

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, 2020
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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	NSSC	Nasdaq Stock Market

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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth 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, 2019, 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 \$339,054,796.

As of September 14, 2020, 18,347,351 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 2020 Annual Meeting of Stockholders.

PART I

ITEM 1: BUSINESS.

Overview

Napco Security Technologies, Inc (“NAPCO”, “the Company”, “we”) is one of the leading manufacturers and designers of high-tech electronic security devices, as well as a leading provider of school safety solutions. We offer a diversified array of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products. 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. We have experienced significant growth in recent years, primarily driven by fast growing recurring service revenues generated from wireless communication services for intrusion and fire alarm systems, as well as our school security products that are designed to meet the increasing needs to enhance school security as a result of on-campus shooting and violence in the U.S.

Since 1969, NAPCO has established a heritage and proven record in the professional security community for reliably delivering both advanced technology and high quality security solutions, building many of the industry’s best-known brands, such as NAPCO Security Systems, Alarm Lock, Continental Access, Marks USA, and other popular product lines: including Gemini and F64-Series hardware/wireless intrusion systems and iSee Video internet video solutions. We are also dedicated to developing innovative technology and producing the next generation of reliable security solutions that utilize remote communications and wireless networks, including our StarLink, iBridge, and more recently the iSecure product lines. Today, millions of businesses, institutions, homes, and people around the globe are protected by products from the NAPCO Group of Companies.

Our net sales were \$101.4 million and \$102.9 million for the fiscal years ended June 30, 2020 and 2019, respectively. The change in our net sales was driven primarily by increased sales of our products in the recurring revenue business as offset by a 34% decrease in sales of hardware in the fourth quarter of fiscal 2020 as compared to the same period a year ago. This decrease was due primarily to the economic effects of the COVID-19 pandemic and the related closures mandated by federal and state governments. Our net income was \$8.5 million and \$12.2 million for the fiscal years ended June 30, 2020 and 2019, respectively. The decrease in net income during this period was due primarily to the COVID-19 impact described above as partially offset by the growth of our recurring revenue business and implementation of cost-reduction measures.

Our Products and Services

The Company’s products and services are comprised of the following:

- Alarm Lock standalone and networked digital door locks
- Marks USA standard and custom Locksets, Panic Devices and Door Closers
- NAPCO Gemini intrusion alarm equipment
- NAPCO StarLink and FireLink cellular communication devices and services
- NAPCO iSecure integrated cellular intrusion alarm systems
- Continental Access door controllers and hosted services for access control

Door Security Products.

The Company manufactures a variety of door locking devices including microprocessor-based electronic door locks with push button, card reader and biometric 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 cellular or digital communicator may be used to transmit the alarm signal to a central station or another person selected by a customer. Cellular communicators have become more popular and panels and communicators are trending towards integration so that many alarm panels will contain an integrated cellular communication device.

The Company manufactures and markets the following products for these 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.
- *Cellular communication devices.* A cellular communication device connects to the communicator and is used in lieu of, or in addition to, a landline for communicating with a central monitoring station.
- *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.

Cellular communication services.

The Company provides cellular access for the cellular communication devices described above. These services are provided and invoiced on a month to month basis. Revenues from services have grown significantly over the past several years, increasing 100% from fiscal 2018 to fiscal 2020. These revenues, which currently have a gross margin of approximately 82% as of June 30, 2020, represent approximately 24% of our total revenue as of June 30, 2020. The Company’s long-term goal is to have recurring revenues from services to represent at least 50% of total revenue.

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.

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.

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.

Peripheral Equipment

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

Our Growth Drivers

Recurring Revenue Business

In 2012, we began to generate recurring revenue by developing our ground-breaking cellular radio technology. Since then, we have continued to introduce additional products generating recurring revenues, primarily in the cellular communication devices such as our StarLink, iBridge, and more recently the iSecure product lines. These products are installed at the premises of end customers and we generate revenue by not only upfront purchase of our products, but also monthly subscription fees for services we perform at our cloud-based operations center to monitor security breaches and fire alarms. The monthly recurring revenue allows us to generate a more consistent and predictable stream of income and mitigates the risk of fluctuation in market demand. In addition, these products tend to generate higher gross margin, which has the effect of improving our profitability. We believe there is a significant market opportunity for these products and services, because many commercial and residential customers prefer to purchase real-time security monitoring services to ensure continuous protection and swift responses to security breaches and fire alarms.

We also experienced accelerating growth in our recurring revenue from sales of fire radio products. In the past few years, we introduced several Starlink fire radio solutions, including a Starlink dual path radio that can utilize cellular or internet. Dual path radios are required in certain areas such as New York City or L.A. County. A third fire radio was introduced approximately 18 months ago in the form of a Firelink fire panel with a Starlink fire radio built into it. In general, the gross margin for fire radio products is higher than the other Starlink solutions. The sales of fire radio products have contributed positively to our gross margin during the fiscal year ended June 30, 2020. We expect that fire radio products will continue to be an increasing portion of the overall mix of our recurring revenue and positively impact our gross margin.

We intend to continue pursuing recurring revenue opportunities by developing new and innovative products and implementing aggressive and effective sales and marketing effort. As of June 30, 2020, our recurring revenue constituted approximately 24% of our total revenue, and our strategy is to increase the percentage of our recurring revenue versus total revenue in the foreseeable future.

School Security and Public Safety

The recent growth of our business is partly driven by the significant need for increased security in schools and other public spaces. In the U.S., there are over 100,000 K-12 schools, over 10,000 colleges and universities and over 350,000 houses of worship. Less than 10% of these institutions have adequate protection from an active shooter or intruder. As a result of increased "active shooter" incidents, a number of U.S. states and local governments have substantially increased school security budgets. Many colleges and universities have large endowments which are starting to be utilized to address this critical issue. Security equipment and services focused on education has reached over \$3 billion in revenues and this segment is still in the early stages as many K-12 schools, colleges and universities have still not addressed this issue.

With a full suite of products and solutions, we believe we are well positioned to meet the security needs of schools, houses of worship, and other places where people congregate. Depending on the needs of the school and their budget, the Company offers (i) Standalone LocDown locks which can be operated by a teacher, (ii) a series of Networx standalone wireless locks which communicate with central controls, or (iii) enterprise-class access control with cellular connectivity, which allows the head of security to lock down all or part of the campus, including dorm rooms, classrooms and administrative offices, from a centralized office.

The Company has had several significant wins in school security contracts, including the Houston Independent School District, which is the largest school district in Texas and the seventh largest in the U.S. On this project the Company implemented its Enterprise-wide security solution via its Continental Access control with intrusion, video and alarm communicators. Another example is Pepperdine University in Malibu, California, where the Company provided a lockdown system in place for its over 1,700 dorm rooms that required both locking and access control technologies. We were chosen because we were the only security company that has both locking and access control technologies that work on the same platform and met the needs of the university.

Competitive Strengths

The security products industry is highly competitive. The Company's primary competitors are comprised of approximately 12 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that not one of these competitors is dominant in the industry. Most of these companies have substantially greater financial and other resources than the Company. However, unlike the Company, we believe that none of these competitors manufactures all key building security verticals: Intrusion Alarms and Access Control, Connectivity, and Locking devices. As more and more security installations include multiple verticals, the various systems need to communicate with each other. By having everything manufactured under one roof, we can offer customers one integrated platform solution without the risk of incompatible equipment from multiple vendors to "talk" to each other. Furthermore, many of our distributors, customers, and dealers prefer a single source of supply with more consistency in quality, pricing and timely shipment of products. In addition, we believe our competitors will face substantial challenges and barriers to duplicate or establish similar integrated offerings for all of these key markets.

We also have a manufacturing facility located in the Dominican Republic ("D.R.") that manufactures over 90% of our products. It is located in a free zone which is a tax-advantaged location. The Company also benefits from the lower tariffs available to it under The Dominican Republic-Central America FTA (CAFTA-DR). The D.R. manufacturing operation is vertically integrated and operates in a low-cost location, where the typical labor cost is approximately one-tenth (1/10) of the cost for similar services in the U.S. The D.R. facility allows us to maintain a lower manufacturing overhead and improve our gross margin. This facility is currently running one shift, plus a second shift on select products with the ability to run 3 full shifts. Additional staffing is readily available for future expansion. The approximate annual revenue that can be generated per shift is approximately \$100 million. The building is a self-contained "concrete bunker" with ability to withstand Category 5 hurricanes. Both locations contain enough land to build additional space; 180,000 square feet of additional manufacturing space in the D.R., and approximately 100,000 square feet of office and warehousing space in Amityville, should the need arise. The Company has multiple transportation options between the D.R. and Amityville facilities. Shipping times from the D.R. to the Amityville facility are typically 6-8 days.

We perform our managerial and administrative activities in the U.S. in our facility located in Amityville, New York, which is 100,000 square feet and serves as Company's headquarters, containing its corporate offices, research and development, design, sales administration, technical services, finance, procurement, manufacturing control, warehousing, and shipping operations. We believe that our ability to provide timely and effective technical support and services to our U.S. customers from our U.S. facility in Amityville is an advantage over other companies in the security industry that have moved customer service functions overseas to countries such as India and Philippines. Our dealers and customers rely substantially on the ability to communicate real-time to experts who can provide clear and understandable advice and instruction, because they are usually dealing with highly technical problems on a job site with little time to spare.

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 Strategy

Due to paradigm changes in the security marketplace, the Company's focus has been on mandatory (non-elective) systems, such as fire systems with central station monitoring in commercial buildings, and IoT-driven connectivity services in high growth and margin categories. As copper land lines are phased out and more people switch to cellular phone service for their homes, our cellular communication services become increasingly attractive in these installations, both new and existing. We have built a strong competitive position by developing a wide range of software capabilities from embedded micro-coding to enterprise system software, database design, mobile applications development, user portal design, mechanical and electronic mechanisms and telecommunications, featuring our significant radio and cellular communications expertise. This has enabled us to create recurring revenue opportunities across product lines, and we intend to expand such opportunities to generate recurring revenue that account for over 50% of our total revenue and to sustain profitability from recurring accounts receivable margins of 80%. We are also focusing on security solutions for the healthcare industry, including anti-ligature lockets designed for life safety and liability reduction in hospitals, behavior health institutions and correctional facilities, and such products are highly profitable while complying with applicable regulatory and health standards. We believe that these accomplishments are possible due to our advanced set of in-house engineering technology capability from mechanical to electronic and electro-mechanical products, digital, microprocessor and analog circuit design, networking products, and wireless and cellular communications electronics.

Research and Development

The success of the Company's business depends substantially on its ability to develop new and proprietary technology and products. The research and development ("R&D") costs incurred by the Company are charged to expense as incurred and are included in "Operating expenses" in the consolidated statements of operations. During the fiscal years ended June 30, 2020 and 2019, the Company expended approximately \$7,257,000 and \$7,212,000, respectively, on 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, 2020, the Company had 1,161 full-time employees.

Marketing

The Company's staff of approximately 62 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 52%, and 57% of the Company's total sales for the fiscal years ended June 30, 2020 and 2019, respectively. The remaining revenues are primarily from installers and governmental institutions. The Company currently has approximately 12,000 customers made up of distributors, installing dealers and wholesalers who purchase our products from distributors or directly from the Company. 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.

Seasonality

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 for our products 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. A majority of purchased components are sourced from U.S. and Asian suppliers and are typically shipped directly to the D.R. The Company for the most part is not dependent on any one source for its raw materials. The Company believes that any vendor that is currently the sole source of a component can be replaced without a material impact on the Company.

Corporate Information and History

The Company was founded in 1969 and incorporated as NAPCO in December 1971 in the State of Delaware. NAPCO went public on NASDAQ with the ticker symbol "NSSC", in 1972.

In 1987, the Company acquired a locking company, Alarm Lock Systems, the first of its three acquisitions. In 1990, the Company began the process of moving most of its manufacturing operations offshore. After studying various options, the D.R. was chosen as it is relatively close to our headquarters (three and half hours by plane), is in the same time zone, has a relatively stable political and economic situation and is a low cost manufacturing environment. In 1995, the Company built a state-of-the-art 180,000 square foot facility in the D.R., and we continued to improve and upgrade the facility's manufacturing capability by utilizing and acquiring the latest technology and equipment. In 2000, the Company made another acquisition, acquiring an access control company, Continental Instruments. In 2008, the Company acquired another locking company, Marks USA.

Our executive offices are located at 333 Bayview Ave, Amityville NY 11701. Our telephone number is (631) 842-9400.

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) on the same day they are electronically filed with the Securities and Exchange Commission. The Company has one class of Common Stock which trades on the NASDAQ Global Market under the symbol "NSSC".

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 operation and financial performance are adversely affected by the COVID-19 pandemic and related events.

We are subject to risks related to the global pandemic associated with the COVID-19 disease, which has spread globally to the U.S. and other countries where we have operations, including the Dominican Republic. Numerous federal and state governmental jurisdictions have imposed "stay-at-home" orders, quarantines, travel bans and similar governmental orders and restrictions to control the spread of COVID-19. Such orders or restrictions have resulted in business closures, work stoppages, slowdowns and delays in commercial activities, unprecedented and widespread unemployment, disruptions to ports and other shipping infrastructure, border closures, and other travel or health-related restrictions, thereby negatively impacting our customers, suppliers, distributors, employees, offices, and the industry in which we operate.

As a result of the COVID-19 pandemic and the related economic downturn, we have experienced a decline in the demand for our products, as our distributors and customers reduced orders and adjusted their inventory channel in response to slowdown in spending and demand for security products. A prolonged stay-at-home order, or any other continued decrease in economic activity as a result of COVID-19 pandemic, would have a negative adverse impact on our customers and their financial condition, which could impact their ability to meet their financial obligations and could result in elevated levels of delinquencies and bad debt losses. In addition, we rely upon our third-party vendors to provide parts and materials for us to produce our products. If any of these vendors are unable to continue to provide us with these parts and materials, it could negatively impact our ability to serve our customers. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of COVID-19 pandemic in areas where we operate.

We manufacture substantially all of products in our factory in Dominican Republic, which are then shipped to us in the United States for further distribution. The government authorities in Dominican Republic have imposed curfews and restrictions as a result of the pandemic that impacted activities at the factory, which may reduce our productivity and output. Additional restrictions and limitation on international travel and transportation, including air travel, may make it more difficult for us to ship and transport products from Dominican Republic to the U.S., which may cause delays and disruptions in our supply chain.

Moreover, if we determine that intangible assets are not realizable as a result of the COVID-19 pandemic, we may be required to write down these assets or incur impairment charge under current accounting standards, which would have a negative effect on our consolidated financial statements. The continuing adverse economic conditions in the U.S. due to the pandemic have and may continue to reduce revenues associated with our intangible assets, including assets acquired in our prior acquisitions, and result in a reduction of future expected cash flows. Such a reduction could result in significant impairment charges to adjust the carrying value of the intangible assets.

The impact of the COVID-19 pandemic remains highly uncertain and subject to change. We cannot predict when the pandemic will end and when related governmental orders and restrictions will be eased or lifted, and any extension or prolonged implementation of these restrictions will further adversely affect our business, customers and financial results. Even after such orders and restrictions are eased or lifted, the severe economic harm and recession inflicted upon the jurisdictions and areas in which we operate may last for an extended period of time and continue to adversely affect our business and financial performance, and there is no guarantee that we will be able to act quickly and effectively to return to our normal operations.

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 any of these 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.

During weak economic times, the available pool of independent distributors, dealers and installers of security equipment may decline as the prospects for home building and home renovation projects diminish, which may have a corresponding impact on our growth prospects. In addition, there is an increased risk during these periods that an increased percentage of independent distributors, dealers and installers of security equipment will file for bankruptcy protection, which may harm our reputation, revenue, profitability and results of operations.

The markets we serve are highly competitive and we may be unable to compete effectively.

We compete with approximately 12 other companies that manufacture and market security equipment to distributors, dealers, control stations and original equipment manufacturers in the U.S. Most 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, as well as technical support services to its customers. 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 may also 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. Our industry 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. We have historically invested approximately 6% to 8% of annual revenues on R&D to mitigate this risk. However, many of our competitors have dedicated more resources and capabilities to R&D, including committing more engineers and capital expenditures, to develop and design new product that may enter the markets sooner or with more penetration. 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.

We may not be able to maintain or control our expenses proportionate to our sales volumes to generate profit for our business.

Certain of our expenses are fixed or semi-variable, including our costs for operating our manufacturing facilities. 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 reduce expenses proportionately, our business may be adversely affected. The amount of our operating expenses are subject to variables and factors that may not be within our control, including but are not limited to, unexpected expenses relating to the manufacturing of products; increased compensation requirement for our employees and cost of raw materials. A significant portion of our expense is labor cost, including costs for workers who are operating our facility in the Dominican Republic. While we have been able to control our expenses due to the lower labor costs in the Dominican Republic, there is no guarantee that such costs will not increase in the future, or that sufficient number of workers in Dominican Republic will be available to operate the facility efficiently, and our failure to maintain effective labor costs may adversely affect our results of operations.

Our business could be 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. The sales of our security products tend to increase during period in which new housing and commercial real estate constructions are increasing. If these conditions deteriorate, resulting in declines in new housing or commercial building constructions, 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. The condition of the residential and commercial building markets in which we operate is cyclical and depends on the condition of the economy in the United States, and on the perceptions of investors of the overall economic outlook. Rising interest rates, declining employment levels, declining demand for real estate, declining real estate values or periods of general economic slowdown or recession or the perception that any of these events may occur have negatively impacted the real estate market in the past and may in the future negatively impact our ability to sell products and generate new revenue sources.

We may not be able to grow our recurring revenue business to generate consistent revenue and profitability.

A significant driver of our growth is our recurring revenue business in which customers who purchased our products and equipment are required to pay monthly fees for communications services to maintain the operation of such products. Our recurring revenue products, such as StarLink, iSecure and iBridge, tend to generate higher gross margin and are less susceptible to volatility of market demand and economic conditions. However, our revenue recurring business is relatively new and we have limited experience in developing, marketing and selling such products. We also face intense competition where other companies with greater resources and experience have established a wider and more entrenched customer base for similar products and services, making it more difficult for us to penetrate into such market. In addition, we are required to incur costs to maintain a network operations center to provide customer support and services, and to comply with federal and state regulations governing the operation and communications of these products. Such costs may reduce our profitability if we are not able to grow and expand the recurring revenue business. As we are increasingly dependent on recurring revenue products as a driver for growth, our failure to execute our strategy for this business line will materially adversely affect our financial conditions and prospects.

We may not be able to sustain and continue the growth of school security products.

We recently experienced significant growth of demand for our security products from schools, universities and other educational institutions as a result of the national focus on prevention of school violence. Federal and state governmental authorities have proposed and enacted numerous legislation and laws, including the School Violence Prevention and Mitigation Act of 2019 that provide increased funding to public schools to implement and enhance security systems. While our business has benefited from such additional federal and state funding and increased demand, there is no guarantee that such funding and trend will continue. For example, if school shutdown continues as a result of the COVID-19 pandemic and various stay-at-home orders imposed by state governments, there could be a reduced need for schools to acquire and implement security systems, and state and federal government may also decide to reduce funding or impose additional criteria for funding. These factors may result in a decline of demand for our school security products which in turn may adversely affect our financial performance.

We rely on distributors to sell our products and an adverse change in our relationship with such distributors may adversely affect our financial performance.

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 or reduce their effort to market and sell our products as effectively or to devote resources necessary to provide effective sales, which would adversely affect our financial performance. In addition, our distributors order our products and maintain their inventory based on forecasts of potential demands from dealers and end customers, and our distributors may not be able to forecast such demand accurately, which may adversely affect our ability to generate sales and revenue in a timely manner. In some cases, distributors may delay ordering our products until they receive confirmation of orders from dealers and end customers, and this delay may cause disruption and make it more difficult for us to fill their order timely and effectively, which may adversely affect our revenue and sales.

The financial health of our distributors and wholesalers and our continuing relationships with them are important to our success. Some of these distributors and wholesalers, particularly smaller firms with limited working capital and resources, may not be able to withstand adverse changes in business conditions or mitigate the negative impact of a prolonged economic downturn or recession, including the impact of the COVID-19 pandemic. The failure of our distributors to maintain financial health and success will impact our ability to generate revenues. Furthermore, our relationship with distributors may change or terminate due to other factors beyond our control, including but are not limited to, acquisition of distributors by third parties may not be willing to continue the relationship with us; internal restructuring or refocus of business strategies; and changes in management, all of which may negatively impact our ability to continue to sell to such distributors. Finally, we generally do not have long-term agreements with distributors who purchase our products primarily through purchase orders. Without an agreement, we are not able to guarantee that such distributors will not discontinue or terminate relationship with us at any time, and any loss of distributor will negatively impact our financial conditions and results of operations.

We may not be able to gain widespread or timely market acceptance of our new products and continue to build and enhance our brand to achieve growth.

We rely on introduction of new products and services to penetrate new markets and identify additional sources of revenues order to grow our business. However, many of our distributors and customers may not be willing to change or switch to new products and equipment, or may require an extended period time to assess, test and evaluate functionalities and performance of our new products. Any delays in establishing widespread acceptance of our new products may adversely affect our financial performance and growth. In order to ensure market acceptance of new products, we have incurred and expect to incur significant expenses in sales and marketing campaign, and we may not be able to justify such costs if the effort does not produce sufficient sales and customer accounts.

We believe that building and maintaining market awareness, brand recognition and goodwill of our business and products in a cost-effective manner is important to our overall success in achieving widespread acceptance of our existing and future products and is an important element in attracting new customers. An important part of our business strategy is to increase awareness of our brand and to provide marketing leadership, services and support to our distributor and customer network. While we may choose to engage in a broader marketing campaign to further promote our brand, this effort may not be successful. Our efforts in developing our brand may be hindered by the marketing efforts of our competitors and our reliance on our third parties to promote our brand. If we are unable to cost-effectively maintain and increase awareness of our brand, our business, financial condition, cash flows and results of operations could be harmed.

Our financial results could be materially adversely affected as a result of offering extended payment terms to customers or if we are not able to collect our accounts receivables on a timely basis from major customers.

We regularly grant credit terms beyond 30 days to certain distributors and customers primarily in an effort to keep a full line of our products in-stock at our customers' locations. The longer the terms that are granted, the more risk is inherent in the collection of those receivables. We cannot guarantee that distributors and customers will be able to make payments on a timely basis even after a thorough review of their credit and financial history. The ability of distributors and customers to make such payments may be subject to factors beyond our control, including their financial conditions and business operation. We may also incur additional costs and effort to collect past due receivables without assurance that a sufficient or any amount of bad debt can be collected.

We sell security products and systems and if our solutions fail for any reason, we could be subject to liability and our business could suffer.

We sell security products and services, which are designed to secure the safety of our customer and their commercial, residential, institutional, industrial or governmental properties. Our products and services may contain undetected defects in the software, infrastructure, third-party components or processes. If these solutions fail for any reason, including due to defects in our hardware, software, a carrier outage or user error, we could be subject to liability for such failures and our business could suffer. In addition, our products and systems are not installed by us, and if third parties do not install or maintain our products correctly, our products and systems may not function properly. If the improper installation or maintenance of our products and systems leads to service or equipment failures after introduction of, or an upgrade to, our products and systems, we could experience harm to our branded reputation, claims by our customers or installers or lost revenue during the period required to address the cause of the problem. Any defect in, or disruption to, our products and systems could cause consumers not to purchase additional products or systems from us, prevent potential consumers from purchasing our products and systems or harm our reputation.

We are subject to risks relating to the operation of a manufacturing facility in Dominican Republic.

We operate a manufacturing facility in Dominican Republic where the majority of our products is made and shipped to our U.S. distributors. The facility requires us to incur certain fixed operating costs that do not fluctuate with changes in production levels or utilization of our manufacturing capacity. If production levels decline due to lower demand or reduced customer orders, our fixed costs are spread over reduced levels, which may contribute to decreasing margins and reduced profitability. Operation of a manufacturing facility also subjects us to certain additional risks, including but not limited to the following:

- Unavailability of workers or insufficient workforce to operate the factory;
- Compliance with local regulatory requirements, including labor laws and tax requirements;
- Difficulties in communication and coordination with U.S. headquarters;
- Natural disasters such as hurricanes which may damage our factory; and
- Effect of general political and economic conditions of the Dominican Republic.

The occurrence of any of these factors may adversely affect the production output and operation of our factory, which will disrupt our supply chain and negatively impact our financial performance. Furthermore, we have not identified any alternative third-party factory that can manufacture our products; therefore it would be difficult for us to replace any loss of output of capacity if our factory in Dominican Republic is not functioning properly or at all.

Our business could be materially adversely affected by a weakening of the U.S. 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 conducts certain transactions 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. For example, if the U.S. dollars weakens and the currency exchange rate is less favorable, it may be more costly for us to pay expenses for our factory in the Dominican Republic, which may adversely affect our financial conditions and results of operations.

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 expense. 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 withholding taxes.

Our failure to maintain the security of our information and technology networks could adversely affect us.

We are dependent on information technology networks and systems, including the Internet, to process, transmit and store electronic information and, in the normal course of our business, we collect and retain certain information pertaining to our distributors, customers, partners and employees, including personal information. If security breaches in connection with the delivery of our solutions allow unauthorized third parties to access any of this data or obtain control of our systems, our reputation, business, financial condition, cash flows and results of operations could be harmed.

The legal, regulatory and contractual environment surrounding information security, privacy and credit card fraud is constantly evolving and companies that collect and retain such information are under increasing attack by cyber-criminals around the world. Further, as the regulatory focus on privacy issues continues to increase and worldwide laws and regulations concerning the protection of data and personal information expand and become more complex, these potential risks to our business will intensify. A significant actual or potential theft, loss, fraudulent use or misuse of distributors, customers, employee or other personally identifiable data, whether by third parties or as a result of employee malfeasance or otherwise, non-compliance with our contractual or other legal obligations regarding such data or a violation of our privacy and security policies with respect to such data could result in loss of confidential information, damage to our reputation, early termination of our business relationships, litigation, regulatory investigations or actions and other liabilities or actions against us, including significant fines by U.S. federal and state authorities, and other countries and private claims by companies and individuals for violation of data privacy and security regulations.

In addition, cyber-attacks from computer hackers and cyber criminals and other malicious Internet-based activity continue to increase generally, and perpetrators of cyber-attacks may be able to develop and deploy viruses, worms, ransomware, malware, DNS attacks, wireless network attacks, attacks on our cloud networks, phishing attempts, social engineering attempts, distributed denial of service attacks and other advanced persistent threats or malicious software programs that attack our products and services, our networks and network endpoints or otherwise exploit any security vulnerabilities of our products, services and networks. Techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures. We cannot be certain that advances in cyber-capabilities or other developments will not compromise or breach the technology protecting the networks that access our platforms and solutions, and we can make no assurance that we will be able to detect, prevent, timely and adequately address or mitigate the negative effects of cyber-attacks or other security breaches. If any one of these risks materializes, our business, financial condition, cash flows or results of operations could be materially and adversely affected.

We rely on the effort and service of Richard L. Soloway, our founder, Chief Executive Officer and major stockholder.

The success of the Company is largely dependent on the effort and service of Richard L. Soloway, who is our founder, President, Chief Executive Officer, Chairman of the Board and a major stockholder. We depend on Mr. Soloway on various aspects of our business operation, including his experience and knowledge in the industry, extensive relationships with distributors and customers, and his leadership to develop and implement business strategies. The loss or reduction of services by Mr. Soloway could have a material adverse effect on the Company's business and prospects.

Our business could be materially adversely affected as a result of the inability to maintain adequate financing.

While our business is currently solely dependent on cash-flows from operations to fund operations and capital expenditures we have an unused credit facility in the event that we need to supplement current cash-flows with outside financing. The credit facility provides for 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 and we require outside financing, 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.

We are obligated to develop and maintain a system of effective internal controls over financial reporting. These internal controls may be determined to be not effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We have been and are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective and would be required to disclose any material weaknesses identified in Management's Report on Internal Control over Financial Reporting. While we have established certain procedures and control over our financial reporting processes, we cannot assure you that these efforts will prevent restatements of our financial statements in the future.

Our independent registered public accounting firm is also required, pursuant to Section 404 of the Sarbanes-Oxley Act, to report on the effectiveness of our internal control over financial reporting. For future reporting periods, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion.

If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion that our internal controls over financial reporting are effective, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

Risks Related to Ownership of Our Common Stock

Sales of a substantial number of shares of our common stock in the public market could cause our market price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, particularly sales by our directors, executive officers, and significant stockholders, may have on the prevailing market price of our common stock. Additionally, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors and subject to the restrictions on paying dividends in our Revolving Credit Facility which expires in June 2021 and any future indebtedness. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Mr. Soloway, members of management and certain directors own a significant portion of our outstanding voting stock and exert significant influence over our business and affairs.

Richard L. Soloway, our Chief Executive Officer, members of management and our board of directors (“Board”) beneficially own approximately 36% of our common stock. Their significant ownership will, for the foreseeable future, enable them to control our management and affairs, and most matters requiring stockholder approval, including the election of directors, financing activities, a merger or sale of our assets and other significant corporate transactions. They may, in their discretion, elect to exercise these or similar rights at any time. Furthermore, the Company has established a staggered Board where the election of only one class of directors can be held at each annual meeting. This concentration of ownership, as well as a staggered or classified Board, could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could materially adversely affect our stock price and may prevent attempts by our stockholders to replace or remove our Board or management. The Company filed a Registration Statement on Form S-3 pursuant to which Mr. Soloway may sell up to 2,568,032 shares over the next three years. If all such shares are sold, members of management and our Board will continue to beneficially own approximately 22% of our common stock and will likely to continue to be able exert the control described above.

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 building of approximately 95,000 square foot 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., owns a building of approximately 180,000 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, 2020, 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. The Company is party to an IRS proceeding described under Income Taxes and in Note 6 to the consolidated financial statements.

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.

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 10, 2020 was 71 (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.

Equity Compensation Plan Information as of June 30, 2020

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:	178,240	\$ 19.53	781,960 (1)
Equity compensation plans not approved by security holders:	—	—	—
Total	178,240	\$ 19.53	781,960 (1)

- (1) In May 2020, the stockholders approved the 2020 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. In December 2018, the stockholders approved the 2018 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. 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.

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				
	2020 (5)	2019 (4)	2018	2017	2016
(In thousands, except share and per share data)					
Statement of earnings data:					
Net Sales	\$ 101,359	\$ 102,932	\$ 91,746	\$ 87,374	\$ 82,513
Gross Profit (3)	43,592	43,890	37,995	36,301	33,753
Income from Operations	10,813	13,466	8,414	6,378	6,323
Net Income	8,520	12,223	7,649	5,599	5,773
Cash Flow Data:					
Net cash flows provided by operating activities	10,305	8,653	7,864	2,448	9,160
Net cash flows used in investing activities	(1,615)	(1,988)	(1,280)	(1,414)	(693)
Net cash flows provided by (used in) financing activities	1,530	(3,945)	(4,730)	(1,385)	(7,008)
Per Share Data:					
Net earnings per common share:					
Basic	\$ 0.46	\$ 0.66	\$ 0.41	\$ 0.30	\$ 0.31
Diluted	\$ 0.46	\$ 0.66	\$ 0.41	\$ 0.30	\$ 0.31
Weighted average common shares outstanding:					
Basic	18,444,000	18,574,000	18,788,000	18,809,000	18,874,000
Diluted	18,493,000	18,624,000	18,825,000	18,854,000	18,894,000
Cash Dividends declared per common share (1)	\$.00	\$.00	\$.00	\$.00	\$.00
Balance sheet data:					
Working capital (2)	\$ 61,046	\$ 51,083	\$ 44,301	\$ 40,798	\$ 36,888
Total assets	105,838	85,908	73,269	70,862	64,769
Long-term debt	2,110	--	--	3,500	4,500
Stockholders' equity	77,901	71,172	63,453	56,889	51,273

(1) The Company has never paid a cash dividend on its common stock.

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

(3) Prior period balances have been reclassified to conform to the current period presentation.

(4) Accounting Standards Update ("ASU") No. 2014-09 was adopted on July 1, 2018, which resulted in an increase in sales allowance reserves (i.e. refund liabilities) by a net of \$1,627,000 and increase in other assets (i.e. return related assets) by a net of \$716,000. See Footnote 2 to the consolidated financial statements.

(5) ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02) was adopted on July 1, 2019. Adoption of the new standard resulted in the recording of an operating ROU asset and lease liabilities of approximately \$7.7 million. See Footnote 11 to the consolidated financial statements.

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

Overview

NAPCO is one of the leading manufacturers and designers of high-tech electronic security devices, as well as a leading provider of school safety solutions. We offer a diversified array of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products. 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. We have experienced significant growth in recent years, primarily driven by fast growing recurring service revenues generated from wireless communication services for intrusion and fire alarm systems, as well as our school security products that are designed to meet the increasing needs to enhance school security as a result of on-campus shooting and violence in the U.S.

Since 1969, NAPCO has established a heritage and proven record in the professional security community for reliably delivering both advanced technology and high quality security solutions, building many of the industry's best-known brands, such as NAPCO Security Systems, Alarm Lock, Continental Access, Marks USA, and other popular product lines: including Gemini and F64-Series hardwire/wireless intrusion systems and iSee Video internet video solutions. We are also dedicated to developing innovative technology and producing the next generation of reliable security solutions that utilize remote communications and wireless networks, including our StarLink, iBridge, and more recently the iSecure product lines. Today, millions of businesses, institutions, homes, and people around the globe are protected by products from the NAPCO Group of Companies.

Our net sales were \$101.4 million and \$102.9 million for the fiscal years ended June 30, 2020 and 2019, respectively. The changes of our net sales during these periods were driven primarily by increased sales of our products in the recurring revenue business as offset by a 34% decrease in sales of hardware in the fourth quarter of fiscal 2020 as compared to the same period a year ago. This decrease was due primarily to the economic effects of the COVID-19 pandemic and the related closures mandated by federal and state governments. Our net income was \$8.5 million and \$12.2 million for the fiscal years ended June 30, 2020 and 2019, respectively. The decrease in net income during this period was due primarily to the COVID-19 impact described above as partially offset by the growth of our recurring revenue business, implementation of cost-reduction measures.

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 fixed and semi-variable expenses becoming 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 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 for our products is affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend.

Our fourth quarter of fiscal 2020 reflects the challenging business environment resulting from the COVID-19 pandemic. The COVID-19 pandemic has caused difficulties for security equipment professionals getting access to both commercial and residential installation sites. The Company believes this access issue is an industry-wide issue related to COVID-19 and not reflective of the loss of any market share unique to the Company or any long-term negative reflection of the post-pandemic vibrancy of the security industry as a whole.

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 2020 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.

Net Sales

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door security products, intrusion and fire alarm systems, alarm communication services, and video surveillance products for commercial and residential use. The Company also provides wireless communication service for intrusion and fire alarm systems on a monthly basis. 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. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

For product sales the Company typically transfers control at a point in time upon shipment or delivery of the product. For monthly communication services the Company satisfies its performance obligation as the services are rendered and therefore recognizes revenue over the monthly period.

Typically timing of revenue recognition coincides with the timing of invoicing to the customers, at which time the Company has an unconditional right to consideration. As such, the Company typically records a receivable when revenue is recognized.

The contract with the customer states the final terms of the sale, including the description, quantity, and price of each product purchased. Payment for product sales is typically due within 30 and 180 days of the delivery date. Payment for monthly communication services is billed on a monthly basis and is typically due at the beginning of the month of service.

The Company provides limited standard warranty for defective products, usually for a period of 24 to 36 months. The Company accepts returns for such defective products as well as for other limited circumstances. The Company also provides rebates to customers for meeting specified purchasing targets and other coupons or credits in limited circumstances. The Company establishes reserves for the estimated returns, rebates and credits and measures such variable consideration based on the expected value method using an analysis of historical data. Changes to the estimated variable consideration in subsequent periods are not material.

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 9% and 8% for the fiscal years ended June 30, 2020 and 2019, respectively.

Concentration of Credit Risk

An entity is more vulnerable to concentrations of credit risk if it is exposed to risk of loss greater than it would have had 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 24% and 19% of the Company's accounts receivable at June 30, 2020 and 2019, respectively. Sales to this customer did not exceed 10% of net sales during fiscal year ended June 30, 2020. Sales to this customer comprised 10% of net sales during fiscal year ended June 30, 2019. The Company had another customer with an accounts receivable balance that comprised 10% of the Company's accounts receivable at June 30, 2020. Sales to this customer did not exceed 10% of net sales in either of the fiscal years ended June 30, 2020 and 2019. The Company had another customer with an accounts receivable balance that comprised 10% of the Company's accounts receivable at June 30, 2019. Sales to this customer did not exceed 10% of net sales in either of the fiscal years ended June 30, 2020 and 2019.

In the ordinary course of business, we have established a reserve for doubtful accounts and customer deductions in the amount of \$326,000 and \$88,000 as of June 30, 2020 and 2019, 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 net realizable 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 realizable 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

Impairment of Long-lived Assets – The Company reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future net undiscounted cash flows expected to be generated by the asset group. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of June 30, 2020 and 2019, the Company has determined that no impairment of long-lived assets exists.

The Company evaluates its indefinite-lived 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 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. The Company has concluded that no impairment of intangible assets occurred during the year ended June 30, 2019. During the 4th quarter of fiscal 2020, the Company determined that its indefinite-lived intangible asset relating to its Marks USA I subsidiary trade-name was impaired. Accordingly, the Company recorded an impairment charge of \$1,852,000 and as a result concluded that the asset no longer was considered to have an indefinite-life and reclassified the remaining balance of the underlying asset from indefinite-lived to a long-lived asset with a remaining useful life of 20 years as of June 30, 2020.

Income Taxes

The Company has identified the United States and New York State as its major tax jurisdictions. Fiscal year 2017 is currently under audit by the Internal Revenue Service (“IRS”). Fiscal year 2018 and forward years are still open for examination. In addition, the Company has a wholly-owned subsidiary which operates in a Free Zone in the Dominican Republic (“DR”) and is exempt from DR income tax.

The Company was audited by the IRS for the fiscal year 2016. In July 2019, the Company received Form 4549-A, Income Tax Examination Changes from the IRS proposing an adjustment to income for the fiscal 2016 tax year regarding deemed dividends based on its interpretation of Internal Revenue Code (“IRC”) Section 956 arising from the intercompany balances on the books of the Company. In August 2019, the Company filed a formal protest with the IRS requesting an opportunity to appeal the examination findings to the Appeals Office. During fiscal year 2020, the Company settled the issue at Appeals. There is a provision booked for the federal and state impact of \$762,000 and \$70,000, respectively.

The Company is currently under audit for the fiscal year 2017. The IRS has raised the IRC Section 956 issue that was settled during the fiscal year 2016 audit. The Company strongly believes that the position of the IRS with regard to this matter is inconsistent with the provisions of IRC Section 956 and that the Company is willing to go to court, if necessary to argue its position. During fiscal 2020, a provision for the incremental tax liability of \$657,000 and interest of 66,000 was recorded for the 2017 and 2018 fiscal years.

For the year ended June 30, 2020, the Company recognized a net income tax expense of \$2,284,000. During the year ending June 30, 2020 the Company increased its reserve for uncertain income tax positions by \$824,000. 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, 2020, the Company had accrued interest totaling \$83,000 and \$866,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company’s effective income tax rate in any future period. The Company claims research and development (“R&D”) tax credits on eligible research and development expenditures. The R&D 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. 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.

Leases

Effective July 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition option of applying the new standard at the adoption date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Adoption of the new standard resulted in the recording of an operating ROU asset and lease liabilities of approximately \$7.7 million. Given the length of the lease term, the right-of-use asset and corresponding liability assume a weighted discount rate as disclosed below. A change in the rate utilized could have a material effect on the amounts reported. Financial positions for reporting periods beginning on or after July 1, 2019 are presented under new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance.

Liquidity and Capital Resources

The Company's cash on hand as of June 30, 2020 combined with proceeds from operating activities during fiscal 2020 were adequate to meet the Company's capital expenditure and financing needs during fiscal 2020. 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 2021. As of June 30, 2020, \$0 was outstanding under this revolving line of credit. The Company has not drawn on this line of credit since June of 2018. In the fourth quarter of fiscal 2020 the Company applied for and received a loan of \$3,904,000 under the Federal government's Payroll Protection Program ("PPP") administered by the U.S. Small Business Administration ("SBA"). Pursuant to the CARES Act, the loan may be forgiven by the SBA. The Company anticipates applying for forgiveness of these loans during fiscal 2021. The amount of loan forgiveness is determined by and is subject to the sole approval of the SBA. As of June 30, 2020, the Company's unused sources of funds consisted principally of \$18,248,000 in cash and cash equivalents and \$11,000,000 unused balance available under its revolving line of credit.

The Revolving Credit Facility 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 restated agreement.

During the year ended June 30, 2020, the Company utilized a portion of its cash on hand at June 30, 2019 (\$4,069,000 of \$8,028,000) to repurchase outstanding shares of its stock (\$2,454,000) and purchase property, plant and equipment (\$1,615,000).

As of June 30, 2020, the Company's primary outside source of financing consisted of the Revolving Credit Facility of \$11,000,000 which expires in June 2021 and the PPP loans which expire in April and May of 2022. As of June 30, 2020 and 2019, there were no outstanding balances under the Revolving Credit Facility and \$3,904,000 was outstanding under the PPP loans. These facilities are described more fully in Note 7 to the consolidated financial statements.

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,	
	2020	2019
Current Ratio	4.5 to 1	4.6 to 1
Sales to Receivables	4.4 to 1	4.0 to 1
Total debt to equity	0.1 to 1	0.0 to 1

As of June 30, 2020, 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 rent of approximately \$288,000.

Working Capital. Working capital increased by \$19,963,000 to \$61,046,000 at June 30, 2020 from \$51,083,000 at June 30, 2019. Working capital is calculated by deducting Current Liabilities from Current Assets.

Accounts Receivable. Accounts Receivable decreased by \$3,038,000 to \$22,932,000 at June 30, 2020 as compared to \$25,970,000 at June 30, 2019. The decrease in Accounts Receivable was due primarily to a decrease in hardware sales for the quarter ended June 30, 2020 as compared to the same quarter a year ago.

Inventories. Inventories, which include both current and non-current portions, increased by \$6,917,000 to \$41,755,000 at June 30, 2020 as compared to \$34,838,000 at June 30, 2019. The increase was due primarily to the Company building up levels of its recently introduced and soon to be introduced new products.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses, not including income taxes payable, increased by \$648,000 to \$14,472,000 as of June 30, 2020 as compared to \$13,824,000 at June 30, 2019. This increase is primarily due to the increase in inventory as described above.

Off-Balance Sheet Arrangements

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

Results of Operations

Fiscal 2020 Compared to Fiscal 2019

Fiscal year ended June 30, (dollars in thousands)

	2020	2019	% Increase/ (decrease)
Net sales	\$ 101,359	\$ 102,932	(1.5)%
Gross profit	43,592	43,890	(0.7)%
Gross profit as a % of net sales	43.0%	42.6%	0.9%
Research and development	7,257	7,212	0.6%
Selling, general and administrative	23,670	23,212	2.0%
Selling, general and administrative as a % of net sales	23.4%	22.6%	3.5%
Impairment of intangible asset	1,852	-	-
Income from operations	10,813	13,466	(19.7)%
Interest expense, net	9	21	(57.1)%
Provision for income taxes	2,284	1,222	86.9%
Net income	8,520	12,223	(30.3)%

Net sales in fiscal 2020 decreased by \$1,573,000 to \$101,359,000 as compared to \$102,932,000 in fiscal 2019. The decrease in net sales was primarily due to decreased sales of the Company's Alarm Lock brand door-locking products (\$2,565,000), Marks brand door-locking products (\$5,258,000), and Continental brand access control products (\$542,000) as partially offset by increased sales of the Company's recurring alarm communication services (\$6,608,000) and Napco brand intrusion products (\$200,000). The Company's hardware sales were negatively impacted by the COVID-19 pandemic, which has caused difficulties for security equipment professionals getting access to both commercial and residential installation sites. The Company believes this access issue is an industry-wide issue related to COVID-19 and not reflective of the loss of any market share unique to the Company or any long-term negative reflection of the post-pandemic vibrancy of the security industry as a whole.

The Company's gross profit decreased by \$298,000 to \$43,592,000 or 43.0% of net sales in fiscal 2020 as compared to \$43,890,000 or 42.6% of net sales in fiscal 2019. Gross profit on hardware sales was \$23,380,000 or 30.1% of net hardware sales in fiscal 2020 and \$30,265,000 or 35.4% of net hardware sales, in fiscal 2019. Gross profit on service revenues was \$19,712,000 or 82.0% of net service revenues in fiscal 2020 and \$13,625,000 or 78.2% of net service revenues, in fiscal 2019. Gross profit was primarily affected by the decrease in hardware sales as discussed above as partially offset by increased service revenues.

Research and Development expenses remained relatively constant at \$7,257,000 in fiscal 2020 as compared to \$7,212,000 in fiscal 2019.

Selling, general and administrative expenses for fiscal 2020 increased by \$458,000 to \$23,670,000 as compared to \$23,212,000 in fiscal 2019. Selling, general and administrative expenses as a percentage of net sales increased to 23.4% in fiscal 2020 from 22.6% in fiscal 2019. The increase in dollars resulted primarily from increases in employee compensation. The increase as a percentage of sales was primarily the result of the decrease in net sales as described above and the increased employee compensation expenses.

At the conclusion of fiscal 2020, the Company determined that its indefinite-lived intangible asset relating to its Marks USA I subsidiary trade-name was impaired. Accordingly, the Company recorded an impairment charge of \$1,852,000 and reclassified the remaining balance of the underlying asset from indefinite-lived to a long-lived asset with a remaining useful life of 20 years as of June 30, 2020. There was no impairment charge for the year ended June 30, 2019.

Interest expense for fiscal 2020 remained relatively constant at \$9,000 as compared to \$21,000 for the same period a year ago.

The Company's provision for income taxes for fiscal 2020 increased by \$1,062,000 to \$2,284,000 as compared to \$1,222,000 for the same period a year ago. The Company's effective tax rate increased to 21% for fiscal 2020 as compared to 9% for fiscal 2019. The increase in the Company's effective tax rate resulted from the resolution of an IRS audit of the Company's 2016 fiscal year, resulting in an additional provision of \$1,555,000.

Net income for fiscal 2020 decreased by \$3,703,000 to \$8,520,000 as compared to \$12,223,000 in fiscal 2019. This resulted primarily from the items discussed above.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents we incorporate by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical fact, included or incorporated in this prospectus regarding our strategy, future operations, clinical trials, collaborations, intellectual property, cash resources, financial position, future revenues, projected costs, prospects, plans, and objectives of management are forward-looking statements. The words "believes," "anticipates," "estimates," "plans," "expects," "intends," "may," "could," "should," "potential," "likely," "projects," "continue," "will," "schedule," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may be beyond our control, and which may cause our actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. See "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2020 for more information. These factors and the other cautionary statements made in this prospectus and the documents we incorporate by reference should be read as being applicable to all related forward-looking statements whenever they appear in this prospectus and the documents we incorporate by reference. In addition, any forward-looking statements represent our estimates only as of the date that this prospectus is filed with the SEC and should not be relied upon as representing our estimates as of any subsequent date. We do not assume any obligation to update any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal financial instrument is long-term debt (consisting of a revolving credit facility) that provides for interest based on the prime rate or LIBOR as described in the agreement and the PPP loans which provides for interest at 1%. 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.

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 \$700,000.

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

	Page
Management Report on Internal Control	FS-1
Report of Independent Registered Public Accounting Firm	FS-2
Consolidated Financial Statements:	
Consolidated Balance Sheets as of June 30, 2020 and 2019	FS-4
Consolidated Statements of Income for the Fiscal Years Ended June 30, 2020 and 2019	FS-5
Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended June 30, 2020 and 2019	FS-6
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2020 and 2019	FS-7
Notes to Consolidated Financial Statements	FS-8

Management Report on Internal Control

Management has prepared and is responsible for our consolidated financial statements and related notes. Management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Napco Technologies, Inc. (the “Company”) internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with the authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements prepared for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* as issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that as of June 30, 2020, the Company did maintain effective internal control over financial reporting.

The effectiveness of our internal control over financial reporting as of June 30, 2020 has been audited by Baker Tilly US LLP (formerly Baker Tilly Virchow Krause, LLP), an independent registered public accounting firm, as stated in their report included herein.

Report of Independent Registered Public Accounting Firm

To the stockholders and board of directors of Napco Security Technologies, Inc. and Subsidiaries:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Napco Security Technologies, Inc. and Subsidiaries (the "Company") as of June 30, 2020 and 2019, the related consolidated statements of income, stockholders' equity, and cash flows, for each of the two years in the period ended June 30, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2020 and 2019, and the results of their operations and their cash flows for each of the two years in the period ended June 30, 2020, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2020, based on criteria established in *Internal Control – Integrated Framework: (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

We have served as the Company's auditor since 2009.

/s/BAKER TILLY US LLP (FORMERLY BAKER TILLY VIRCHOW KRAUSE, LLP)

Melville, New York

September 15, 2020

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2020	June 30, 2019
	(in thousands, except share data)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,248	\$ 8,028
Accounts receivable, net of allowance for doubtful accounts of \$326 and \$88 at June 30, 2020 and 2019, respectively, and other reserves	22,932	25,970
Inventories	35,231	29,576
Prepaid expenses and other current assets	2,049	1,881
Total Current Assets	78,460	65,455
Inventories - non-current	6,524	5,262
Property, plant and equipment, net	8,088	7,694
Intangible assets, net	5,116	7,232
Operating lease asset	7,395	-
Other assets	255	265
TOTAL ASSETS	\$ 105,838	\$ 85,908
CURRENT LIABILITIES		
Accounts payable	\$ 6,547	\$ 5,135
Accrued expenses	5,744	6,273
Accrued salaries and wages	2,181	2,416
Current portion of long-term debt	1,794	-
Accrued income taxes	1,148	548
Total Current Liabilities	17,414	14,372
Long term debt	2,110	-
Deferred income taxes	112	72
Accrued income taxes	1,188	292
Long term operating lease liabilities	7,113	-
Total Liabilities	27,937	14,736
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock, par value \$0.01 per share; 40,000,000 shares authorized; 21,241,066 and 21,227,094 shares issued; and 18,347,351 and 18,477,874 shares outstanding, respectively	212	212
Additional paid-in capital	17,766	17,103
Retained earnings	79,444	70,924
Less: Treasury Stock, at cost (2,893,715 and 2,749,310 shares)	(19,521)	(17,067)
TOTAL STOCKHOLDERS' EQUITY	77,901	71,172
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 105,838	\$ 85,908

See accompanying notes to consolidated financial statements.

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

	Fiscal Year ended June 30,	
	2020	2019
	(in thousands, except for share and per share data)	
Net sales:		
Equipment sales	\$ 77,314	\$ 85,505
Service sales	24,045	17,427
	<u>101,359</u>	<u>102,932</u>
Cost of sales:		
Equipment related expenses	53,434	55,240
Service related expenses	4,333	3,802
	<u>57,767</u>	<u>59,042</u>
Gross Profit	43,592	43,890
Research and development	7,257	7,212
Selling, general, and administrative expenses	23,670	23,212
Impairment of intangible asset	1,852	-
	<u>32,779</u>	<u>30,424</u>
Operating Income	10,813	13,466
Other expense:		
Interest expense, net	9	21
Income before Provision for Income Taxes	10,804	13,445
Provision for Income Taxes	2,284	1,222
Net Income	<u>\$ 8,520</u>	<u>\$ 12,223</u>
Income per share:		
Basic	<u>\$ 0.46</u>	<u>\$ 0.66</u>
Diluted	<u>\$ 0.46</u>	<u>\$ 0.66</u>
Weighted average number of shares outstanding:		
Basic	<u>18,444,000</u>	<u>18,574,000</u>
Diluted	<u>18,493,000</u>	<u>18,624,000</u>

See accompanying notes to consolidated financial statements.

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

Fiscal Years ended June 30, 2020 and 2019
(in thousands except for share data)

	Common Stock			Treasury Stock		Retained Earnings	Total
	Number of Shares Issued	Amount	Additional Paid-in Capital	Number of Shares	Amount		
Balances at June 30, 2018	21,204,327	\$ 212	\$ 16,890	(2,475,245)	\$ (13,069)	\$ 59,420	\$ 63,453
Implementation of ASC606	-	-	-	-	-	(719)	(719)
Repurchase of treasury shares	-	-	-	(274,065)	(3,998)	-	(3,998)
Stock options exercised	22,767	-	53	-	-	-	53
Stock-based compensation expense	-	-	160	-	-	-	160
Net income	-	-	-	-	-	12,223	12,223
Balances at June 30, 2019	21,227,094	\$ 212	\$ 17,103	(2,749,310)	\$ (17,067)	\$ 70,924	\$ 71,172
Stock options exercised	13,972	-	80	-	-	-	80
Repurchase of treasury shares	-	-	-	(144,405)	(2,454)	-	(2,454)
Stock-based compensation expense	-	-	583	-	-	-	583
Net income	-	-	-	-	-	8,520	8,520
Balances at June 30, 2020	<u>21,241,066</u>	<u>\$ 212</u>	<u>\$ 17,766</u>	<u>(2,893,715)</u>	<u>\$ (19,521)</u>	<u>\$ 79,444</u>	<u>\$ 77,901</u>

See accompanying notes to consolidated financial statements.

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

	Fiscal Year ended June 30,	
	2020	2019
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 8,520	\$ 12,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,495	1,409
Impairment of intangible asset	1,852	-
Provision for doubtful accounts	238	(26)
Change to inventory obsolescence reserve	(124)	(272)
Deferred income taxes	40	755
Stock based compensation expense	583	160
Changes in operating assets and liabilities:		
Accounts receivable	2,800	(1,440)
Inventories	(6,793)	(5,991)
Prepaid expenses and other current assets	(168)	318
Other assets	-	(11)
Accounts payable, accrued expenses, accrued salaries and wages, accrued income taxes	1,862	1,528
Net Cash Provided by Operating Activities	<u>10,305</u>	<u>8,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(1,615)	(1,988)
Net Cash Used in Investing Activities	<u>(1,615)</u>	<u>(1,988)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	3,904	-
Proceeds from stock option exercises	80	53
Cash paid for purchase of treasury stock	(2,454)	(3,998)
Net Cash Provided by (Used in) Financing Activities	<u>1,530</u>	<u>(3,945)</u>
Net Change in Cash and Cash Equivalents	10,220	2,720
CASH AND CASH EQUIVALENTS - Beginning	8,028	5,308
CASH AND CASH EQUIVALENTS - Ending	<u>\$ 18,248</u>	<u>\$ 8,028</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net	\$ 29	\$ 23
Income taxes paid	\$ 749	\$ 262
Surrender of Common Shares	-	8

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 (“NAPCO”, “the Company”, “we”) is one of the leading manufacturers and designers of high-tech electronic security devices, as well as a leading provider of school safety solutions. We offer a diversified array of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products. 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. We have experienced significant growth in recent years, primarily driven by fast growing recurring service revenues generated from wireless communication services for intrusion and fire alarm systems, as well as our school security products that are designed to meet the increasing needs to enhance school security as a result of on-campus shooting and violence in the U.S.

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 for our products is affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend.

Our fourth quarter of fiscal 2020 reflects the challenging business environment resulting from the COVID-19 pandemic. The COVID-19 pandemic has caused difficulties for security equipment professionals getting access to both commercial and residential installation sites. The Company believes this access issue is an industry-wide issue related to COVID-19 and not reflective of the loss of any market share unique to the Company or any long-term negative reflection of the post-pandemic vibrancy of the security industry as a whole.

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 Generally Accepted Accounting Principles (“GAAP”) 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, allowance for doubtful accounts, inventory reserves, valuation of 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 and cash equivalents, certificates of deposits, current receivables and payables and certain other short-term financial instruments approximate their fair value as of June 30, 2020 and 2019 due to their short-term maturities. Long-term debt and lease liabilities reflect fair value based on prevailing market rates.

Cash and Cash Equivalents

Cash and cash equivalents include approximately \$460,000 of short-term time deposits at June 30, 2020 and 2019. 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, 2020 and 2019. The Company has not historically 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 \$326,000 and \$88,000 as of June 30, 2020 and 2019, respectively. Our reserves for doubtful accounts 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 net realizable 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 realizable 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. Infinite-lived 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 customer relationships are amortized over their estimated useful lives of twenty years. The Marks trade name was deemed to have an indefinite life. At the conclusion of fiscal 2020, the Company determined that the trade-name was impaired. Accordingly, the Company recorded an impairment charge of \$1,852,000 and reclassified the remaining balance of the underlying asset from indefinite-lived to a long-lived asset with a remaining useful life of 20 years as of June 30, 2020.

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

	June 30, 2020			June 30, 2019		
	Carrying value	Accumulated amortization	Net book value	Carrying value	Accumulated amortization	Net book value
Customer relationships	\$ 9,800	\$ (8,732)	\$ 1,068	\$ 9,800	\$ (8,468)	\$ 1,332
Trade name	4,048	--	4,048	5,900	--	5,900
	<u>\$ 13,848</u>	<u>\$ (8,732)</u>	<u>\$ 5,116</u>	<u>\$ 15,700</u>	<u>\$ (8,468)</u>	<u>\$ 7,232</u>

Amortization expense for intangible assets subject to amortization was approximately \$264,000 and \$313,000 for the fiscal years ended June 30, 2020 and 2019, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2021 - \$425,000; 2022 - \$390,000; 2023 - \$362,000; 2024 - \$336,000; and 2025 - \$315,000. The weighted average remaining amortization period for intangible assets was 17.5 years and 9.1 years at June 30, 2020 and 2019, 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 in accordance with Accounting Standards Codification ("ASC"), Topic 606, *Revenue from Contracts with Customers*, which the Company adopted effective July 1, 2018. Accordingly, the Company recognizes revenue when its customers obtain control of its products or services, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods and services. See Note 2 – Revenue Recognition for additional accounting policies and transition disclosures.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for fiscal years ended June 30, 2020 and 2019 was \$1,722,000 and \$2,047,000, respectively.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense as incurred and are included in operating expenses in the consolidated statements of income. Company-sponsored research and development expense for the fiscal years ended June 30, 2020 and 2019 was \$7,257,000 and \$7,212,000, 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. 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	
	2020	2019	2020	2019	2020	2019
Basic EPS	\$ 8,520	\$ 12,223	18,444	18,574	\$ 0.46	\$ 0.66
Effect of Dilutive Securities:						
Stock Options	--	--	49	50	--	--
Diluted EPS	\$ 8,520	\$ 12,223	18,493	18,624	\$ 0.46	\$ 0.66

Options to purchase 38,819 and 2,957 shares of common stock were excluded for the fiscal years ended June 30, 2020 and 2019, respectively, and 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 three share incentive programs as discussed in Note 8.

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 \$583,000 and \$160,000 were recognized for the fiscal years ended June 30, 2020 and 2019, respectively.

Foreign Currency

The Company has determined the functional currency of all foreign subsidiaries is the U.S. Dollar. All foreign operations are considered a direct and integral part or extension of the Company's operations. The day-to-day operations of all foreign subsidiaries are dependent on the economic environment of the U.S. Dollar. Therefore, no realized and unrealized gains and losses associated with foreign currency translation are recorded for the fiscal years ended June 30, 2020 or 2019.

Comprehensive Income

For the fiscal years ended June 30, 2020 and 2019, 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 12.

Shipping and Handling Sales and Costs

The Company records the amount billed to customers for shipping and handling in net sales (\$452,000 and \$430,000 in the fiscal years ended June 30, 2020 and 2019, respectively) and classifies the costs associated with these sales in cost of sales (\$1,034,000 and \$1,115,000 in the fiscal years ended June 30, 2020 and 2019, respectively).

Leases

Effective July 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition option of applying the new standard at the adoption date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Adoption of the new standard resulted in the recording of an operating ROU asset and lease liabilities of approximately \$7.7 million. Given the length of the lease term, the right-of-use asset and corresponding liability assume a weighted discount rate as disclosed below. A change in the rate utilized could have a material effect on the amounts reported. Financial positions for reporting periods beginning on or after July 1, 2019 are presented under new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance. See Note 11 – Commitments and Contingencies; Leases for additional accounting policies and transition disclosures.

Recently Issued and Adopted Accounting Standards

On July 1, 2019, we adopted Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), as amended, which supersedes the lease accounting guidance under Topic 840, and generally requires lessees to recognize operating and financing lease liabilities and corresponding right-of-use assets on the balance sheet and to provide enhanced disclosures surrounding the amount, timing and uncertainty of cash flows arising from leasing arrangements. We adopted the new guidance using the modified retrospective transition approach by applying the new standard to all leases existing at the date of initial application and not restating comparative periods. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. For information regarding the impact of Topic 842 adoption, see Significant Accounting Policies - Leases and Note 11- Leases.

NOTE 2 – Revenue Recognition and Contracts with Customers

Adoption

On July 1, 2018, the Company adopted new guidance on revenue from contracts with customers using the modified retrospective method applied to contracts that were not completed as of July 1, 2018. Results for reporting periods beginning after July 1, 2018 are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance.

The Company recorded a net decrease to opening retained earnings of approximately \$719,000 (net of tax benefit of \$191,000) as of July 1, 2018, for the cumulative impact of adopting the new guidance. The impact primarily related to the change in the recognition and measurement of certain types of variable consideration, which resulted in the increase in sales allowance reserves (i.e. refund liabilities) by a net of \$1,627,000 and increased other assets (i.e. return related assets) by approximately \$716,000.

Net Sales

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door security products, intrusion and fire alarm systems, alarm communication services, and video surveillance products for commercial and residential use. The Company also provides wireless communication service for intrusion and fire alarm systems on a monthly basis. 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. Sales to unaffiliated customers are primarily shipped from the United States.

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

For product sales, the Company typically transfers control at a point in time upon shipment or delivery of the product. For monthly communication services the Company satisfies its performance obligation as the services are rendered and therefore recognizes revenue over the monthly period.

Typically timing of revenue recognition coincides with the timing of invoicing to the customers, at which time the Company has an unconditional right to consideration. As such, the Company typically records a receivable when revenue is recognized.

The contract with the customer states the final terms of the sale, including the description, quantity, and price of each product purchased. Payment for product sales is typically due within 30 and 180 days of the delivery date. Payment for monthly communication services is billed on a monthly basis and is typically due at the beginning of the month of service.

The Company provides limited standard warranty for defective products, usually for a period of 24 to 36 months. The Company accepts returns for such defective products as well as for other limited circumstances. The Company also provides rebates to customers for meeting specified purchasing targets and other coupons or credits in limited circumstances. The Company establishes reserves for the estimated returns, rebates and credits and measures such variable consideration based on the expected value method using an analysis of historical data. Changes to the estimated variable consideration in subsequent periods are not material. As of June 30, 2020 and 2019, the Company included refund liabilities of approximately \$3,331,000 and \$3,524,000, respectively, in current liabilities. As of June 30, 2020 and 2019, the Company included return-related assets of approximately \$701,000 and \$820,000, respectively, in other current assets.

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 9% and 8% for the fiscal years ended June 30, 2020 and 2019, respectively.

In accordance with ASC 606-10-50, the Company disaggregates revenue from contracts with customers into major product lines. The Company determines that disaggregating revenue into these categories achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. As noted in the accounting policy footnote, the Company's business consists of one operating segment. Following is the disaggregation of revenues based on major product lines (in thousands):

	Fiscal year ended June	
	30,	
	2020	2019
Major Product Lines:		
Intrusion and access alarm products	\$ 31,310	\$ 31,557
Door locking devices	46,004	53,948
Services	24,045	17,427
Total Revenues	<u>\$ 101,359</u>	<u>\$ 102,932</u>

NOTE 3 - 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 24% and 19% of the Company's accounts receivable at June 30, 2020 and 2019, respectively. Sales to this customer did not exceed 10% of net sales during fiscal year ended June 30, 2020. Sales to this customer comprised 10% of net sales during fiscal year ended June 30, 2019. The Company had another customer with an accounts receivable balance that comprised 10% of the Company's accounts receivable at June 30, 2020. Sales to this customer did not exceed 10% of net sales in either of the fiscal years ended June 30, 2020 and 2019. The Company had another customer with an accounts receivable balance that comprised 10% of the Company's accounts receivable at June 30, 2019. Sales to this customer did not exceed 10% of net sales in either of the fiscal years ended June 30, 2020 or 2019.

NOTE 4 - Inventories

Inventories, net of reserves are valued at lower of cost (first-in, first-out method) or net realizable value. 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 as of June 30, (in thousands):

	2020	2019
Component parts	\$ 22,877	\$ 21,543
Work-in-process	7,276	5,377
Finished product	11,602	7,918
	<u>\$ 41,755</u>	<u>\$ 34,838</u>
Classification of inventories, net of reserves:		
Current	\$ 35,231	\$ 29,576
Non-current	6,524	5,262
	<u>\$ 41,755</u>	<u>\$ 34,838</u>

NOTE 5 - Property, Plant, and Equipment

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

	June 30,		Useful Life in Years
	2020	2019	
Land	\$ 904	\$ 904	--
Buildings	8,911	8,911	30 to 40
Molds and dies	7,337	7,333	3 to 5
Furniture and fixtures	2,792	2,691	5 to 10
Machinery and equipment	24,878	23,915	7 to 10
Building improvements	2,173	1,625	Shorter of the lease term or life of asset
	<u>46,995</u>	<u>45,379</u>	
Less: accumulated depreciation and amortization	(38,907)	(37,685)	
	<u>\$ 8,088</u>	<u>\$ 7,694</u>	

Depreciation and amortization expense on property, plant, and equipment was approximately \$1,221,000 and \$1,085,000 in fiscal 2020 and 2019, respectively.

NOTE 6 - Income Taxes

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

	For the Years Ended June 30,	
	2020	2019
Current income taxes:		
Federal	\$ 1,715	\$ 310
State	404	141
	<u>2,119</u>	<u>451</u>
Deferred income tax provision	165	771
Provision for income taxes	<u>\$ 2,284</u>	<u>\$ 1,222</u>

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):

	2020		2019	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Tax at Federal statutory rate	\$ 2,269	21.0%	\$ 2,822	21.0%
Increases (decreases) in taxes resulting from:				
Meals and entertainment	44	0.4%	49	0.3%
State income taxes, net of Federal income tax benefit	112	1.0%	103	0.8%
Foreign source income not subject to tax	(1,213)	(11.2)%	(1,219)	(9.1)%
R&D Credit	(523)	(4.8)%	(408)	(3.0)%
Transition tax	0	0.0%	0	0.0%
Foreign withholding tax	0	0.0%	0	0.0%
Release of accrued tax reserves	0	0.0%	(151)	(1.1)%
Uncertain Tax Positions	775	7.1%	0	0.0%
IRS examination settlements	832	7.7%	12	0.1%
Other, net	(12)	(0.1)%	14	0.1%
Effective tax rate	<u>\$ 2,284</u>	<u>21.1%</u>	<u>\$ 1,222</u>	<u>9.1%</u>

Deferred tax assets and deferred tax liabilities at June 30, 2020 and 2019 are as follows (in thousands):

	Deferred Tax Assets (Liabilities)	
	2020	2019
Accounts receivable	\$ 40	\$ 17
Inventories	374	246
Accrued liabilities	262	250
Stock based compensation expense	96	36
Intangibles	(300)	(502)
R&D credit	0	378
Property, plant and equipment	(484)	(407)
Revenue reserves	308	319
Other deferred tax liabilities	(408)	(409)
	(112)	(72)
Valuation allowance	--	--
Net deferred tax liabilities	\$ (112)	\$ (72)

The Company has identified the United States and New York State as its major tax jurisdictions. Fiscal year 2017 is currently under audit by the Internal Revenue Service (“IRS”). Fiscal year 2018 and forward years are still open for examination. In addition, the Company has a wholly-owned subsidiary which operates in a Free Zone in the Dominican Republic (“DR”) and is exempt from DR income tax.

The Company was audited by the IRS for the fiscal year 2016. In July 2019, the Company received Form 4549-A, Income Tax Examination Changes from the IRS proposing an adjustment to income for the fiscal 2016 tax year regarding deemed dividends based on its interpretation of Internal Revenue Code (“IRC”) Section 956 arising from the intercompany balances on the books of the Company. In August 2019, the Company filed a formal protest with the IRS requesting an opportunity to appeal the examination findings to the Appeals Office. During fiscal year 2020, the Company settled the issue at Appeals. There is a provision recorded for the federal and state impact of \$762,000 and \$70,000, respectively.

The Company is currently under audit for the fiscal year 2017. The IRS has raised the IRC Section 956 issue that was settled during the fiscal year 2016 audit. The Company strongly believes that the position of the IRS with regard to this matter is inconsistent with the provisions of IRC Section 956 and that the Company is willing to go to court, if necessary to argue its position. During fiscal year 2020, the Company’s Provision for income taxes included a provision for the incremental tax liability of \$657,000 and interest of \$66,000 was recorded for the 2017 and 2018 fiscal years.

The provision for income taxes represents Federal, foreign, and state and local income taxes. The effective rate differs from statutory rates due to the effect of tax rates in foreign jurisdictions, state and local income taxes, tax benefit of R&D credits, certain nondeductible expenses, uncertain tax positions, audit settlements and global intangible low-taxed income (“GILTI”).

On December 22, 2017, the U.S. government passed the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act is comprehensive tax legislation effective January 1, 2018 that implements complex changes to the U.S. tax code including, but not limited to, the reduction of the corporate tax rate from 35% to 21% and includes provisions to tax GILTI. We are subject to the GILTI provisions beginning with the fiscal year ended June 30, 2019. The Tax Act also imposed a one-time transition tax on its unremitted foreign earnings. ASC 740 requires filers to record the effects of tax law changes in the period enacted. However, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”), that permits filers to record provisional amounts during a measurement period ending no later than one year from the date of the Act’s enactment. As of March 31, 2019, the Company finalized its accounting for the income tax effects of the Tax Act and no additional expense was recorded since the final transition tax expense was equal to the \$381,000 provisional expense reported in the fiscal year ended June 30, 2018. The net section 965 tax liability was \$338,000, which is payable over 8 years.

During the year ending June 30, 2020 the Company increased its reserve for uncertain income tax positions by \$824,000. 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, 2020, the Company had accrued interest totaling \$83,000 and \$866,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company’s effective income tax rate in any future period. The Company does not expect that its unrecognized tax benefits will significantly change within the next twelve months. The Company claims R&D tax credits on eligible research and development expenditures. The R&D 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, 2018	\$ 221	\$ --	\$ 221
Decrease to unrecognized tax benefits resulting from the release of R&D credits due to the IRS audit	(151)		(151)
Increases to unrecognized tax benefits resulting from the generation of additional R&D credits	55	--	55
Balance of gross unrecognized tax benefits as of June 30, 2019	\$ 125	\$ --	\$ 125
Increase to unrecognized tax benefits resulting from deemed dividends for investments in US property	682	83	765
Increases to unrecognized tax benefits resulting from the generation of additional R&D credits	59	--	59
Balance of gross unrecognized tax benefits as of June 30, 2020	<u>\$ 866</u>	<u>\$ 83</u>	<u>\$ 949</u>

The Company plans to permanently reinvest a substantial portion of its foreign earnings and as such has not provided withholding tax on the permanently reinvested earnings. The Company has accrued \$408,000 for withholding taxes on undistributed earnings that are not permanently reinvested. As of June 30, 2020 the Company had approximately \$42.5 million of undistributed earnings of foreign subsidiaries.

NOTE 7 - Long-Term Debt

As of June 30, 2020, long-term debt consisted of a revolving line of credit of \$11,000,000 (“Agreement”) which expires in June 2021 and term loans from the U.S. Small Business Administration totaling \$3,904,000 through its Payroll Protection Program.

Outstanding balances and interest rates as of June 30, 2020 and June 30, 2019 are as follows (dollars in thousands):

	June 30, 2020		June 30, 2019	
	Outstanding	Interest Rate	Outstanding	Interest Rate
Revolving line of credit	\$ --	n/a	\$ --	n/a
Term loans	3,904	1%	--	n/a
	<u>3,904</u>		<u>--</u>	
Less: current maturities	(1,794)		--	
Long-term debt	<u>\$ 2,110</u>		<u>\$ --</u>	

The Agreement also provides for a LIBOR-based interest rate option of LIBOR plus 1.15% to 2.00%, 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 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.

During the fourth quarter of fiscal 2020, the Company received the proceeds of promissory notes dated between April 17, 2020 and May 7, 2020 (the "PPP Loan Agreement"), entered into between the Company and HSBC Bank USA N.A., as lender (the "Lender"). Lender made the loans pursuant to the Paycheck Protection Program (the "PPP"), created by Section 1102 of the CARES Act and governed by the CARES Act, Section 7(a)(36) of the Small Business Act, any rules or guidance that has been issued by the SBA implementing the PPP and acting as guarantor, or any other applicable loan program requirements, as defined in 13 CFR § 120.10, as amended from time to time. Pursuant to the PPP Loan Agreement, the Lender made loans to the Company with an aggregate principal amount of \$3,904,000 (the "PPP Loan").

The maturity dates of the PPP Loan are between April 17, 2022 and May 7, 2022, which is two years from the PPP Loan Agreement date. The interest accrues from the date of disbursement of the PPP Loan (the "Effective Date"). The PPP Loan bears interest at a fixed rate equal to one percent (1%) per annum and interest will accrue from the Effective Date. PPP Loan payments are deferred for the first six months from the Effective Date. Subject to any PPP Loan forgiveness granted by the CARES Act, the Company will subsequently pay 18 fully amortized monthly consecutive principal and interest payments for all principal and all accrued interest not yet paid, with the first PPP Loan payment due on the date that is seven months after the Effective Date. The proceeds of the PPP Loan shall be used for the following purposes only: (i) payroll costs as defined by the CARES Act, (ii) costs related to the continuation of group health care benefits during periods of paid sick, medical, or family leave, and insurance premiums; (iii) mortgage interest payments, (iv) rent payments, (v) utility payments, (vi) interest payments on any other debt obligations incurred before February 15, 2020, and/or (vii) refinancing a SBA Economic Injury Disaster Loan made between January 31, 2020 and April 3, 2020.

The PPP Loan and the related documentation contain customary events of default, including: (i) any representation or warranty made, or financial or other information provided, by the Company under the PPP Loan Agreement being false or misleading in any material respect; (ii) the failure by the Company to make required payments; (iii) the failure by the Company to perform or comply with certain agreements; and (iv) the dissolution or termination of the Company's existence as a going business, the insolvency of the Company, the appointment of a receiver for any part of the Company's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against the Company. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then the Company will pay that amount. Lender may hire or pay someone else to help collect this Note if the Company does not pay. The Company will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. The Company also will pay any court costs, in addition to all other sums provided by law.

Should the Company default on the PPP Loan, SBA may be required to pay Lender under the SBA guarantee. SBA may then seek recovery of these funds from the Company and the Company may not claim or assert against SBA any immunities or defenses available under local law to defeat, modify or otherwise limit the Company's obligation to repay to SBA any funds advanced by Lender to the Company. If the Company defaults on the SBA-guaranteed loan and SBA suffers a loss, the names of the small business will be referred for listing in the Credit Alert Verification Reporting System (CAIVRS) database, which may affect their edibility for further assistance.

Pursuant to the CARES Act, the loan may be forgiven by the SBA. The Company anticipates applying for forgiveness of these loans during fiscal 2021. The amount of loan forgiveness is determined by and is subject to the sole approval of the SBA. The amount of loan forgiveness may be reduced if loan proceeds are spent inappropriately. To receive loan forgiveness, the Company must apply for loan forgiveness and provide documentation as requested by the SBA. There will be no loan forgiveness without the Company's submission of the proper application and documentation to Lender to include all SBA requirements. Not more than 25% of the amount forgiven can be attributable to non-payroll costs. No assurance can be provided that the Company will obtain forgiveness of the PPP Loan in whole or in part.

The Company is accounting for the PPP Loan as debt in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 470, Debt and accrue interest in accordance with the interest method under FASB ASC 835-30.

The Company will not impute additional interest at a market rate (even though the stated interest rate may be below market) as transactions where interest rates are prescribed by governmental agencies are excluded from the scope of the FASB ASC 835-30 guidance on imputing interest.

For purposes of de-recognition or forgiveness of the liability, FASB ASC 470-50-15-4 refers to guidance in FASB ASC 405-20. Based on the guidance in FASB ASC 405-20-40-1, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been "legally released" or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the Company will reduce the liability by the amount forgiven and record a gain on extinguishment.

NOTE 8 - 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, 2020 and 2019, the Company recorded non-cash compensation expense of \$583,000 (\$0.03 per basic and diluted share) and \$160,000 (\$0.01 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, 2020, 117,840 stock options were outstanding, 35,000 stock options were exercisable and 731,960 stock options were available for grant under this plan.

The fair value of each option granted during fiscal 2020 and 2019 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2020	2019
Risk-free interest rates	0.6% - 2.1%	2.5% - 3.1%
Expected lives	10 years	10 years
Expected volatility	44% - 46%	48% - 52%
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,:

	2020		2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	72,500	\$ 11.01	57,200	\$ 7.09
Granted	70,940	24.50	29,000	16.59
Terminated	(10,000)	19.84	0	0
Exercised	(15,600)	7.55	(13,700)	6.42
Outstanding, end of year	<u>117,840</u>	<u>\$ 18.84</u>	<u>72,500</u>	<u>\$ 11.01</u>
Exercisable, end of year	<u>35,000</u>	<u>\$ 13.13</u>	<u>33,800</u>	<u>\$ 8.05</u>
Weighted average fair value at grant date of options granted	\$ 13.43		\$ 9.15	
Total intrinsic value of options exercised	\$ 278,000		\$ 160,000	
Total intrinsic value of options outstanding	\$ 696,000		\$ 1,353,000	
Total intrinsic value of options exercisable	\$ 389,000		\$ 731,000	

The following table summarizes information about stock options outstanding under the 2012 Employee Plan at June 30, 2020:

	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
Range of exercise prices					
\$4.37-\$33.59	117,840	8.4	\$ 18.84	35,000	\$ 6.50
	<u>117,840</u>	<u>8.4</u>	<u>\$ 18.84</u>	<u>35,000</u>	<u>\$ 6.50</u>

As of June 30, 2020, there was \$849,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Employee Plan. 70,940 and 29,000 options were granted during the fiscal years ended June 30, 2020 and 2019, respectively. 3,600 of the 15,600 stock options exercised during the fiscal year ended June 30, 2020 were settled by exchanging 1,628 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 8,200 of the 13,700 stock options exercised during the fiscal year ended June 30, 2019 were settled by exchanging 3,106 shares of the Company's common stock which were retired and returned to unissued status upon receipt. The total grant date fair value of the options vesting during the fiscal years ended June 30, 2020 and 2019 under this plan was \$197,000 and \$95,000, respectively. \$79,000 and \$31,000 was received from option exercises for the fiscal years ended June 30, 2020 and 2019, respectively, and the actual tax benefit realized for the tax deductions from option exercises was \$0 for each of these periods.

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, 2020, 12,000 stock options were outstanding, 5,760 stock options were exercisable and no further stock options were available for grant under this plan.

The fair value of each option granted during fiscal 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2020
Risk-free interest rates	1.6%
Expected lives	10 years
Expected volatility	44%
Expected dividend yields	0%

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

	2020		2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	10,200	\$ 7.99	27,800	\$ 6.85
Granted	1,800	23.35	--	--
Terminated	--	--	(1,800)	8.70
Exercised	--	--	(15,800)	5.91
Outstanding, end of year	<u>12,000</u>	<u>\$ 10.29</u>	<u>10,200</u>	<u>\$ 7.99</u>
Exercisable, end of year	<u>5,760</u>	<u>\$ 8.35</u>	<u>3,000</u>	<u>\$ 6.27</u>
Weighted average fair value at grant date of options granted	\$ 12.94		n/a	
Total intrinsic value of options exercised	n/a		\$ 192,000	
Total intrinsic value of options outstanding	\$ 157,000		\$ 221,000	
Total intrinsic value of options exercisable	\$ 87,000		\$ 70,000	

The following table summarizes information about stock options outstanding under the 2012 Non-Employee Plan at June 30, 2020:

	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
Range of exercise prices					
\$4.37 - \$23.35	<u>12,000</u>	<u>7.2</u>	<u>\$ 10.29</u>	<u>5,760</u>	<u>\$ 8.35</u>
	<u>12,000</u>	<u>7.2</u>	<u>\$ 10.29</u>	<u>5,760</u>	<u>\$ 8.35</u>

As of June 30, 2020, there was \$46,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Non-Employee Plan. 1,800 and 0 options were granted during the fiscal years ended June 30, 2020 and 2019, respectively. 14,600 of the 15,800 stock options exercised during the fiscal year ended June 30, 2019 were settled by exchanging 4,832 shares of the Company's common stock which were retired and returned to unissued status upon receipt. The total grant date fair value of the options vesting during each of the fiscal years ended June 30, 2020 and 2019 under this plan was \$18,000 and \$22,000, respectively.

2018 Non-Employee Stock Option Plan

In December 2018, the stockholders approved the 2018 Non-Employee Stock Option Plan (the "2018 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 2018 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, 2020, 48,400 stock options were outstanding, 12,240 stock options were exercisable and 0 stock options were available for grant under this plan.

The fair value of each option granted during the fiscal year ended June 30, 2020 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2020	2019
Risk-free interest rates	1.6% - 1.8%	2.9%
Expected lives	10 years	10 years
Expected volatility	44% - 45%	50%
Expected dividend yields	0%	0%

The following table reflects activity under the 2018 Non-Employee plan for the fiscal year ended June 30,:

	2020		2019	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	15,200	\$ 16.20	--	\$ --
Granted	33,200	26.82	20,000	16.20
Terminated	--	--	(3,200)	16.20
Exercised	--	--	(1,600)	16.20
Outstanding, end of year	<u>48,400</u>	<u>\$ 23.48</u>	<u>15,200</u>	<u>\$ 16.20</u>
Exercisable, end of year	<u>12,240</u>	<u>\$ 21.96</u>	<u>2,400</u>	<u>\$ 16.20</u>
Weighted average fair value at grant date of options granted	\$ 15.09		\$ 10.24	
Total intrinsic value of options exercised	n/a		\$ 24,000	
Total intrinsic value of options outstanding	\$ 110,000		\$ 205,000	
Total intrinsic value of options exercisable	\$ 40,000		\$ 32,000	

The following table summarizes information about stock options outstanding under the 2018 Non-Employee Plan at June 30, 2020:

	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
Range of exercise prices					
\$16.20-\$30.54	48,400	9.2	\$ 23.48	12,240	\$ 21.96
	<u>48,400</u>	<u>9.2</u>	<u>\$ 23.48</u>	<u>12,240</u>	<u>\$ 21.96</u>

As of June 30, 2020, there was \$410,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2018 Non-Employee Plan. 33,200 and 20,000 options were granted during the fiscal years ended June 30, 2020 and 2019, respectively. 800 of the 1,600 stock options exercised during the fiscal year ended June 30, 2019 were settled by exchanging 395 shares of the Company’s common stock which were retired and returned to unissued status upon receipt and the actual tax benefit realized for the tax deductions from option exercises was \$0 for each of these periods. The total grant date fair value of the options vesting during the fiscal year ended June 30, 2020 and 2019 under this plan was \$133,000 and \$41,000, respectively.

2020 Non-Employee Stock Option Plan

In May 2020, the stockholders approved the 2020 Non-Employee Stock Option Plan (the “2020 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 2020 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, 2020, 0 stock options were outstanding, 0 stock options were exercisable and 50,000 stock options were available for grant under this plan.

NOTE 9 – 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 then outstanding. Such repurchases may 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, 2020 the Company repurchased 144,405 shares of its outstanding common stock at a weighted average price of \$16.99. Shares repurchased through June 30, 2020 are included in the Company's Treasury Stock as of June 30, 2020. Pursuant to the PPP Loan Agreement described in Note 7, the Company may not repurchase any of its shares of common stock until 12 months after the termination of the term loans described therein.

During fiscal 2020, certain employees and Directors exercised stock options under the Company's 2012 Employee and Non-Employee Stock Option Plans totaling 15,600 shares. 3,600 of these exercises were completed as cashless exercises as allowed for under the Plans, 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 was 1,628 and was based upon the per share price on the effective date of the option exercise.

During fiscal 2019, certain employees and Directors exercised stock options under the Company's 2012 Employee and Non-Employee Stock Option Plans and the Company's 2002 Employee Stock Option Plan totaling 31,100 shares. 23,600 of these exercises were completed as cashless exercises as allowed for under the Plans, 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 was 8,333 and was based upon the per share price on the effective date of the option exercise.

NOTE 10 - 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 \$133,000 for the years ended June 30, 2020 and 2019.

NOTE 11 - Commitments and Contingencies

Leases

Effective July 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective transition option of applying the new standard at the adoption date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases, and (3) initial direct costs for any existing leases. Adoption of the new standard resulted in the recording of an operating ROU asset and lease liabilities of approximately \$7.7 million. Given the length of the lease term, the right-of-use asset and corresponding liability assume a weighted discount rate as disclosed below. A change in the rate utilized could have a material effect on the amounts reported. Financial positions for reporting periods beginning on or after July 1, 2019 are presented under new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance.

Our lease obligation consists of a 99 year lease which commenced on April 26, 1993 with one of the Company's foreign subsidiaries, 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.

Operating leases are included in operating lease right-of-use assets, accrued expenses and operating lease liabilities, non-current on our condensed consolidated balance sheets.

For the fiscal year ended June 30, 2020, cash payments against operating lease liabilities totaled \$240.

Supplemental balance sheet information related to operating leases was as follows:

Weighted-average remaining lease term	72 years
Weighted-average discount rate	3.55%

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2020 (in thousands):

Year Ending June 30,	Amount
2021	\$ 282
2022	272
2023	263
2024	254
2025	245
Thereafter	6,079
Total	\$ 7,395

As previously disclosed in our 2019 Annual Report on Form 10-K and under the previous lease accounting standard, undiscounted future minimum lease payments for operating leases having initial or remaining non-cancellable lease terms in excess of one year are as follows (in thousands):

Year Ending June 30,	Amount
2020	\$ 315
2021	314
2022	311
2023	297
2024	288
Thereafter	19,536
Total	\$ 21,061

Operating lease expense totaled approximately \$315,000 and \$330,000, for the fiscal years ended June 30, 2020 and 2019, respectively.

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, 2020, the Company was obligated under two employment agreements and one severance agreement. The employment agreements are with the Company's CEO and the Senior Vice President of Engineering ("the SVP of Engineering"). The employment agreement with the CEO provides for an annual salary of \$752,000, 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 of Engineering expires in August 2022 and provides for an annual salary of \$333,799, and, if terminated by the Company without cause, severance of nine month's salary and continued company-sponsored health insurance for six months from the date of termination. The severance agreement is with the Senior Vice President of Operations and Finance and provides for, if terminated by the Company without cause or within three months of a change in corporate control of the Company, severance of nine month's salary, continued company-sponsored health insurance for six months from the date of termination and certain non-compete and other restrictive provisions.

NOTE 12 - Geographical Data

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products for commercial and residential use. The Company also provides wireless communication service for intrusion and fire alarm systems. 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. 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

	<u>Fiscal Year ended June 30,</u>	
	<u>2020</u>	<u>2019</u>
	(in thousands)	
Sales to external customers(1):		
Domestic	\$ 99,496	\$ 100,716
Foreign	1,863	2,216
Total Net Sales	<u>\$ 101,359</u>	<u>\$ 102,932</u>

	<u>As of June 30,</u>	
	<u>2020</u>	<u>2019</u>
Identifiable assets:		
United States	\$ 69,436	\$ 59,683
Dominican Republic (2)	36,402	26,225
Total Identifiable Assets	<u>\$ 105,838</u>	<u>\$ 85,908</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 (2020 = \$25,246; 2019 = \$22,549), operating lease assets (2020 = \$7,395; 2019 = \$0) and fixed assets (2020 = \$3,481; 2019 = \$3,443) located at the Company's principal manufacturing facility in the Dominican Republic.

NOTE 13 – Subsequent Events

The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the consolidated financial statements.

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, 2020, 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, 2020.

Management's Annual Report on Internal Control over Financial Reporting. Management's Report on Internal Control over Financial Reporting is set forth on page FS-1.

Audit Opinion on Internal Control over Financial Reporting. The effectiveness of the Company's internal control over financial reporting has been audited by Baker Tilly US, LLP an independent registered public accounting firm, as stated in their report, which is included herein on page FS-2.

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.

The Board of Directors of the Company 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 US, 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, 2020 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 2020 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, 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 "Delinquent Section 16(c) 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" are 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, 2020 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>
Management Report on Internal Control	FS-1
Report of Independent Registered Public Accounting Firm	FS-2
Consolidated Financial Statements:	
Consolidated Balance Sheets as of June 30, 2020 and 2019	FS-4
Consolidated Statements of Income for the Fiscal Years Ended June 30, 2020 and 2019	FS-6
Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended June 30, 2020 and 2019	FS-7
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2020 and 2019	FS-8
Notes to Consolidated Financial Statements	FS-9

(a) 2. Financial Statement Schedules

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

B. Supplementary Financial Data

(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)	Second Amended and Restated By-Laws	Exhibit 3.(ii) to Report on Form 18-K (Commission file No. 0-10004) filed on September 8, 2020
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 4.02 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 4.03 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 4.04 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 4.05 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.06	Continuing General Security Agreement	Exhibit 4.06 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.07	Reaffirmation of Collateral Documents	Exhibit 4.07 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.08	Reaffirmation of Negative Pledge	Exhibit 4.08 to Report on Form 8-K (Commission file No. 0-10004) dated June 29, 2012
Ex 4.09	Amendment No. 3 to Third Amended and Restated Credit Agreement	Item 1.01 (e) contained in Report on Form 8-K (Commission file No. 0-10004) dated June 28, 2016
Ex 4.10	Description of the Company's Securities	E-17
*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.D	2018 Non-Employee Stock Option Plan	Appendix A to Proxy Statement dated October 29, 2018 for Annual Meeting of Stockholders to be held on December 11, 2018
*Ex-10.E	2020 Non-Employee Stock Option Plan	Appendix A to Proxy Statement dated April 13, 2020 for Annual Meeting of Stockholders to be held on May 21, 2020
*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.M	Two (2) Year Extension, dated October 24, 2019, of Employment Agreement between the Registrant and Michael Carrieri	E-24

*Ex-10.N	Form of Indemnification Agreement adopted September 3, 2020	E-25
*Ex-10.O	Severance Agreement between the Registrant and Kevin S Buchel dated December 30, 2015	Exhibit 10.O to Report on Form 10-Q (Commission file No. 0-10004) dated February 1, 2016
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 15, 2020

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 15, 2020
<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 15, 2020
<u>/s/ PAUL STEPHEN BEEBER</u> Paul Stephen Beeber	Director	September 15, 2020
<u>/s/ RICK LAZIO</u> Rick Lazio	Director	September 15, 2020
<u>/s/ DONNA SOLOWAY</u> Donna Soloway	Director	September 15, 2020
<u>/s/ ROBERT UNGAR</u> Robert Ungar	Director	September 15, 2020
<u>/s/ ANDREW J. WILDER</u> Andrew J. Wilder	Director	September 15, 2020

Description of the Company's Securities

The following description of our common stock and the provisions of our Certificate of Incorporation, as amended, and Bylaws, as amended, are summaries of material terms and provisions and are qualified by reference to our Certificate of Incorporation, as amended, and the Bylaws, as amended, copies of which have been filed with the Securities and Exchange Commission as exhibits to Registrant's Form 10K for the year ended June 30, 2020.

Our authorized capital stock consists of 40,000,000 shares of common stock.

The Company is authorized to issue one class of common stock. Holders of common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of common stock do not have cumulative voting rights in the election of directors. Holders of common stock are entitled to receive dividends ratably, if any, as may be declared by our board of directors out of legally available funds. The Board of Directors is divided into three classes (which are as nearly equal in number as possible). Each class is elected for a term of office expiring at the third succeeding annual meeting of stockholders after their respective elections. Upon our dissolution, liquidation or winding up, holders of common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities. Holders of common stock have no preemptive, subscription, redemption or conversion rights. There are no sinking fund provisions applicable to the common stock. The outstanding shares of common stock are fully paid and non-assessable. A majority of total votes of the holders of common stock is generally required to take action under our Certificate of Incorporation, as amended, and By-laws, as amended.

[COMPANY LETTERHEAD]

October 24, 2019

HAND-DELIVERED

Mr. Michael A. Carrieri
Senior Vice President of Engineering Development
NAPCO Security Technologies, Inc.
333 Bayview Avenue
Amityville, New York 11701

Re: Employment Agreement

Dear Michael:

NAPCO is pleased to extend, and desires to formalize, a two-year Employment Agreement (from August 16, 2020 through August 15, 2022 at your annual salary of \$333,798.89, but subject to discretionary salary increases during each of your annual performance evaluations.

All other terms and conditions of your employment will remain the same as set forth in your Employment Agreement dated October 11, 2002 (with the obvious exception that the monetary values set forth in Section III have been modified over the years). Please sign below to acknowledge your acceptance of your extended two-year Employment Agreement.

Kindest personal regards.

Sincerely

NAPCO SECURITY TECHNOLOGIES, INC.

/s/RICHARD SOLOWAY

Richard L. Soloway
Chairman of the Board

Accepted by: /s/MICHAEL CARRIERI
Michael A. Carrieri

Dated: December 26, 2019

FORM OF DIRECTOR AND OFFICER INDEMNIFICATION AGREEMENT

THIS DIRECTOR AND OFFICER INDEMNIFICATION AGREEMENT (this "Agreement") is made as of this [] day of [] [], by and between NAPCO Security Technologies, Inc., a Delaware corporation (the "**Company**"), and the indemnitee named on the signature page hereto (the "**Indemnitee**").

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals to act as directors and officers;

WHEREAS, increased corporate litigation and investigations have subjected directors and officers to litigation risks and expenses, and the limitations on the availability and terms of director and officer liability insurance have made it increasingly difficult for the Company to attract and retain such persons;

WHEREAS, the Company's certificate of incorporation authorizes the Company to provide indemnification and advancement rights to directors and officers through bylaw provisions or through agreements with directors and officers, or otherwise, to the extent provided therein;

WHEREAS, the Company's bylaws require that the Company indemnify its directors and officers as authorized by the General Corporation Law of the State of Delaware ("DGCL"), as amended, under which the Company is incorporated, and such bylaws expressly provide that the indemnification provided therein is not exclusive and contemplate that the Company may enter into separate agreements with its directors, officers and other persons to set forth specific indemnification provisions;

WHEREAS, in light of the fact that the certificate of incorporation and bylaws of the Company are subject to change and do not contain all the provisions and protections set forth in this Agreement, the Company has determined that the Indemnitee and other directors and officers of the Company may not be willing to serve or continue to serve in such capacities without additional protection;

WHEREAS, the Company desires and has requested the Indemnitee to serve or continue to serve as a director or officer of the Company, as the case may be, and has proffered this Agreement to the Indemnitee as an additional inducement to serve in such capacity; and

WHEREAS, the Indemnitee is willing to serve, or to continue to serve, as a director or officer of the Company, as the case may be, if the Indemnitee is furnished the indemnity provided for herein by the Company.

NOW, THEREFORE, in consideration of the promises and the covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and the Indemnitee do hereby covenant and agree as follows:

1. **Definitions.**

(a) "Change in Control" means, and shall be deemed to take place upon the occurrence of any of the follow events:

(i) The acquisition, directly or indirectly, by any person or related group of persons (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than the Company or a person that directly or indirectly controls, is controlled by, or is under, control with the Company or an employee benefit plan maintained by the Company or such person, of beneficial ownership (as defined in Rule 13d-3 of the said Act) of securities of the Company that results in such person or related group of persons beneficially owning securities representing 30% or more of the combined voting power of the Company's then-outstanding securities;

(ii) A merger, recapitalization, consolidation, or other similar transaction to which the Company is a party, unless securities representing at least 50% of the combined voting power of the then-outstanding securities of the surviving entity or a parent thereof are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately before the transaction;

(iii) A merger, recapitalization, consolidation, or other similar transaction to which the Company is a party, unless securities representing at least 50% of the combined voting power of the then-outstanding securities of the surviving entity or a parent thereof are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately before the transaction;

(iv) A merger, recapitalization, consolidation or other transaction to which the Company is a party or the sale, transfer or other disposition of all or substantially all of the Company's assets if, in either case, the members of the Company's Board of Directors immediately prior to consummation of the transaction do not, upon consummation of the transaction, constitute at least a majority of the board of directors of the surviving entity or the entity acquiring the Company's assets, as the case may be, or a parent thereof (for this purpose, any change in the composition of the Company's Board of Directors that is anticipated or pursuant to an understanding or agreement in connection with a transaction will be deemed to have occurred at the time of the transaction); or

(v) A change in the composition of the Company's Board of Directors over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (a) have been Board members since the beginning of such period or (b) have been elected or nominated for election as Board members during such period by at least a majority of the Board members who were described in clause (a) or who were previously so elected or approved and who were still in office at the time the Board approved such election or nomination.

(b) "Corporate Status" describes the status of a person who is serving or has served (i) as a director or officer of the Company, (ii) as a Company employee in a fiduciary capacity with respect to an employee benefit plan of the Company or (iii) as a director or officer of any other Entity at the request of the Company. For purposes of subsection (iii) of this Section 1(b), a director or officer of the Company who is serving or has served as a director or officer of a Subsidiary shall be deemed to be serving at the request of the Company.

(c) “Disinterested Director” means a director of the Company who (i) is not and was not a party to the Proceeding in respect of which indemnification is sought by the Indemnitee and (ii) is determined to be “disinterested” under applicable Delaware state law.

(d) “Entity” shall mean any corporation, partnership (general or limited), limited liability company, joint venture, trust, employee benefit plan, company, foundation, association, organization or other legal entity, other than the Company.

(e) “Expenses” shall be construed broadly to mean all direct and indirect fees of any type or nature whatsoever, costs and expenses incurred in connection with any Proceeding, including, without limitation, all attorneys’ fees and costs, disbursements and retainers (including, without limitation, any fees, disbursements and retainers incurred by the Indemnitee pursuant to Section 11 hereof), fees and disbursements of experts, witnesses, private investigators and professional advisors (including, without limitation, accountants and investment bankers), court costs, filing fees, transcript costs, fees of experts, travel expenses, duplicating, imaging, printing and binding costs, telephone and fax transmission charges, computer legal research costs, postage, delivery service fees, secretarial services, fees and expenses of third party vendors; the premium, security for, and other costs associated with any bond (including supersedes or appeal bonds, injunction bonds, cost bonds, appraisal bonds or their equivalents), in each case incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding (including, without limitation, any judicial or arbitration Proceeding brought to enforce the Indemnitee’s rights under, or to recover damages for breach of, this Agreement), as well as all other “expenses” within the meaning of that term as used in Section 145 of the DGCL, any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement, ERISA excise taxes and penalties, and all other disbursements or expenses of types customarily and reasonably incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, actions, suits, or proceedings similar to or of the same type as the Proceeding with respect to which such disbursements or expenses were incurred. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding.

(f) “Indemnifiable Expenses,” “Indemnifiable Liabilities” and “Indemnifiable Amounts” shall have the meanings ascribed to those terms in Section 3(a) hereof.

(g) “Independent Counsel” means a law firm, or a person admitted to practice law in any State of the United States, that is experienced in matters of corporation law and neither presently is, nor in the past three years has been, retained to represent: (i) the Company or the Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnities under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any law firm or person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee’s rights under this Agreement.

(h) “Liabilities” shall be broadly construed to mean, without limitation, all judgments, damages, liabilities, losses, penalties, taxes, fines and amounts paid in settlement, in each case, of any type whatsoever, in connection with a Proceeding. References herein to “fines” shall include any excise tax assessed with respect to any employee benefit plan.

(i) “Proceeding” shall be construed broadly to mean, without limitation, any threatened, pending or completed claim, government, regulatory and self-regulatory action, suit, arbitration, mediation, alternate dispute resolution process, investigation (including any internal investigation), inquiry, administrative hearing, appeal, or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative, arbitrative or investigative nature, whether formal or informal, including a proceeding initiated by the Indemnitee pursuant to Section 11 of this Agreement to enforce the Indemnitee’s rights hereunder.

(j) “Subsidiary” shall mean any Entity of which the Company owns (either directly or indirectly) either (i) a general partner, managing member or other similar interest or (ii) (A) 50% or more of the voting power of the voting capital equity interests of such Entity, or (B) 50% or more of the outstanding voting capital stock or other voting equity interests of such Entity.

(k) References herein to a director of any other Entity shall include, in the case of any Entity that is not managed by a board of directors, such other position, such as manager or trustee or member of the governing body of such Entity, that entails responsibility for the management and direction of such Entity’s affairs, including, without limitation, the general partner of any partnership (general or limited) and the manager or managing member of any limited liability company.

2. **Services by the Indemnitee.** In consideration of the Company’s covenants and commitments hereunder, the Indemnitee agrees to serve or continue to serve as either a director on the board of directors of the Company or as officer, as applicable, so long as the Indemnitee is duly elected or appointed and until such time as the Indemnitee is removed, terminated, or tenders his or her resignation.

3. **Agreement to Indemnify.** The Company agrees to indemnify the Indemnitee to the fullest extent permitted, and in the manner permitted, by applicable law as in effect as of the date hereof or as such laws may, from time to time, be amended (but only if amended in a way that broadens the right to indemnification and advancement of expenses) as follows:

(a) **Indemnification for Third Party Proceedings.** Subject to the exceptions contained in Section 4(a) hereof, if the Indemnitee was or is a party to, threatened to be made a party to or otherwise involved in any capacity in, any Proceeding (other than an action by or in the right of the Company) by reason of the Indemnitee’s Corporate Status, the Indemnitee shall be indemnified by the Company to the fullest extent permitted by the DGCL, as the same may be amended from time to time, against all Expenses and Liabilities actually and reasonably incurred or paid by the Indemnitee or on the Indemnitee’s behalf in connection with such a Proceeding (such Expenses and Liabilities are referred to herein as “Indemnifiable Expenses” and “Indemnifiable Liabilities,” respectively, and collectively as “Indemnifiable Amounts”). In addition, the Indemnitee’s Corporate Status may allow for indemnification under certain agreements containing indemnity provisions with another Entity or protections under the organization documents of such other Entity. In those instances, the Company shall remain wholly liable for making any indemnification payments for all Indemnifiable Amounts notwithstanding the payment obligation of such amounts by a third party to the Indemnitee; provided, however, that if and to the extent that the Indemnitee has otherwise actually received payment for Indemnifiable Amounts under any insurance policy, contract, agreement, or otherwise, the Company shall not be liable under this Agreement to make any payment to the Indemnitee with respect to any such paid Indemnifiable Amounts. Nothing hereunder is intended to affect any right of contribution of or against the Company in the event the Company and any other person or persons have co-equal obligations to indemnify (or advance expenses to) the Indemnitee.

(b) **Indemnification in Derivative Actions and Direct Actions by the Company.** Subject to the exceptions contained in Section 4(b) hereof, if the Indemnitee was or is a party to, threatened to be made a party to or otherwise involved in any capacity in, any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the Indemnitee’s Corporate Status, the Indemnitee shall be indemnified by the Company against all Indemnifiable Expenses. In addition, the Indemnitee’s Corporate Status may allow for indemnification under certain agreements containing indemnity provisions with another Entity or protections under the organization documents of such other Entity. In those instances, the Company shall remain wholly liable for making any indemnification payments for all Indemnifiable Expenses notwithstanding the payment obligation of such amounts by a third party to the Indemnitee; provided, however, that if and to the extent that the Indemnitee has otherwise actually received payment for Indemnifiable Expenses under any insurance policy, contract, agreement, or otherwise, the Company shall not be liable under this Agreement to make any payment to the Indemnitee with respect to any such paid Indemnifiable Expenses. Nothing hereunder is intended to affect any right of contribution of or against the Company in the event the Company and any other person or persons have co-equal obligations to indemnify (or advance expenses to) the Indemnitee.

4. **Exceptions to Indemnification.** The Indemnitee shall be entitled to indemnification under Section 3(a) and Section 3(b) hereof in all circumstances other than the following:

(a) **Exceptions to Indemnification for Third Party Proceedings.** If indemnification is requested under Section 3(a) and there has been a final non-appealable judgment by a court of competent jurisdiction that, in connection with the subject of the Proceeding out of which the claim for indemnification has arisen, (i) the Indemnitee failed to act (x) in good faith and (y) in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, (ii) with respect to any criminal action or proceeding, the Indemnitee had reasonable cause to believe that the Indemnitee's conduct was unlawful, the Indemnitee shall not be entitled to payment of Indemnifiable Amounts hereunder.

(b) **Exceptions to Indemnification in Derivative Actions and Direct Actions by the Company.** If indemnification is requested under Section 3(b) and (i) there has been a final non-appealable judgment by a court of competent jurisdiction that, in connection with the subject of the Proceeding out of which the claim for indemnification has arisen, the Indemnitee failed to act (x) in good faith and (y) in a manner the Indemnitee believed to be in or not opposed to the best interests of the Company, the Indemnitee shall not be entitled to payment of Indemnifiable Expenses hereunder; or (ii) there has been a final non-appealable judgment by a court of competent jurisdiction that the Indemnitee is liable to the Company with respect to any claim, issue or matter involved in the Proceeding out of which the claim for indemnification has arisen, then no Indemnifiable Expenses shall be paid with respect to such claim, issue or matter unless, and only to the extent that, the court of competent jurisdiction in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnity for such Indemnifiable Expenses which such court shall deem proper.

(c) For purposes of this Agreement, if the Indemnitee has acted in good faith and in a manner the Indemnitee reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan, the Indemnitee shall be deemed to have acted in a manner not opposed to the best interests of the Company.

5. **Procedure for Payment of Indemnifiable Amounts.**

(a) Subject to Section 9, the Indemnitee shall submit to the Company a written request specifying in reasonable detail the Indemnifiable Amounts for which the Indemnitee seeks payment under Section 3, Section 6, or Section 7 hereof and a short description of the basis for the claim. The Company shall pay such Indemnifiable Amounts to the Indemnitee within sixty (60) calendar days of receipt of the request, to the extent a determination with respect to the Indemnitee's entitlement to indemnification is not required to be made pursuant Sections 5(b) and 5(c) below. At the request of the Company, the Indemnitee shall furnish such documentation and information as are reasonably available to the Indemnitee and necessary to establish that the Indemnitee is entitled to indemnification hereunder.

(b) Upon written request by the Indemnitee for indemnification pursuant to the first sentence of Section 5(a) hereof, if required by applicable law and to the extent not otherwise provided pursuant to the terms of this Agreement, a determination with respect to the Indemnitee's entitlement to indemnification shall be made in the specific case as follows: (i) if a Change in Control shall have occurred and if so requested in writing by the Indemnitee, by Independent Counsel in a written opinion to the Board of Directors; or (ii) if a Change in Control shall not have occurred (or if a Change in Control shall have occurred but the Indemnitee shall not have requested that indemnification be determined by Independent Counsel as provided in subpart (i) of this Section 5(b)), (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board of Directors, or (B) by a committee of Disinterested Directors designated by majority vote of the Disinterested Directors, even though less than a quorum of the Board of Directors, (C) if there are no such Disinterested Directors, or if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board of Directors, or (D) by the Company's stockholders in accordance with applicable law. Notice in writing of any determination as to the Indemnitee's entitlement to indemnification shall be delivered to the Indemnitee promptly after such determination is made, and if such determination of entitlement to indemnification has been made by Independent Counsel in a written opinion to the Board of Directors, then such notice shall be accompanied by a copy of such written opinion. If it is determined that the Indemnitee is entitled to indemnification, then payment to the Indemnitee of all amounts to which the Indemnitee is determined to be entitled (other than sums that were already advanced) shall be made within sixty (60) calendar days after such determination. If it is determined that the Indemnitee is not entitled to indemnification, then the written notice to the Indemnitee (or, if such determination has been made by Independent Counsel in a written opinion, the copy of such written opinion delivered to the Indemnitee) shall disclose the basis upon which such determination is based. The Indemnitee shall cooperate with the person, persons, or entity making the determination with respect to the Indemnitee's entitlement to indemnification, including providing to such person, persons, or entity upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to the Indemnitee and reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification.

(c) If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 5(b) hereof, the Independent Counsel shall be selected as provided in this Section 5(c). The Independent Counsel shall be selected by the Indemnitee, unless the Indemnitee shall request that such selection be made by the Board of Directors, in which case the Company shall give written notice to the Indemnitee advising the Indemnitee of the identity of the Independent Counsel so selected. If the Indemnitee selects the Independent Counsel, the Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either case, the Indemnitee or the Company, as the case may be, may, within thirty (30) calendar days after such written notice of selection has been given, deliver to the Company or to the Indemnitee, as the case may be, a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the law firm or person so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 hereof, and the objection shall set forth the basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the law firm or person so selected may not serve as Independent Counsel unless and until such objection is withdrawn or the Court of Chancery of the State of Delaware or another court of competent jurisdiction in the State of Delaware has determined that such objection is without merit. If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 5(b) hereof and, following the expiration of sixty (60) calendar days after submission by the Indemnitee of a written request for indemnification pursuant to Section 5(a) hereof, Independent Counsel shall not have been selected, or an objection thereto has been made and not withdrawn, then either the Company or the Indemnitee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction in the State of Delaware for resolution of any objection that shall have been made by the Company or the Indemnitee to the other's selection of Independent Counsel and/or for appointment as Independent Counsel of a law firm or person selected by such court (or selected by such person as the court shall designate), and the law firm or person with respect to whom all objections are so resolved or the law firm or person so appointed shall act as Independent Counsel under Section 5(b) hereof. Upon the due commencement of any Proceeding pursuant to Section 11(e) hereof, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing). If the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 5(b) hereof, then the Company agrees to pay the reasonable fees and expenses of such Independent Counsel and to fully indemnify and hold harmless such Independent Counsel against any and all expenses, claims, liabilities, and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

6. **Indemnification for Expenses if the Indemnitee is Wholly or Partly Successful.** Notwithstanding anything contained in this Agreement to the contrary, to the extent that the Indemnitee is or was, or is or was threatened to be made, by reason of the Indemnitee's Corporate Status, a party to any Proceeding and the Indemnitee is successful (on the merits or otherwise, including, without limitation, a settlement of a Proceeding, or claim, issue or matter therein, with or without payment of money or other consideration) in defending all claims, issues and matters in such Proceeding, the Indemnitee shall be indemnified against all Indemnifiable Expenses incurred by the Indemnitee or on the Indemnitee's behalf in connection with the defense of such Proceeding. If the Indemnitee is successful (on the merits or otherwise, including, without limitation, a settlement of a Proceeding, or claim, issue or matter therein, with or without payment of money or other consideration) in defending one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify, hold harmless and exonerate the Indemnitee for that portion of the Expenses reasonably incurred in connection with defending those claims, issues or matters with respect to which the Indemnitee was successful in defending. For purposes of this Agreement, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter. Notwithstanding any of the foregoing, nothing herein shall be construed to limit the Indemnitee's right to indemnification which he or she would otherwise be entitled to in accordance with Section 3 and Section 4 hereof, regardless of the Indemnitee's success in a Proceeding.

7. **Indemnification for Expenses as a Witness.** Anything in this Agreement to the contrary notwithstanding, to the fullest extent permitted by applicable law, to the extent that the Indemnitee, by reason of the Indemnitee's Corporate Status, is or was, or is or was threatened to be made, a witness in any Proceeding to which the Indemnitee is not a party, the Indemnitee shall be indemnified against all Indemnifiable Expenses incurred by the Indemnitee or on the Indemnitee's behalf in connection therewith. To the extent permitted by applicable law, the Indemnitee shall be entitled to indemnification for Expenses incurred in connection with being or threatened to be made a witness, as provided in this Section 7, regardless of whether the Indemnitee met the standards of conduct set forth in Sections 4(a) and 4(b) hereof.

8. **Agreement to Advance Expenses; Conditions.** The Company shall pay to the Indemnitee all Indemnifiable Expenses incurred by or on behalf of the Indemnitee in connection with any Proceeding to which the Indemnitee was or is a party or was or is otherwise involved or was or is threatened to be made a party to or was or is otherwise involved in any capacity in any Proceeding by reason of the Indemnitee's Corporate Status, including a Proceeding by or in the right of the Company, in advance of the final disposition of such Proceeding. The Indemnitee hereby undertakes to repay the amount of Indemnifiable Expenses paid to the Indemnitee if it shall ultimately be determined by final judicial decision of a court of competent jurisdiction, from which decision there is no further right to appeal, that the Indemnitee is not entitled under this Agreement to, or is prohibited by applicable law from, indemnification with respect to such Indemnifiable Expenses. Any advances and undertakings to repay pursuant to this Section 8 shall be unsecured and interest free. The Indemnitee shall be entitled to advancement of Indemnifiable Expenses as provided in this Section 8 regardless of any determination by or on behalf of the Company that the Indemnitee has not met the standards of conduct set forth in Sections 4(a) and 4(b) hereof.

9. **Procedure for Advance Payment of Expenses.** The Indemnitee shall submit to the Company a written request specifying in reasonable detail the Indemnifiable Expenses for which the Indemnitee seeks an advancement under Section 8 hereof, together with documentation reasonably evidencing that the Indemnitee has incurred such Indemnifiable Expenses. Payment of Indemnifiable Expenses under Section 8 hereof shall be made no later than sixty (60) calendar days after the Company's receipt of such request.

10. **Burden of Proof; Defenses; and Presumptions.**

(a) In any Proceeding pursuant to Section 11 hereof brought by the Indemnitee to enforce rights to indemnification or to an advancement of Indemnifiable Expenses hereunder, or in any Proceeding brought by the Company to recover an advancement of Indemnifiable Expenses (whether pursuant to the terms of an undertaking or otherwise), the burden shall be on the Company to prove that the Indemnitee is not entitled to be indemnified, or to such an advancement of Indemnifiable Expenses, as the case may be.

(b) It shall be a defense in any Proceeding pursuant to Section 11 hereof to enforce rights to indemnification under Section 3(a) or Section 3(b) hereof (but not in any Proceeding pursuant to Section 11 hereof to enforce a right to an advancement of Indemnifiable Expenses under Sections 8 and 9 hereof) that the Indemnitee has not met the standards of conduct set forth in Section 4(a) or Section 4(b) hereof, as the case may be, but the burden of proving such defense shall be on the Company. With respect to any Proceeding pursuant to Section 11 hereof brought by the Indemnitee to enforce a right to indemnification hereunder, or any Proceeding brought by the Company to recover an advancement of Indemnifiable Expenses (whether pursuant to the terms of an undertaking or otherwise), neither (i) the failure of the Company (including by its directors or independent legal counsel) to have made a determination prior to the commencement of such Proceeding that indemnification is proper in the circumstances because the Indemnitee has met the applicable standards of conduct, nor (ii) an actual determination by the Company (including by its directors or independent legal counsel) that the Indemnitee has not met such applicable standards of conduct, shall create a presumption that the Indemnitee has not met the applicable standards of conduct or, in the case of a Proceeding pursuant to Section 11 hereof brought by the Indemnitee seeking to enforce a right to indemnification, be a defense to such Proceeding.

(c) The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, in and of itself, adversely affect the right of the Indemnitee to indemnification hereunder or create a presumption that the Indemnitee did not act in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal Proceeding, shall not create a presumption that the Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(d) For purposes of any determination of good faith, the Indemnitee shall be deemed to have acted in good faith if the Indemnitee's action is reasonably based on the records or books of account of the Company or other Entity, including financial statements, or on information supplied to the Indemnitee by the officers of the Company or other Entity in the course of their duties, or on the advice of legal counsel for the Company or other Entity or on information or records given or reports made to the Company or other Entity by an independent certified public accountant or by an appraiser or other expert selected by the Company or other Entity. The provisions of this Section 10(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any other director, officer, agent, or employee of the Company or of another Entity shall not be imputed to the Indemnitee for purposes of determining the Indemnitee's right to indemnification or advancement of Indemnifiable Expenses under this Agreement.

11. Remedies of the Indemnitees.

(a) Right to Petition Court. In the event that the Indemnitee makes a request for payment of Indemnifiable Amounts under Section 3 or Section 5 hereof or a request for an advancement of Indemnifiable Expenses under Sections 8 or Section 9 hereof and the Company fails to make such payment or advancement in a timely manner in accordance with the terms of this Agreement, the Indemnitee may petition a court to enforce the Company's obligations under this Agreement.

(b) Expenses. The Company agrees to reimburse the Indemnitee in full for any Expenses actually and reasonably incurred by the Indemnitee in connection with investigating, preparing for, litigating, defending or settling any action brought by the Indemnitee under Section 11(a) hereof; provided, however, that to the extent the Indemnitee is unsuccessful on the merits in such action then the Company shall have no obligation to reimburse the Indemnitee under this Section 11(b).

(c) Validity of Agreement. The Company shall be precluded from asserting in any Proceeding, including, without limitation, an action under Section 11(a) hereof, that the provisions of this Agreement are not valid, binding and enforceable or that there is insufficient consideration for this Agreement and shall stipulate in court that the Company is bound by all the provisions of this Agreement.

(d) Failure to Act Not a Defense. The failure of the Company (including its Board of Directors or any committee thereof, independent legal counsel, or stockholders) to make a determination concerning the permissibility of the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses under this Agreement shall not be a defense in any action brought under Section 11(a) hereof, and shall not create a presumption that such payment or advancement is not permissible.

(e) Entitlement to Indemnification; Independent Counsel. In the event that (i) a determination is made pursuant to Section 5 hereof that the Indemnitee is not entitled to indemnification under this Agreement, (ii) if the determination of entitlement to indemnification is not to be made by Independent Counsel pursuant to Section 5(b) hereof, no determination of entitlement to indemnification shall have been made pursuant to Section 5(b) hereof within sixty (60) calendar days after receipt by the Company of the Indemnitee's written request for indemnification, (iii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 5(b) hereof, no determination of entitlement to indemnification shall have been made pursuant to Section 5(b) hereof within eighty (80) calendar days after receipt by the Company of the Indemnitee's written request for indemnification, unless an objection to the selection of such Independent Counsel has been made and substantiated and not withdrawn, in which case the applicable time period shall be seventy (70) calendar days after the Court of Chancery of the State of Delaware or another court of competent jurisdiction in the State of Delaware (or such person appointed by such court to make such determination) has determined or appointed the person to act as Independent Counsel pursuant to Section 5(b) hereof, (iv) payment of Indemnified Amounts payable pursuant to Section 6 or Section 7 hereof is not made within sixty (60) calendar days after receipt by the Company of a written request therefor, or (v) payment of Indemnified Amounts payable pursuant to Section 6 or Section 7 hereof is not made within sixty (60) calendar days after a determination has been made pursuant to Section 5(b) hereof that the Indemnitee is entitled to indemnification, then in each instance described in clauses (i) through (v), the Indemnitee shall be entitled to seek an adjudication by the Court of Chancery of the State of Delaware of the Indemnitee's entitlement to such indemnification or advancement of Indemnifiable Expenses.

(f) Not Prejudiced by Adverse Determination. In the event that a determination shall have been made pursuant to Section 5(b) hereof that the Indemnitee is not entitled to indemnification, any Proceeding commenced pursuant to this Section 11 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and the Indemnitee shall not be prejudiced by reason of that adverse determination.

12. **Settlement of Proceedings.**

(a) The Indemnitee agrees that it will not settle, compromise or consent to the entry of any judgment as to the Indemnitee in any pending or threatened Proceeding (whether or not the Indemnitee is an actual or potential party to such Proceeding) in which Indemnitee has sought indemnification hereunder without the Company's prior written consent, which consent will not be unreasonably withheld, unless such settlement, compromise or consent respecting such Proceeding includes an unconditional release of the Company and does not (i) require or impose any injunctive or other non-monetary remedy on the Company or its affiliates, (ii) require or impose an admission or consent as to any wrongdoing by the Company or its affiliates, or (iii) otherwise result in a direct or indirect payment by or monetary cost to the Company or its affiliates.

(b) The Company agrees that it will not settle, compromise or consent to the entry of any judgment as to the Indemnitee in any pending or threatened Proceeding (whether or not the Indemnitee is an actual or potential party to such Proceeding) in which the Indemnitee has sought indemnification hereunder without the Indemnitee's prior written consent, which consent shall not be unreasonably withheld, unless such settlement, compromise or consent includes an unconditional release of the Indemnitee and does not (i) require or impose any injunctive or other non-monetary remedy on the Indemnitee, (ii) require or impose an admission or consent as to any wrongdoing by the Indemnitee or (iii) otherwise result in a direct or indirect payment by or monetary cost to the Indemnitee personally (as opposed to a payment to be made or cost to be paid by the Company on the Indemnitee's behalf).

13. **Notice by the Indemnitee.** The Indemnitee agrees to notify the Company promptly upon being served with any summons, citation, subpoena, complaint, indictment, information, or other document relating to any Proceeding which could reasonably be expected to result in the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses hereunder; provided, however, that the failure to give any such notice shall not disqualify the Indemnitee from the right to receive payments of Indemnifiable Amounts or advancements of Indemnifiable Expenses.

14. **Representations and Warranties of the Company.** The Company hereby represents and warrants to the Indemnitee as follows:

(a) Authority. The Company has all necessary power and authority to enter into, and be bound by the terms of, this Agreement, and the execution, delivery and performance of the undertakings contemplated by this Agreement have been duly authorized by the Company.

(b) Enforceability. This Agreement, when executed and delivered by the Company in accordance with the provisions hereof, shall be a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by equitable principles and applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights generally.

(c) No Conflicts. This Agreement, when executed and delivered by the Company in accordance with the provisions hereof, does not, and the Company's performance of its obligations under the Agreement will not, violate the Company's certificate of incorporation, bylaws, other agreements to which the Company is a party to or applicable law.

(d) Insurance. The Company shall use commercially reasonable efforts to cause the Indemnitee, at the Company's expense, to be covered by such insurance policies or policies providing liability insurance for directors or officers of the Company or of any Subsidiary, if any, in accordance with its or their terms to the same extent as provided to any then-current director or officer of the Company or any Subsidiary under such policy or policies.

15. Contract Rights Not Exclusive; Subrogation. The rights to payment of Indemnifiable Amounts and advancement of Indemnifiable Expenses provided by this Agreement shall be in addition to, but not exclusive of, any other rights that the Indemnitee may have at any time under applicable law, the Company's bylaws or certificate of incorporation, or any other agreement, vote of stockholders or directors (or a committee of directors), or otherwise, both as to action in the Indemnitee's official capacity and as to action in any other capacity as a result of the Indemnitee's serving in a Corporate Status. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy, given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy. In the event of any payment to or on behalf of the Indemnitee under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

16. Successors. This Agreement shall be (a) binding upon all successors and assigns of the Company (including any transferee of all or a substantial portion of the business, stock and/or assets of the Company and any direct or indirect successor by merger or consolidation or otherwise by operation of law) and (b) binding on and shall inure to the benefit of the heirs, personal representatives, executors and administrators of the Indemnitee. This Agreement shall continue for the benefit of the Indemnitee and such heirs, personal representatives, executors and administrators after the Indemnitee has ceased to have Corporate Status.

17. Change in Law. To the extent that a change in Delaware law (whether by statute or judicial decision) shall permit broader indemnification or advancement of expenses than is provided under the terms of the bylaws of the Company and this Agreement, the Indemnitee shall be entitled to such broader indemnification and advancements, and this Agreement shall be deemed to be amended to such extent, but only to the extent such amendment permits the Indemnitee to broader indemnification and advancement rights other than Delaware law permitted prior to the adoption of such amendment.

18. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement, or any clause thereof, shall be determined by a court of competent jurisdiction to be illegal, invalid or unenforceable, in whole or in part, such provision or clause shall be limited or modified in its application to the minimum extent necessary to make such provision or clause valid, legal and enforceable, and the remaining provisions and clauses of this Agreement shall remain fully enforceable and binding on the parties.

19. **Modifications and Waiver.** Except as provided in Section 17 hereof with respect to changes in Delaware law which broaden the right of the Indemnitee to be indemnified by the Company, no supplement, modification or amendment of this Agreement shall be binding unless executed in writing by each of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement (whether or not similar), nor shall such waiver constitute a continuing waiver.

20. **General Notices.** All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given **(a) when delivered by hand, (b) when transmitted by facsimile and receipt is acknowledged, or (c) if mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:**

- (i) If to the Indemnitee, to the address specified on the signature page hereto;
- (ii) If to the Company, to:

NAPCO Security Technologies, Inc.
333 Bayview Avenue
Amityville, NY 11701
Attention: [General Counsel and Corporate Secretary]

or to such other address as may have been furnished in the same manner by any party to the others.

21. **Contribution.** To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever other than any of those set forth in Section 4 hereof, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

22. **Governing Law.** This Agreement shall be exclusively governed by and construed and enforced under the laws of the State of Delaware without giving effect to the provisions thereof relating to conflicts of law of such state.

23. **Consent to Jurisdiction.**

(a) Each of the Company and the Indemnitee hereby irrevocably and unconditionally (i) agrees and consents to the jurisdiction of the courts of the State of Delaware for all purposes in connection with any action, suit, or proceeding that arises out of or relates to this Agreement and agrees that any such action instituted under this Agreement shall be brought only in the Court of Chancery of the State of Delaware (or in any other state court of the State of Delaware if the Court of Chancery does not have subject matter jurisdiction over such action), and not in any other state or federal court in the United States of America or any court or tribunal in any other country; (ii) consents to submit to the exclusive jurisdiction of the courts of the State of Delaware for purposes of any action or proceeding arising out of or in connection with this Agreement; (iii) waives any objection to the laying of venue of any such action or proceeding in the courts of the State of Delaware; and (iv) waives, and agrees not to plead or to make, any claim that any such action or proceeding brought in the courts of the State of Delaware has been brought in an improper or otherwise inconvenient forum.

(b) Each of the Company and the Indemnitee hereby consents to service of any summons and complaint and any other process that may be served in any action, suit, or proceeding arising out of or relating to this Agreement in any court of the State of Delaware by mailing by certified or registered mail, with postage prepaid, copies of such process to such party at its address for receiving notice pursuant to Section 20 hereof. Nothing herein shall preclude service of process by any other means permitted by applicable law.

24. **Counterparts.** This Agreement may be executed in one or more counterparts (including by PDF or facsimile), each of which shall for all purposes be deemed to be an original but all of which together shall constitute but one and the same Agreement. Only one such counterpart need be produced to evidence the existence of this Agreement.

25. **Headings.** The headings of the sections of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction hereof.

26. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings and negotiations, written and oral, between the parties with respect to the subject matter of this Agreement, including any indemnification agreement that between the Company and the indemnitee entered into prior to the date hereof, provided, however, that this Agreement is supplement to and in furtherance of the Company's certificate of incorporation, bylaws, the DGCL and any other applicable law, and shall not be deemed a substitute therefor, and does not diminish or abrogate any rights of the Indemnitee thereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

COMPANY:

NAPCO SECURITY TECHNOLOGIES, INC.

By: _____
Name:
Title:

INDEMNITEE:

By: _____
Name:
Address for notices:

Subsidiaries of the Company

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 2020. 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
Continental Instruments, LLC	New York
Marks USA I LLC	New York
Napco Americas	Dominican Republic
Napco DR, S.A.S.	Cayman Islands
Napco Technologies International, Inc.	Delaware
Video Alert, LLC	New York

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File No. 333-248078) and Form S-8 (File No. 333-104700 and Registration No. 333-193930) of Napco Security Technologies, Inc. and Subsidiaries, of our reports dated September 15, 2020, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appear in this Annual Report on Form 10-K for the year ended June 30, 2020.

/s/BAKER TILLY US LLP (FORMERLY BAKER TILLY VIRCHOW KRAUSE, LLP)

Melville, New York
September 15, 2020

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 15, 2020

/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 15, 2020

/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, 2020 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 15, 2020

/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.

**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, 2020 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 15, 2020

/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.