our fixed costs are spread over reduced levels, thereby decreasing margins.

The security products market is characterized by constant incremental innovation in product design and manufacturing technologies. Generally, the Company devotes 6-8% of revenues to research and development (R&D) on an annual basis. The Company does not expect products resulting from our R&D investments in fiscal 2015 or thereafter to contribute materially to revenue during this fiscal year, but should benefit the Company over future years. In general, the new products introduced by the Company are initially shipped in limited quantities, and increase over time. Prices and manufacturing costs tend to decline over time as products and technologies mature.

### Economic and Other Factors

We are subject to the effects of general economic and market conditions. In the event that the U.S. or international economic conditions deteriorate, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our expenses being too high in relation to our revenues and cash flows.

### Seasonality

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of Napco's products want to install its products prior to the summer; therefore sales of its products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand is affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend.

### Critical Accounting Policies and Estimates

The Company's significant accounting policies are fully described in Note 1 to the Company's consolidated financial statements included in its 2015 Annual Report on Form 10-K. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

#### 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 or service, (iii) shipment and passage of title occurs or service has been provided, and (iv) collectability is reasonably assured. Revenues from product sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of the sale. Revenues for services are recorded at the time the service is provided to the customer pursuant to the terms of sale. The Company reports its sales on a net sales basis, with net sales being computed by deducting from gross sales the amount of actual sales returns and other allowances and the amount of reserves established for anticipated sales returns and other allowances.

The Company analyzes sales returns and is able to make reasonable and reliable estimates of product returns based on the Company's past history. Estimates for sales returns are based on several factors including actual returns and based on expected return data communicated to it by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates.

#### 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 if 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 one customer with an accounts receivable balance that comprised 22% of the Company's accounts receivable at June 30, 2015 and 12% of the Company's accounts receivable at June 30, 2014. Sales to this customer comprised 13% of net sales in the fiscal year ended June 30, 2015.

In the ordinary course of business, we have established a reserve for doubtful accounts and customer deductions in the amount of \$175,000 and \$180,000 as of June 30, 2015 and 2014, respectively. Our reserve 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 or anticipated events.

#### 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 costs include raw materials, direct labor and overhead. The Company's overhead expenses are applied based, in part, upon estimates of the proportion of those expenses that are related to procuring and storing raw materials as compared to the manufacture and assembly of finished products. These proportions, the method of their application, and the resulting overhead included in ending inventory, are based in part on subjective estimates and actual results could differ from those estimates.

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, requirements to support forecasted sales, and the ability to find alternate applications of its raw materials and to convert finished product into alternate versions of the same product to better match customer demand. There is inherent professional judgment and subjectivity made by both production and engineering members of management in determining the estimated obsolescence percentage. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events. The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

#### Intangible Assets

The Company evaluates its Intangible Assets for impairment at least on an annual basis and will evaluate them earlier if there are indicators of a potential impairment. Those intangible assets that are classified as goodwill or as other intangibles with indefinite lives are not amortized. Impairment testing is performed in two steps: (i) the Company determines if there is impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is impairment, the Company measures the amount of impairment loss by comparing the implied fair value of intangible assets with the carrying amount of the intangible assets.

## Income Taxes

The Company has identified the United States and New York State as its major tax jurisdictions. The fiscal 2012 and forward years are still open for examination.

For the year ended June 30, 2015, the Company recognized a net income tax expense of \$216,000. During the year ending June 30, 2015 the Company decreased its reserve for uncertain income tax positions by \$67,000. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense and accrued income taxes. As of June 30, 2015, the Company had accrued interest totaling \$0 and \$102,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period. The Company uses the flow through method to account for investment tax credits earned on eligible research and development expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company measures and recognizes the tax implications of positions taken or expected to be taken in its tax returns on an ongoing basis.

## Liquidity and Capital Resources

The Company's cash on hand as of June 30, 2014 combined with proceeds from operating activities during fiscal 2015 were adequate to meet the Company's capital expenditure needs and debt obligations during fiscal 2015. The Company's primary internal source of liquidity is the cash flow generated from operations. The primary source of external financing is a revolving credit facility of \$11,000,000 (the "Revolving Credit Facility") which expires in June 2017. As of June 30, 2015 \$3,000,000 was outstanding under this revolving line of credit. As of June 30, 2015, the Company's unused sources of funds consisted principally of \$2,346,000 in cash and \$8,000,000 unused balance available under its revolving line of credit.

During the year ended June 30, 2015 the Company utilized its cash on hand at June 30, 2014 (\$2,483,000) and a portion of its cash from operations (\$1,541,000 of \$3,887,000) to repay outstanding debt (\$1,100,000), purchase treasury stock (\$2,194,000) and purchase property, plant and equipment (\$730,000).

As of June 30, 2015, long-term debt consisted of a revolving credit facility of \$11,000,000 (the "Revolving Credit Facility") which expires in June 2017 and two term loans, one for \$6,000,000 which expires in June 2019, and one for \$6,500,000 which expires in June 2017 (the "Term Loans"). Repayment of the Terms Loans commenced on September 30, 2012. The \$6,000,000 Term Loan is being repaid with 28 equal, quarterly payments of \$75,000 and the remaining balance of \$3,900,000 due on or before the expiration date. The \$6,500,000 Term Loan is being repaid in 20 equal, quarterly payments of \$325,000. As of June 30, 2015, the Company had \$3,000,000 in outstanding borrowings and \$8,000,000 in availability under the Revolving Credit Facility. The Company's long-term debt is described more fully in Note 6 to the condensed consolidated financial statements.

The agreements contain various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings and compliance with certain financial ratios, as defined in the restated agreement.

Outstanding balances and interest rates as of June 30, 2015 and June 30, 2014 are as follows:

	June 30, 2015		June 30, 2014	
	Outstanding	Interest Rate	Outstanding	Interest Rate
Revolving line of credit	\$ 3,000	1.7%	\$ 2,500	1.7%
Term loans	7,700	1.7%	9,300	1.7%
<b>Total debt</b>	<b>\$ 10,700</b>	<b>1.7%</b>	<b>\$ 11,800</b>	<b>1.7%</b>

The Company believes its current working capital, anticipated cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through at least the next twelve months.

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

	As of June 30,	
	2015	2014
Current Ratio	4.8 to 1	4.6 to 1
Sales to Receivables	4.3 to 1	4.4 to 1
Total debt to equity	.23 to 1	.27 to 1

As of June 30, 2015, the Company had no material commitments for capital expenditures or inventory purchases other than purchase orders issued in the normal course of business. 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, on which the Company's principle manufacturing facility is located, at an annual cost of approximately \$288,000.

*Working Capital.* Working capital increased by \$2,154,000 to \$35,590,000 at June 30, 2015 from \$33,436,000 at June 30, 2014. Working capital is calculated by deducting Current Liabilities from Current Assets.

*Accounts Receivable.* Accounts Receivable increased by \$1,090,000 to \$17,994,000 at June 30, 2015 as compared \$16,904,000 at June 30, 2014. The increase in Accounts Receivable was due primarily to a increase in sales for the quarter ended June 30, 2015 as compared to the same quarter a year ago.

*Inventories.* Inventories, which include both current and non-current portions, increased by \$1,860,000 to \$26,870,000 at June 30, 2015 as compared to \$25,010,000 at June 30, 2014. The increase was due primarily to the Company increasing stock of several of its new products as well as purchasing raw materials to produce products needed to fulfill several large orders that were received at the end of fiscal 2015 for the Company's Marks products.

*Accounts Payable and Accrued Expenses.* Accounts payable and accrued expenses increased by \$185,000 to \$7,828,000 as of June 30, 2015 as compared to \$7,643,000 at June 30, 2014. This increase is primarily due to increased purchases of raw materials to produce products needed to fulfill several large orders that were received at the end of fiscal 2015 for the Company's Marks products.

#### Off-Balance Sheet Arrangements

The Company does not maintain any off-balance sheet arrangements.

## Contractual Obligations

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

Contractual obligations	Payments due by period:				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt obligations	\$ 10,700,000	\$ 1,600,000	\$ 4,900,000	\$ 4,200,000	\$ —
Land lease (77 years remaining) (1)	22,176,000	288,000	576,000	576,000	20,736,000
Operating lease obligations	32,000	20,000	9,000	3,000	—
Other long-term obligations (employment agreements) (1)	1,005,000	931,000	74,000	—	—
<b>Total</b>	<b>\$ 33,913,000</b>	<b>\$ 2,839,000</b>	<b>\$ 5,559,000</b>	<b>\$ 4,779,000</b>	<b>\$ 20,736,000</b>

(1) See footnote 10 to the accompanying consolidated financial statements.

## Results of Operations Fiscal 2015 Compared to Fiscal 2014

	Fiscal year ended June 30,		% Increase/ (decrease)
	2015	2014	
Net sales	\$ 77,762	\$ 74,382	4.5%
Gross profit	26,047	23,713	9.8%
Gross profit as a % of net sales	33.5%	31.9%	5.0%
Selling, general and administrative	20,766	19,397	7.1%
Selling, general and administrative as a % of net sales	26.7%	26.1%	2.3%
Income from operations	5,281	4,316	22.4%
Interest expense, net	215	295	(27.1)%
Other expense, net	5	14	(64.3)%
Provision for income taxes	216	531	(59.3)%
Net income	4,845	3,476	39.4%

Net sales in fiscal 2015 increased by \$3,380,000 to \$77,762,000 as compared to \$74,382,000 in fiscal 2014. The increase in net sales was primarily due to increased sales of the Company's Alarm Lock brand door-locking products (\$1,077,000), Continental brand access control products (\$326,000) and Marks brand door-locking products (\$232,000) and was partially offset by decreases in the Company's Napco brand intrusion products (\$191,000).

The Company's gross profit increased by \$2,334,000 to \$26,047,000 or 33.5% of net sales in fiscal 2015 as compared to \$23,713,000 or 31.9% of net sales in fiscal 2014. Gross profit and gross profit as a percentage of net sales was primarily affected by the increase in net sales as discussed above and a positive shift in product mix in fiscal 2015 as compared to fiscal 2014.

Selling, general and administrative expenses as a percentage of net sales increased to 26.7% in fiscal 2015 from 26.1% in fiscal 2014. Selling, general and administrative expenses for fiscal 2015 increased by \$1,369,000 to \$20,766,000 as compared to \$19,397,000 in fiscal 2014. The increases in dollars and as a percentage of sales resulted primarily from increases in selling wages and commissions as well as increased advertising and tradeshow expenditures. The Company increased expenditures in these areas in order to generate higher sales.

Interest expense for fiscal 2015 decreased by \$80,000 to \$215,000 from \$295,000 for the same period a year ago. The decrease in interest expense is primarily the result of the decrease in interest rates charged by the Company's primary banks as well as the Company's reduction of its outstanding borrowings under its revolving line of credit and its term loan.

Other expenses remained relatively constant at \$5,000 and \$14,000 for fiscal 2015 and 2014, respectively.

The Company's provision for income taxes for fiscal 2015 decreased by \$315,000 to \$216,000 as compared to \$531,000 for the same period a year ago. The decrease in income taxes from fiscal 2014 to fiscal 2015 resulted primarily from the benefit resulting from R&D Credits and a decrease in certain of the Company's income tax reserves.

Net income for fiscal 2015 increased by \$1,369,000 to \$4,845,000 as compared to \$3,476,000 in fiscal 2014. This resulted primarily from the items discussed above.

### **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. For example, the Company is highly dependent on its Chief Executive Officer for strategic planning. If he is unable to perform his services for any significant period of time, the Company's ability to grow could be adversely affected. In addition, factors that could cause actual results to differ materially from the Forward-Looking Statements include, but are not limited to, uncertain economic, military and political conditions in the world, our ability to maintain and develop competitive products, adverse tax consequences of offshore operations, the ability to maintain adequate financing and significant fluctuations in the exchange rate between the Dominican Peso and the U.S. Dollar. The Company's Risk Factors are discussed in more detail in Item 1A.

### **ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's principal financial instrument is long-term debt (consisting of a revolving credit facility and term loans) that provides for interest based on the prime rate or LIBOR as described in the agreement. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under these credit facilities. At June 30, 2015, an aggregate principal amount of approximately \$10,700,000 was outstanding under the Company's credit facilities with a weighted average interest rate of approximately 1.7%. If principal amounts outstanding under the Company's credit facilities remained at this level for an entire year and the interest rate increased or decreased, respectively, by 1% the Company would pay or save, respectively, an additional \$107,000 in interest that year.

All foreign sales transactions by the Company are denominated in U.S. dollars. As such, the Company has shifted foreign currency exposure onto its foreign customers. As a result, if exchange rates move against foreign customers, the Company could experience difficulty collecting unsecured accounts receivable, the cancellation of existing orders or the loss of future orders. The foregoing could materially adversely affect the Company's business, financial condition and results of operations. We are also exposed to foreign currency risk relative to expenses incurred in Dominican Pesos ("RD\$"), the local currency of the Company's production facility in the Dominican Republic. The result of a 10% strengthening or weakening in the U.S. dollar to the RD\$ would result in an annual increase or decrease in income from operations of approximately \$600,000.

**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-25 of this report as follows:

**NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES**

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	FS-1
Consolidated Financial Statements:	
<a href="#">Consolidated Balance Sheets as of June 30, 2015 and 2014</a>	FS-2
<a href="#">Consolidated Statements of Income for the Fiscal Years Ended June 30, 2015 and 2014</a>	FS-4
<a href="#">Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended June 30, 2015 and 2014</a>	FS-5
<a href="#">Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2015 and 2014</a>	FS-6
<a href="#">Notes to Consolidated Financial Statements</a>	FS-7

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors  
Napco Security Technologies, Inc. and Subsidiaries  
Amityville, New York

We have audited the accompanying consolidated balance sheets of Napco Security Technologies, Inc. and Subsidiaries (the "Company") as of June 30, 2015 and 2014, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the 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 consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 financial position of Napco Security Technologies, Inc. and Subsidiaries as of June 30, 2015 and 2014 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

New York, New York  
September 10, 2015

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FS-1

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

June 30, 2015 and 2014  
(In Thousands)

	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,346	\$ 2,483
Accounts receivable, net of reserves and allowances	17,994	16,904
Inventories	22,757	21,443
Prepaid expenses and other current assets	1,046	989
Income tax receivable	—	121
Deferred income taxes	880	739
Total Current Assets	45,023	42,679
Inventories - non-current	4,113	3,567
Deferred income taxes	634	1,005
Property, plant and equipment, net	6,234	6,394
Intangible assets, net	8,886	9,552
Other assets	147	167
TOTAL ASSETS	\$ 65,037	\$ 63,364

See accompanying notes to consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

June 30, 2015 and 2014  
(In Thousands, Except Share Data)

	2015	2014
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long term debt	\$ 1,600	\$ 1,600
Accounts payable	3,954	4,082
Accrued expenses	1,624	1,737
Accrued salaries and wages	2,250	1,824
Accrued income taxes	5	—
<b>Total Current Liabilities</b>	<b>9,433</b>	<b>9,243</b>
Long-term debt, net of current maturities	9,100	10,200
Accrued income taxes	—	169
<b>Total Liabilities</b>	<b>18,533</b>	<b>19,612</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, par value \$0.01 per share; 40,000,000 shares authorized; 21,049,243 and 21,049,243 shares issued; and 18,966,028 and 19,419,076 shares outstanding, respectively	210	210
Additional paid-in capital	16,133	16,032
Retained earnings	40,399	35,554
	56,742	51,796
Less: Treasury Stock, at cost (2,083,215 and 1,630,167 shares, respectively)	(10,238)	(8,044)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>46,504</b>	<b>43,752</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 65,037</b>	<b>\$ 63,364</b>

See accompanying notes to consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2015 and 2014  
(In Thousands, Except Share and Per Share Data)

	2015	2014
Net sales	\$ 77,762	\$ 74,382
Cost of sales	51,715	50,669
Gross Profit	26,047	23,713
Selling, general, and administrative expenses	20,766	19,397
Operating Income	5,281	4,316
Other expense:		
Interest expense, net	215	295
Other, net	5	14
Income before Provision for Income Taxes	5,061	4,007
Provision for Income Taxes	216	531
Net Income	\$ 4,845	\$ 3,476
Income per share:		
Basic	\$ 0.25	\$ 0.18
Diluted	\$ 0.25	\$ 0.18
Weighted average number of shares outstanding:		
Basic	19,164,000	19,392,000
Diluted	19,169,000	19,428,000

See accompanying notes to consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended June 30, 2015 and 2014  
(In Thousands, Except Share Data)

	Common Stock			Treasury Stock		Retained Earnings	Total
	Number of Shares Issued	Amount	Additional Paid-in Capital	Number of Shares	Amount		
BALANCE June 30, 2013	20,796,813	208	15,356	(1,500,478)	(7,307)	32,078	40,335
Options exercised	337,600	3	1,024	—	—	—	1,027
Shares surrendered and cancelled under cashless option exercise	(85,170)	(1)	(424)	—	—	—	(425)
Shares surrendered and held in Treasury under cashless option exercise	—	—	—	(129,689)	(737)	—	(737)
Stock-based compensation expense	—	—	76	—	—	—	76
Net income	—	—	—	—	—	3,476	3,476
BALANCE June 30, 2014	21,049,243	\$ 210	\$ 16,032	(1,630,167)	\$ (8,044)	\$ 35,554	\$ 43,752
Repurchase of Treasury Shares	—	—	—	(453,048)	(2,194)	—	(2,194)
Stock-based compensation expense	—	—	101	—	—	—	101
Net income	—	—	—	—	—	4,845	4,845
BALANCE June 30, 2015	21,049,243	\$ 210	\$ 16,133	(2,083,215)	\$ (10,238)	\$ 40,399	\$ 46,504

See accompanying notes to consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014 (In Thousands)

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,845	\$ 3,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,570	1,740
Charge to obsolescence reserve	(472)	(827)
Provision for doubtful accounts	66	(40)
Deferred income taxes	230	424
Non-cash stock based compensation expense	101	76
Changes in operating assets and liabilities:		
Accounts receivable	(1,156)	1,347
Inventories	(1,388)	(2,276)
Prepaid expenses and other current assets	(57)	230
Income tax receivable	121	(57)
Other assets	6	5
Accounts payable, accrued expenses, accrued salaries and wages, accrued income taxes	21	645
<b>Net Cash Provided by Operating Activities</b>	<b>3,887</b>	<b>4,743</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property, plant, and equipment	(730)	(753)
<b>Net Cash Used in Investing Activities</b>	<b>(730)</b>	<b>(753)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on long-term debt	(1,600)	(4,600)
Proceeds from long-term debt	500	—
Cash paid for purchase of treasury stock	(2,194)	(285)
Proceeds from exercise of employee stock options	—	25
Tax benefit from stock option exercise	—	124
<b>Net Cash Used in Financing Activities</b>	<b>(3,294)</b>	<b>(4,736)</b>
Net Change in Cash and Cash Equivalents	(137)	(746)
<b>CASH AND CASH EQUIVALENTS - Beginning</b>	<b>2,483</b>	<b>3,229</b>
<b>CASH AND CASH EQUIVALENTS - Ending</b>	<b>\$ 2,346</b>	<b>\$ 2,483</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid, net	\$ 215	\$ 312
Income taxes paid	\$ 29	\$ 24
Surrender of Common Shares	\$ —	\$ 452

See accompanying notes to consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Business:

Napco Security Technologies, Inc. and Subsidiaries (the "Company") is a diversified manufacturer of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products for commercial and residential use. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment.

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of the Company's products want to install its products prior to the summer; therefore sales of its products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand is affected by the housing and construction markets.

Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Napco Security Technologies, Inc. and all of its wholly-owned subsidiaries. All inter-company 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 reserves for sales returns and allowances, concentration of credit risk, inventory reserves, intangible assets and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were: Current Assets and Current Liabilities - The carrying amount of cash, certificates of deposits, current receivables and payables and certain other short-term financial instruments approximate their fair value as of June 30, 2015 due to their short-term maturities; Long-Term Debt - The carrying amount of the Company's long-term debt, including the current portion, at June 30, 2015 in the amount of \$10,700,000 approximates fair value.

Cash and Cash Equivalents

Cash and cash equivalents include approximately \$460,000 of short-term time deposits at June 30, 2015 and June 30, 2014. 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 and other international agencies as of June 30, 2015 and June 30, 2014. The Company has historically not experienced any credit losses with balances in excess of FDIC limits.

## Accounts Receivable

Accounts receivable is stated net of the reserves for doubtful accounts of \$175,000 and \$180,000 and for returns and other allowances of \$1,260,000 and \$1,005,000 as of June 30, 2015 and June 30, 2014, respectively. Our reserves for doubtful accounts and for returns and other allowances are subjective critical estimates that have a direct impact on reported net earnings. These reserves are based upon the evaluation of our accounts receivable aging, specific exposures, sales levels and historical trends.

## 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 costs include raw materials, direct labor and overhead. The Company's overhead expenses are applied based, in part, upon estimates of the proportion of those expenses that are related to procuring and storing raw materials as compared to the manufacture and assembly of finished products. These proportions, the method of their application, and the resulting overhead included in ending inventory, are based in part on subjective estimates and actual results could differ from those estimates.

In addition, the Company records an inventory obsolescence reserve, which represents any excess of the cost of the inventory over 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, requirements to support forecasted sales, and the ability to find alternate applications of its raw materials and to convert finished product into alternate versions of the same product to better match customer demand. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events. There is inherent professional judgment and subjectivity made by both production and engineering members of management in determining the estimated obsolescence percentage.

The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

## 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.

## Intangible Assets

Intangible assets determined to have indefinite lives are not amortized but are tested for impairment at least annually. Intangible assets with definite lives are amortized over their useful lives. Intangible assets are reviewed for impairment at least annually at the Company's fiscal year end of June 30 or more often whenever there is an indication that the carrying amount may not be recovered.

The Company's acquisition of substantially all of the assets and certain liabilities of G. Marks Hardware, Inc. ("Marks") in August 2008 included intangible assets recorded at fair value on the date of acquisition. The intangible assets are amortized over their estimated useful lives of twenty years (customer relationships) and seven years (non-compete agreement). The Marks trade name was deemed to have an indefinite life.

Changes in intangible assets are as follows (in thousands):

	June 30, 2015			June 30, 2014		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 9,800	\$ (6,820)	\$ 2,980	\$ 9,800	\$ (6,203)	\$ 3,597
Non-compete agreement	340	(334)	6	340	(285)	55
Trade name	5,900	—	5,900	5,900	—	5,900
	<u>\$ 16,040</u>	<u>\$ (7,154)</u>	<u>\$ 8,886</u>	<u>\$ 16,040</u>	<u>\$ (6,488)</u>	<u>\$ 9,552</u>

Amortization expense for intangible assets subject to amortization was approximately \$667,000 and \$782,000 for the fiscal years ended June 30, 2015 and 2014, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2016 - \$529,000; 2017 - \$441,000; 2018 - \$371,000; 2019 - \$313,000 and 2020 - \$264,000. The weighted average amortization period for intangible assets was 13.1 years and 13.9 years at June 30, 2015 and 2014, respectively.

#### 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. 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

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 or service, (iii) shipment and passage of title occurs or service has been provided, and (iv) collectability is reasonably assured. Revenues from product sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of the sale. Revenues for services are recorded at the time the service is provided to the customer pursuant to the terms of sale. The Company reports its sales on a net sales basis, with net sales being computed by deducting from gross sales the amount of actual sales returns and other allowances and the amount of reserves established for anticipated sales returns and other allowances.

#### Sales Returns and Other Allowances

The Company analyzes sales returns and is able to make reasonable and reliable estimates of product returns based on the Company's past history. Estimates for sales returns are based on several factors including actual returns and based on expected return data communicated to it by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates. As a percentage of gross sales, sales returns, rebates and allowances were 8% for each of the fiscal years ended June 30, 2015 and 2014.

#### Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of operations and are expensed as incurred. Advertising expense for the fiscal years ended June 30, 2015 and 2014 was \$1,671,000 and \$1,408,000, respectively.

#### Research and Development Costs

Research and development costs incurred by the Company are charged to expense as incurred and are included in "Cost of Sales" in the consolidated statements of operations. Company-sponsored research and development expense for the fiscal years ended June 30, 2015 and 2014 was \$5,382,000 and \$5,059,000, respectively.

## Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company measures and recognizes the tax implications of positions taken or expected to be taken in its tax returns on an ongoing basis.

## Net Income 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.

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	
	2015	2014	2015	2014	2015	2014
Basic EPS	\$ 4,845	\$ 3,476	19,164	19,392	\$ 0.25	\$ 0.18
Effect of Dilutive Securities:						
Stock Options	—	—	5	36	—	—
Diluted EPS	\$ 4,845	\$ 3,476	19,169	19,428	\$ 0.25	\$ 0.18

Options to purchase 255,688 and 145,673 shares of common stock for the fiscal years ended June 30, 2015 and 2014, respectively, were not included in the computation of Diluted EPS because their inclusion would be anti-dilutive. These options were still outstanding at the end of the respective periods.

## Stock-Based Compensation

The Company has established two share incentive programs as discussed in Note 7.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Stock-based compensation costs of \$101,000 and \$76,000 were recognized for fiscal years ended June 30, 2015 and 2014, respectively. The effect on both Basic and Diluted Earnings per share was \$0.01 and \$0.00 for fiscal years ended June 30, 2015 and 2014, respectively.

## Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal period-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 fiscal years ended June 30, 2015 and 2014.

## Comprehensive Income

For the fiscal years ended June 30, 2015 and 2014, 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 approximates its net income for all periods presented.

## Segment Reporting

The Company's reportable operating segments are determined based on the Company's management approach. The management approach 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.

## Shipping and Handling Revenues and Costs

The Company records the amount billed to customers for shipping and handling in net sales (\$515,000 and \$531,000 in the fiscal years ended June 30, 2015 and 2014, respectively) and classifies the costs associated with these revenues in cost of sales (\$945,000 and \$985,000 in fiscal years ended June 30, 2015 and 2014).

## Recently Issued Accounting Standards

In July 2015, the FASB issued ASU 2015-11 "Inventory (Topic 330): Simplifying the Measurement of Inventory" (ASU 2015-11). The amendments in ASU 2015-11 simplify the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. ASU 2015-11 is effective for the Company's quarter ended March 31, 2107. Early application is permitted. We have not early adopted ASU 2015-11. The new guidance must be applied prospectively after the date of adoption. We are in the process of evaluating the adoption of this ASU, and do not expect this to have a material effect on our consolidated results of operations and financial condition.

In May 2014, the FASB issued authoritative guidance that defines how companies should report revenues from contracts with customers. The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It provides companies with a single comprehensive five-step principles-based model to use in accounting for revenue and supersedes current revenue recognition requirements, including most industry-specific and transaction-specific revenue guidance. In August 2015, the FASB deferred the effective date of the new revenue standard by one year. As a result, the new standard would not be effective for the Company until fiscal 2019. In addition, the FASB is allowing companies to early adopt this guidance for the Company's fiscal 2018. The guidance permits an entity to apply the standard retrospectively to all prior periods presented, with certain practical expedients, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company will apply this new guidance when it becomes effective and has not yet selected a transition method. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

In July 2013, the FASB issued authoritative guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss ("NOL") carry-forward, a similar tax loss, or a tax credit carry-forward. If either (i) an NOL carry-forward, a similar tax loss, or tax credit carry-forward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (ii) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice), an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This guidance became effective for unrecognized tax benefits that exist as of the Company's fiscal 2015 first quarter. The guidance did not have an impact on the Company's consolidated financial statements.

## NOTE 2 - Business and Credit Concentrations

An entity is more vulnerable to concentrations of credit risk if it is exposed to risk of loss greater than it would have had if 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 one customer with an accounts receivable balance that comprised 22% of the Company's accounts receivable at June 30, 2015 and 12% of the Company's accounts receivable at June 30, 2014. Sales to this customer comprised 13% of net sales in the fiscal year ended June 30, 2015.

## NOTE 3 - Inventories

Inventories, net of reserves are valued at lower of cost (first-in, first-out method) or market. The Company regularly reviews parts and finished goods inventories on hand and, when necessary, records a provision for excess or obsolete inventories. The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

Inventories, net of reserves consist of the following (in thousands):

	June 30,	
	2015	2014
Component parts	\$ 15,037	\$ 15,268
Work-in-process	4,136	3,632
Finished product	7,697	6,110
	<u>\$ 26,870</u>	<u>\$ 25,010</u>
Classification of inventories, net of reserves:		
Current	\$ 22,757	\$ 21,443
Non-current	4,113	3,567
	<u>\$ 26,870</u>	<u>\$ 25,010</u>

## NOTE 4 - Property, Plant, and Equipment

Property, plant and equipment consist of the following (in thousands):

	June 30,		Useful Life in Years
	2015	2014	
Land	\$ 904	\$ 904	—
Buildings	8,911	8,911	30 to 40
Molds and dies	7,002	6,906	3 to 5
Furniture and fixtures	2,478	2,427	5 to 10
Machinery and equipment	20,429	19,974	7 to 10
Leasehold improvements	294	288	Shorter of the lease term or life of asset
	<u>40,018</u>	<u>39,410</u>	
Less: accumulated depreciation and amortization	<u>33,784</u>	<u>33,016</u>	
	<u>\$ 6,234</u>	<u>\$ 6,394</u>	

Depreciation and amortization expense on property, plant, and equipment was approximately \$890,000 and \$945,000 in fiscal 2015 and 2014, respectively.

**NOTE 5 - Income Taxes**

The provision for income taxes is comprised of the following (in thousands):

	For the Years Ended June 30,	
	2015	2014
Current income taxes:		
Federal	\$ (49)	\$ 76
State	35	31
	(14)	107
Deferred income tax provision	230	424
Provision for income taxes	\$ 216	\$ 531

A reconciliation of the U.S. Federal statutory income tax rate to our actual effective tax rate on earnings before income taxes is as follows for the years ended June 30, (dollars in thousands):

	2015		2014	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Tax at Federal statutory rate	\$ 1,721	34.0%	\$ 1,362	34.0%
Increases (decreases) in taxes resulting from:				
Meals and entertainment	66	1.3%	63	1.6%
State income taxes, net of Federal income tax benefit	21	0.4%	20	0.5%
Foreign source income not subject to tax	(1,069)	(21.1)%	(837)	(20.9)%
R&D Credit refund	(328)	(6.5)%	(144)	(3.6)%
Income tax reserve adjustments	(93)	(1.8)%	—	—
Other, net	(102)	(2.0)%	67	1.7%
Effective tax rate	\$ 216	4.3%	\$ 531	13.3%

Deferred tax assets and deferred tax liabilities at June 30, 2015 and 2014 are as follows (in thousands):

	Current Deferred Tax Assets (Liabilities)		Long-term Deferred Tax Assets (Liabilities)	
	2015	2014	2015	2014
Accounts receivable	\$ 36	\$ 25	\$ —	\$ —
Inventories	533	406	261	336
Accrued Liabilities	311	308	86	64
Stock based compensation expense	—	—	147	139
Goodwill	—	—	214	1,324
R&D credit	—	—	804	451
Property, plant and equipment	—	—	(512)	(527)
Other deferred tax liabilities	—	—	(366)	(782)
	880	739	634	1,005
Valuation allowance	—	—	—	—
Net deferred tax assets	\$ 880	\$ 739	\$ 634	\$ 1,005

The Company has identified the United States and New York State as its major tax jurisdictions. The fiscal 2012 and forward years are still open for examination.

During the year ending June 30, 2015 the Company decreased its reserve for uncertain income tax positions by \$67,000. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense and accrued income taxes. As of June 30, 2015, the Company had accrued interest totaling \$0 and \$102,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period. The Company uses the flow through method to account for investment tax credits earned on eligible research and development expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	Tax	Interest	Total
Balance of gross unrecognized tax benefits as of July 1, 2014	\$ 169	\$ —	\$ 169
Decreases to unrecognized tax benefits resulting from expiring statutes	(67)	—	(67)
Balance of gross unrecognized tax benefits as of June 30, 2015	\$ 102	\$ —	\$ 102

The Company plans to permanently reinvest a substantial portion of its foreign earnings and as such has not provided US corporate taxes on the permanently reinvested earnings. As of June 30, 2015, the Company had approximately \$2.6 million of undistributed earnings of foreign subsidiaries.

#### NOTE 6 - Long-Term Debt

As of June 30, 2015, long-term debt consisted of a revolving credit facility of \$11,000,000 (the "Revolving Credit Facility") which expires in June 2017 and two term loans, one for \$6,000,000 which expires in June 2019, and one for \$6,500,000 which expires in June 2017 (the "Term Loans"). Repayment of the Term Loans commenced on September 30, 2012. The \$6,000,000 Term Loan is being repaid with 28 equal, quarterly payments of \$75,000 and the remaining balance of \$3,900,000 due on or before the expiration date. The \$6,500,000 Term Loan is being repaid in 20 equal, quarterly payments of \$325,000.

Outstanding balances and interest rates as of June 30, 2015 and June 30, 2014 are as follows:

	June 30, 2015		June 30, 2014	
	Outstanding	Interest Rate	Outstanding	Interest Rate
Revolving line of credit	\$ 3,000	1.7%	\$ 2,500	1.7%
Term loans	7,700	1.7%	9,300	1.7%
Total debt	\$ 10,700	1.7%	\$ 11,800	1.7%

The Revolving Credit Facility and Term Loans (collectively the “Agreement”) also provides for a LIBOR-based interest rate option of LIBOR plus 1.5% to 2.75%, depending on the ratio of outstanding debt to EBITDA, which is to be measured and adjusted quarterly, a prime rate-based option of the prime rate plus 0.25% and other terms and conditions as more fully described in the Agreement. In addition, the Agreement provides for availability under the Revolving Credit Facility to be limited to the lesser of \$11,000,000 or the result of a borrowing base formula based upon the Company’s Accounts Receivables and Inventory values net of certain deductions. The Company’s obligations under the Agreement continue to be secured by all of its assets, including but not limited to, deposit accounts, accounts receivable, inventory, and the Company’s corporate headquarters in Amityville, NY, equipment and fixtures and intangible assets. In addition, the Company’s wholly-owned subsidiaries, with the exception of the Company’s foreign subsidiaries, have issued guarantees and pledges of all of their assets to secure the Company’s obligations under the Agreement. All of the outstanding common stock of the Company’s domestic subsidiaries and 65% of the common stock of the Company’s foreign subsidiaries has been pledged to secure the Company’s obligations under the Agreement.

The Agreement contains various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings and compliance with certain financial ratios, as defined in the Agreement.

#### NOTE 7 - Stock Options

The Company follows ASC 718 (“Share-Based Payment”), which requires that all share based payments to employees, including stock options, be recognized as compensation expense in the consolidated financial statements based on their fair values and over the requisite service period. For the fiscal years ended June 30, 2015 and 2014, the Company recorded non-cash compensation expense of \$101,000 (\$0.01 per basic and diluted share) and \$76,000 (\$0.00 per basic and diluted share), respectively, relating to stock-based compensation

#### 2012 Employee Stock Option Plan

In December 2012, the stockholders approved the 2012 Employee Stock Option Plan (the 2012 Employee Plan). The 2012 Employee Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 950,000 shares of the Company’s common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options, which are intended to qualify as incentive stock options (ISOs), to valued 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.

Under the 2012 Employee Plan, stock options may be granted to valued employees with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable, in whole or in part, at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a “change in control” as defined in the plan. At June 30, 2015, 112,500 stock options were granted, 27,500 stock options were exercisable and 837,500 stock options were available for grant under this plan.

The fair value of each option granted during fiscal 2015 and 2014 were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2015	2014
Risk-free interest rates	2.3%	2.7%
Expected lives	10 years	10 years
Expected volatility	54%	57%
Expected dividend yields	0%	0%

The Company uses a weighted-average expected stock-price volatility assumption that is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior of past grants. The average risk-free interest rate is based on the U.S. Treasury Bond rate for the expected term of the options and the average dividend yield is based on historical experience.

The following table reflects activity under the 2012 Plan for the fiscal years ended June 30,:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	78,500	\$ 5.73	—	\$ —
Granted	44,000	4.43	78,500	5.73
Terminated	(10,000)	4.88	—	—
Exercised	—	—	—	—
Outstanding, end of year	112,500	\$ 5.30	78,500	\$ 5.73
Exercisable, end of year	27,500	\$ 5.26	15,700	\$ 5.73
Weighted average fair value at grant date of options granted	\$ 2.82		\$ 3.84	
Total intrinsic value of options exercised	n/a		n/a	
Total intrinsic value of options outstanding	\$ 73,360		\$ 14,000	
Total intrinsic value of options exercisable	\$ 17,946		\$ 3,000	

The following table summarizes information about stock options outstanding under the 2012 Employee Plan at June 30, 2015:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.29-\$6.31	112,500	8.7	\$ 5.30	27,500	\$ 5.26
	112,500	8.7	\$ 5.30	27,500	\$ 5.26

As of June 30, 2015, there was \$260,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Employee Plan. 44,000 and 78,500 options were granted during the fiscal years ended June 30, 2015 and 2014, respectively. The total fair value of the options vesting during the fiscal years ended June 30, 2015 and 2014 under this plan was \$41,000 and \$60,000, respectively.

#### 2012 Non-Employee Stock Option Plan

In December 2012, the stockholders approved the 2012 Non-Employee Stock Option Plan (the 2012 Non-Employee Plan). This plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 50,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options to non-employee directors and consultants to the Company and its subsidiaries.

Under the 2012 Non-Employee Plan, stock options may be granted with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable in whole or in part at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a "change in control" as defined in the plan. At June 30, 2015, 35,000 stock options were granted, 12,000 stock options were exercisable and 15,000 stock options were available for grant under this plan.

The fair value of each option granted during fiscal 2015 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2015	2014
Risk-free interest rates	2.3%	2.7%
Expected lives	10 years	10 years
Expected volatility	54%	57%
Expected dividend yields	0%	0%

The Company uses a weighted-average expected stock-price volatility assumption that is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior of past grants. The average risk-free interest rate is based on the U.S. Treasury Bond rate for the expected term of the options and the average dividend yield is based on historical experience.

The following table reflects activity under the 2012 Non-Employee Plan for the fiscal years ended June 30,:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	25,000	\$ 4.88	—	\$ —
Granted	10,000	4.37	25,000	4.88
Terminated	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of year	<u>35,000</u>	<u>\$ 4.73</u>	<u>25,000</u>	<u>\$ 4.88</u>
Exercisable, end of year	<u>12,000</u>	<u>\$ 4.80</u>	<u>5,000</u>	<u>\$ 4.88</u>
Weighted average fair value at grant date of options granted	\$ 2.86		\$ 3.30	
Total intrinsic value of options exercised	n/a		n/a	
Total intrinsic value of options outstanding	\$ 35,000		\$ 14,000	
Total intrinsic value of options exercisable	\$ 11,000		\$ 3,000	

The following table summarizes information about stock options outstanding under the 2012 Non-Employee Plan at June 30, 2015:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$4.37 - \$4.88	35,000	8.5	\$ 4.73	12,000	\$ 4.80
	<u>35,000</u>	<u>8.5</u>	<u>\$ 4.73</u>	<u>12,000</u>	<u>\$ 4.80</u>

As of June 30, 2015, there was \$73,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Non-Employee Plan. 10,000 and 25,000 options were granted during the fiscal years ended June 30, 2015 and 2014, respectively. The total fair value of the options vesting during the fiscal years ended June 30, 2015 and 2014 under this plan was \$6,000 and \$17,000, respectively.

## 2002 Employee Stock Option Plan

In December 2002, the stockholders approved the 2002 Employee Stock Option Plan (the 2002 Employee Plan). This plan expired in October 2012. This plan authorized the granting of awards, the exercise of which would allow up to an aggregate of 1,836,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may have granted stock options, which were intended to qualify as incentive stock options (ISOs), to key employees. Any plan participant who was granted ISOs and possessed more than 10% of the voting rights of the Company's outstanding common stock must have been granted an option with a price of at least 110% of the fair market value on the date of grant.

Under the 2002 Employee 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, 2015, 1,471,480 stock options had been granted, 208,500 stock options were exercisable and no further stock options were available for grant under this plan after the plan's expiration in October 2012.

The following table reflects activity under the 2002 Employee plan for the fiscal years ended June 30,:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	265,750	\$ 6.51	651,140	\$ 4.18
Granted	—	—	—	—
Terminated/Lapsed	(57,250)	5.24	(47,790)	1.74
Exercised	—	—	(337,600)	2.70
Outstanding, end of period	208,500	\$ 6.86	265,750	\$ 6.07
Exercisable, end of period	208,500	\$ 6.86	265,750	\$ 6.07
Weighted average fair value at grant date of options granted	n/a		n/a	
Total intrinsic value of options exercised	n/a		\$ 1,399,000	
Total intrinsic value of options outstanding	\$ 6,000		\$ 13,000	
Total intrinsic value of options exercisable	\$ 6,000		\$ 13,000	

As of June 30, 2015, there was no unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2002 Non-Employee Plan. 0 and 337,600 stock options were exercised during the fiscal years ended June 30, 2015 and 2014, respectively. 324,100 of the 337,600 stock options exercised during the fiscal year ended June 30, 2014 were settled by exchanging 164,859 shares of the Company's common stock of which 85,170 was retired upon receipt. Cash received from option exercises was \$0 and \$25,650 for the fiscal years ended June 30, 2015 and 2014, respectively, and the actual tax benefit realized for the tax deductions from option exercises was \$0 for each of these periods.

The following table summarizes information about stock options outstanding under the 2002 Employee Plan at June 30, 2015:

Range of exercise prices	Options outstanding and exercisable		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price
\$5.22-\$6.62	171,000	1.2	\$ 5.92
\$11.16	37,500	0.7	11.16
	208,500	1.1	\$ 6.86

NOTE 8 – Stockholders’ Equity Transactions

On September 16, 2014 the Company’s board of directors authorized the repurchase of up to 1 million of the approximately 19.4 million shares of the Company’s common stock outstanding. The repurchase will be made from time to time in the open market or in privately negotiated transactions subject to market conditions and the market price of the common stock. Relative to the Loan Agreement described in Note 6, the Company’s lender gave its consent to this stock repurchase plan. During the fiscal year ended June 30, 2015 the Company repurchased 453,048 shares of its outstanding common stock for a weighted average price of \$4.81 per share. These repurchased shares are included in the Company’s Treasury Stock as of June 30, 2015.

During fiscal 2014, certain employees exercised incentive stock options under the Company’s 2002 Plan totaling 337,600 shares. 324,100 of these exercises were completed as cashless exercises as allowed for under the 2002 Plan, where the exercise shares are issued by the Company in exchange for shares of the Company’s common stock that are owned by the optionees. The number of shares surrendered by the optionees are based upon the per share price on the effective date of the option exercise. In addition, the Company repurchased 50,000 shares of its Common Stock from its Chief Executive Officer (“CEO”). The purchase price was \$5.70 per share, the previous business day’s closing price on NASDAQ, for an aggregate purchase price of \$285,000. The repurchase was to fund the CEO’s tax liability associated with the exercise of 135,000 options granted to him under the 2002 Plan. The repurchase was approved by the Board of Directors of the Company, including all of the independent directors. These exercises resulted in a tax benefit to the Company of \$124,000 which is included in Additional Paid-in Capital.

NOTE 9 - 401(k) Plan

The Company maintains a 401(k) plan (“the Plan”) that covers all U.S. non-union employees with one or more years of service and is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Company contributions to this plan are discretionary and totaled \$122,000 and \$103,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 10 - Commitments and Contingencies

Leases

The Company is committed under various operating leases, not including the land lease discussed below, which do not extend beyond fiscal 2019. Minimum lease payments through the expiration dates of these leases, with the exception of the land leases referred to below, are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 20,000
2017	5,000
2018	4,000
2019	3,000
Total	<u>\$ 32,000</u>

Rent expense, with the exception of the land lease referred to below, totaled approximately \$30,000 and \$32,000 for the fiscal years ended June 30, 2015 and 2014, respectively.

#### Land Lease

On April 26, 1993, one of the Company's foreign subsidiaries entered into a 99 year lease, expiring in 2092, for approximately four acres of land in the Dominican Republic at an annual cost of \$288,000, on which the Company's principal production facility is located.

#### Litigation

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

#### Employment Agreements

As of June 30, 2015, the Company was obligated under two employment agreements and one severance agreement. The employment agreements are with the Company's CEO and Senior Vice President of Sales and Marketing ("the SVP"). The employment agreement with the CEO provides for an annual salary of \$670,000, as adjusted for inflation; incentive compensation as may be approved by the Board of Directors from time to time and a termination payment in an amount up to 299% of the average of the prior five calendar year's compensation, subject to certain limitations, as defined in the agreement. The employment agreement renews annually in August unless either party gives the other notice of non-renewal at least six months prior to the end of the applicable term. The employment agreement with the SVP expires in October 2016 and provides for an annual salary of \$306,000, a bonus arrangement for fiscal 2015 and, if terminated by the Company without cause, severance of nine months' salary and continued company-sponsored health insurance for nine months from the date of termination. The severance agreement is with the Senior Vice President of Operations and Finance and provides for payments equal to nine months of salary and six months of health insurance in the event of a non-voluntary termination of employment without cause.

#### NOTE 11 - Geographical Data

The Company is engaged in one major line of business: the development, manufacture, and distribution of access control systems, door security products, intrusion and fire alarm systems and video surveillance products 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.

#### Financial Information Relating to Domestic and Foreign Operations

	2015	2014
	(in thousands)	
Sales to external customers(1):		
Domestic	\$ 74,736	\$ 70,800
Foreign	3,023	3,582
Total Net Sales	<u>\$ 77,762</u>	<u>\$ 74,382</u>
Identifiable assets:		
United States	\$ 50,998	\$ 49,529
Dominican Republic (2)	14,039	13,835
Total Identifiable Assets	<u>\$ 65,037</u>	<u>\$ 63,364</u>

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

(2) Consists primarily of inventories (2015 = \$10,546; 2014 = \$10,216) and fixed assets (2015 = \$3,347; 2014 = \$3,457) located at the Company's principal manufacturing facility in the Dominican Republic.

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

None

**ITEM 9A: CONTROL AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures. At the conclusion of the period ended June 30, 2015, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2015.

Management's Annual Report on Internal Control Over Financial Reporting. Management is responsible for the preparation of Napco Security Technologies, Inc. (Napco Security Technologies) consolidated financial statements and related information. Management uses its best judgment to ensure that the consolidated financial statements present fairly, in all material respects, Napco Security Technologies consolidated financial position and results of operations in conformity with generally accepted accounting principles.

The consolidated financial statements have been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board. Their report expresses the independent accountant's judgment as to the fairness of management's reported operating results, cash flows and financial position. This judgment is based on the procedures described in the second paragraph of their report.

Napco Security Technologies management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and other guidance prepared specifically for smaller public companies. Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of June 30, 2015.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of our Company; and (3) unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements are prevented or timely detected.

### *Limitations on Internal Control*

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This annual report does not include an attestation report of Baker Tilly Virchow Krause, LLP, our registered public accounting firm, regarding internal control over financial reporting. Management's Report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only Management's Report in this annual report.

The Board of Directors of Napco Security Technologies has an Audit Committee comprised of three non-management directors. The Committee meets periodically with financial management and the independent auditors to review accounting, control, audit and financial reporting matters. Baker Tilly Virchow Krause, LLP has full and free access to the Audit Committee, with and without the presence of management.

### *Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2015 that has materially affected or is likely to materially affect our internal controls over financial reporting.

### **ITEM 9B: OTHER INFORMATION**

None

### **PART III**

#### **ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information about our directors appearing in the Company's Definitive Proxy Statement for the 2015 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 ("Proxy Statement") under the heading "Election of Directors", is incorporated herein by reference.

We have adopted a Code of Ethics which applies to our senior executive and financial officers, among others. The Code is posted on our website, [www.napcosecurity.com](http://www.napcosecurity.com), under the "Investors – Other" caption. We intend to make all required disclosures regarding any amendment to, or waiver of, a provision of the Code of Ethics for senior executive and financial officers by posting such information on our website.

The information appearing in the Proxy Statement relating to the members of the Audit Committee and the Audit Committee financial expert under the headings "Corporate Governance and Board Matters – Board Structure and Committee Composition" and "Corporate Governance and Board Matters – Board Structure and Committee Composition – Audit Committee" and the information appearing in the Proxy Statement under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated herein by this reference.

The information set forth in the Proxy Statement under the heading "Information Concerning Executive Officers" is incorporated herein by reference.

## ITEM 11: EXECUTIVE COMPENSATION

The information appearing in the Proxy Statement under the heading “Executive Compensation” and the information appearing in the Proxy Statement relating to the compensation of directors under the caption “Compensation of Directors” is incorporated herein by this reference.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing in the Proxy Statement under the heading “Beneficial Ownership of Common Stock” is incorporated herein by this reference.

Information regarding Equity Compensation Plan Information as of June 30, 2015 and Unregistered Sales of Equity Securities and Use of Proceeds is included in Item 5.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing in the Proxy Statement under the headings “Corporate Governance and Board Matters – Independence of Directors,” “Corporate Governance and Board Matters – Board Structure and Committee Composition,” “Corporate Governance – Policy with Respect to Related Person Transactions,” and “Executive Compensation – Certain Transactions” is incorporated herein by this reference.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information appearing in the Proxy Statement under the headings “Principal Accountant Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” is incorporated herein by this reference.

## PART IV

### ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

#### (a) 1. Financial Statements

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

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	FS-1
Consolidated Financial Statements:	
Consolidated Balance Sheets as of June 30, 2015 and 2014	FS-2
Consolidated Statements of Operations for the Fiscal Years Ended June 30, 2015 and 2014	FS-4
Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended June 30, 2015 and 2014	FS-5
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2015 and 2014	FS-6
Notes to Consolidated Financial Statements, June 30, 2015	FS-7

(a)3 and (b). Exhibits

Management Contracts designated by asterisk.

<u>Exhibit No.</u>	<u>Title</u>	
Ex-3.(i)	Certificate of Amendment of Certificate of Incorporation	Exhibit-3.(i) to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June 30, 2011
Ex-3.(ii)	Certificate of Incorporation as amended	Exhibit-3.(ii) to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June, 30 2011
Ex-3.(iii)	Amended and Restated By-Laws	Exhibit 3.(ii) to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June 30, 2010
Ex 4.01	Third Amended and Restated Credit Agreement dated June 29, 2012.	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.02	Second Amended and Restated Term A Loan Note	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.03	Second Amended and Restated Term B Loan Note	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.04	Second Amended and Restated Revolving Credit Note	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.05	Second Amended and Restated Swing Line Note	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.06	Continuing General Security Agreement	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.07	Reaffirmation of Collateral Documents	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.08	Reaffirmation of Negative Pledge	Exhibit 4.01 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
*Ex-10.A (ii)	2002 Employee Stock Option Plan	Exhibit 10.A(II) to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June 30, 2008

*Ex-10.B	2012 Employee Stock Option Plan	Appendix A to Proxy Statement dated October 29, 2012 for Annual Meeting of Stockholders to be held on December 11, 2012
*Ex-10.C	2012 Non-Employee Stock Option Plan	Appendix B to Proxy Statement dated October 29, 2012 for Annual Meeting of Stockholders to be held on December 11, 2012
*Ex-10.I	Amended and Restated Employment Agreement with Richard Soloway	Exhibit 10.I to Report on Form 10-K (Commission file No. 0-10004) for fiscal year ended June 30, 2010
*Ex-10.J	Employment Agreement between the Registrant and Jorge Hevia dated December 20, 1999	Exhibit 10.J to Report on Form 8-K (Commission file No. 0-10004) dated November 29, 2012
*Ex-10.K	Two (2) Year Extension, dated November 29, 2011, of Employment Agreement between the Registrant and Jorge Hevia	Exhibit 10.K to Report on Form 8-K (Commission file No. 0-10004) dated November 29, 2012
*Ex-10.L	Severance Agreement between the Registrant and Kevin S. Buchel dated February 25, 1999.	Exhibit 10.L to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June 30, 2013
*Ex-10.M	Indemnification Agreement dated August 9, 1999	Exhibit 10.M to Report on Form 10-K (Commission file No. 0-10004) for fiscal year ended June 30, 2012
Ex-14.0	Code of Ethics	Exhibit 14.0 to Report on Form 10-K (Commission file No. 0-10004) for the fiscal year ended June 30, 2010
Ex-21.0	Subsidiaries of the Registrant	E-18
Ex-23.1	Consent of Independent Auditors	E-19
Ex-31.1	Section 302 Certification of Chief Executive Officer	E-20
Ex-31.2	Section 302 Certification of Chief Financial Officer	E-21
Ex-32.1	Certification of Chief Executive Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-22
Ex-32.2	Certification of Chief Financial Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-23
Ex-101.INS	XBRL Instance Document	
Ex-101.SCH	XBRL Taxonomy Extension Schema Document	

Ex-101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Ex-101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Ex-101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Ex-101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

## 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 10, 2015

### NAPCO SECURITY TECHNOLOGIES, 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/RICHARD SOLOWAY</u> Richard Soloway	Chairman of the Board of Directors, President and Secretary and Director (Principal Executive Officer)	September 10, 2015
<u>/s/KEVIN S. BUCHEL</u> Kevin S. Buchel	Senior Vice President of Operations and Finance and Treasurer and Director (Principal Financial and Accounting Officer)	September 10, 2015
<u>/s/PAUL STEPHEN BEEBER</u> Paul Stephen Beeber	Director	September 10, 2015
<u>/s/RANDY B. BLAUSTEIN</u> Randy B. Blaustein	Director	September 10, 2015
<u>/s/ARNOLD BLUMENTHAL</u> Arnold Blumenthal	Director	September 10, 2015
<u>/s/DONNA SOLOWAY</u> Donna Soloway	Director	September 10, 2015
<u>/s/ANDREW J. WILDER</u> Andrew J. Wilder	Director	September 10, 2015

## SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 2015. All beneficial interests are wholly-owned, directly or indirectly, by the Company and are included in the Company's consolidated financial statements.

<u>Name</u>	<u>State or Jurisdiction of Organization</u>
Alarm Lock Systems, LLC	Delaware
Marks USA I, LLC	New York
Continental Instruments, LLC	New York
Napco DR, S.A.	Dominican Republic
Napco Americas	Cayman Islands
Napco Security Systems International, Inc.	New York
Napco/Alarm Lock Exportadora, S.A.	Dominican Republic
Napco/Alarm Lock Grupo Internacional, S.A.	Dominican Republic
Video Alert, LLC	New York

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated September 10, 2015, accompanying the consolidated financial statements included in the Annual Report of Napco Security Technologies, Inc. and Subsidiaries on Form 10-K for the years ended June 30, 2015 and 2014. We hereby consent to the incorporation by reference of said report in the Registration Statements of Napco Security Technologies, Inc. and Subsidiaries on Form S-8 (Registration No. 333-104700 and Registration No. 333-193930).

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

New York, New York  
September 10, 2015

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## SECTION 302 CERTIFICATION

I, Richard Soloway, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Technologies, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 10, 2015

/s/RICHARD SOLOWAY  
Richard Soloway  
Chief Executive Officer  
(Principal Executive Officer)

## SECTION 302 CERTIFICATION

I, Kevin S. Buchel, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Technologies, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) 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
  - (d) 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 10, 2015

/s/KEVIN S. BUCHEL  
Kevin S. Buchel  
Chief Financial Officer  
(Principal Financial Officer)

**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 Technologies, Inc. (the "Company") on Form 10-K for the period ending June 30, 2015 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 10, 2015

/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.

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**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 Technologies, Inc. (the "Company") on Form 10-K for the period ending June 30, 2015 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 10, 2015

/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.

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