

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

☒

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934 [No Fee
Required]

For the fiscal year ended June 30, 1998

or

☐

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

COMMISSION FILE NUMBER: 0-10004

NAPCO SECURITY SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or
organization)

11-2277818
(I.R.S. Employer I.D.
Number)

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

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

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

Securities registered pursuant to
Section 12(g) of the Act:
Common Stock, par value \$.01 per share
(Title of Class)

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

As of September 18, 1998, 3,490,151 shares of Common Stock were
outstanding, and the aggregate market value of the stock (based upon the last
sale price of the stock on such date) held by non-affiliates was approximately
\$14,833,142.

Documents Incorporated by Reference: Portions of the Registrant's Proxy
Statement in connection with its 1998 Annual Meeting of Stockholders are
incorporated by reference in Part III.

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

ITEM 1. BUSINESS.

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

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

Products

Alarm Systems. Alarm systems usually consist of various detectors, a control panel, a digital keypad and signaling equipment. When a break-in occurs, an intrusion detector senses the intrusion and activates a control panel via hard-wired or wireless transmission that sets off the signaling equipment and, in most cases, causes a bell or siren to sound. Communication equipment such as a digital communicator may be used to transmit the alarm signal to a central station or another person selected by a customer.

The Company manufactures and markets the following products for alarm systems:

Automatic Communicators. When a control panel is activated by a signal from an intrusion detector, it activates a communicator that can automatically dial one or more predesignated telephone numbers. If programmed to do so, a digital communicator dials the telephone number of a central monitoring station and communicates in computer language to a digital communicator receiver, which prints out an alarm message.

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

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

Door Security Devices. The Company manufactures a variety of exit alarm locks ranging from simple dead bolt locks to door alarms.

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

Area Detectors. The Company's area detectors are both passive infrared heat detectors and combination microwave/passive infrared detectors that are linked to alarm control panels. Passive infrared heat detectors respond to the change in heat patterns caused by an intruder moving within a protected area. Combination units respond to both changes in heat patterns and changes in microwave patterns occurring at the same time.

Peripheral Equipment

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

Research and Development

The Company's business involves a high technology element. A substantial amount of the Company's efforts are expended to develop and improve the Products. During the fiscal years ended June 30, 1998, 1997, and 1996, the Company expended approximately \$3,817,000, \$3,340,000 and \$3,296,000, respectively, on Company-sponsored research and development activities conducted by its engineering department and outside consultants. Substantially all of the Company's research and development activities during fiscal 1998, 1997 and 1996 were conducted by its engineering department. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

Employees

As of June 30, 1998, the Company had approximately 1,000 full-time employees.

Marketing and Major Customers

The Company's staff of 43 sales and marketing support employees located at the Company's headquarters sells and markets the Products directly to independent distributors and wholesalers of security alarm and security hardware equipment. Management estimates that these channels of distribution represented approximately 80% of the Company's total sales for the fiscal year ended June 30, 1998. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade

shows in major United States cities. Some of the Company's products are marketed under the "private label" of certain customers.

Sales to A.D.I., A.D.T., and KingAlarm, each unaffiliated with the Company, together accounted for approximately 32% and 38% of the Company's total sales for the fiscal years ended June 30, 1998 and 1997 (see Note 9 to Consolidated Financial Statements as to percentage breakdown). With respect to a customer that accounted for approximately 9% of the Company's sales in fiscal year 1997, there was a significant reduction in the sales to such customer to 1% in fiscal 1998. However, the Company does not believe that such reduction had a material adverse effect on the results of operations or financial condition of the Company. The loss of either of the other two customers could have a material adverse effect on the Company's business.

Competition

The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 30 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that no one of these competitors is dominant in the industry. Certain of these companies may have substantially greater financial and other resources than the Company.

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

Raw Materials and Backlog

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

In general, orders for the Products are processed by the Company from inventory. A backlog of approximately \$1,240,000 existed as of June 30, 1998. This compared to a backlog of approximately \$3,467,000 a year ago.

Government Regulation

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

Patents

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

Foreign Sales

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

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

	1998 ----	1997 ---- (in thousands)	1996 ----
Sales to unaffiliated customers:			
United States	\$50,269	\$53,302	\$49,088
Foreign	0	0	0
Identifiable assets:			
United States	\$39,783	\$41,242	\$33,084
Foreign	18,780	16,002	24,235
Export sales:			
United States(2)	\$12,101	\$10,355	\$ 7,994

ITEM 2. PROPERTIES.

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

The Company's foreign subsidiary, NAPCO/Alarm Lock Grupo International, S.A. (formerly known as NSS Caribe, S.A.), is located in the Dominican Republic where it owns a building of approximately 167,000 square feet of production and warehousing space. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092. As of June 30, 1998, most of the Company's sales related to labor on assemblies, goods and subassemblies at these sites, utilizing U.S. quality control standards.

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

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

(2) Export sales from the United States in fiscal year 1998 included sales of approximately \$6,966,000, \$1,070,000 and \$2,094,000 to Europe, North America, and South America respectively. Export sales from the United States in fiscal year 1997 included sales of approximately \$6,046,000, \$1,608,000, and \$1,127,000 to Europe, North America, and South America respectively.

ITEM 3. LEGAL PROCEEDINGS.

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

In August 1995, the Internal Revenue Service (the "IRS") informed the Company that it had completed the audit of the company's Federal tax returns for fiscal years 1986 through 1993. The IRS had issued a report to the Company proposing adjustments that would result in taxes due of approximately \$4.3 million, excluding interest charges. The primary adjustments presented by the IRS related to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagreed with the IRS and began the process of vigorously appealing this assessment using all remedies and procedural actions available under the law. The Company had provided a reserve to reflect its estimate of the ultimate resolution of this matter, so that the outcome of this matter would not have a material adverse effect on the Company's consolidated financial statements.

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

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

Not applicable.

PART II

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

Principal Market

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

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

		Quarter Ended			
		Fiscal 1997			
		Sept. 30	Dec. 31	March 31	June 30
		-----	-----	-----	-----
Common Stock					
High		\$4.38	\$4.25	\$5.63	\$5.63
Low		\$3.50	\$3.38	\$3.75	\$4.75

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 18, 1998 was 204 (such number does not include beneficial owners of stock held in nominee name).

Dividend Information

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

ITEM 6. SELECTED FINANCIAL DATA.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

	Years Ended June 30				
	1998	1997	1996	1995	1994
	----	----	----	----	----
	(in thousands, except for per share data)				
Operations					
Net Sales	\$50,269	\$53,302	\$49,088	\$48,078	\$46,873
Gross Profit	11,785	12,778	11,302	11,325	11,068
(Benefit) provision for Income Taxes	(525)	605	515	532	37
Net Income	2,038	1,639	1,014	512	1,254
Earnings per Share:					
Basic	.48	.38	.23	.12	.29
Diluted	.48	.37	.23	.12	.29
Cash Dividends per Share(3)	0	0	0	0	0

	As of June 30				
	1998	1997	1996	1995	1994
	----	----	----	----	----
	(in thousands, except for per share data)				
Financial Condition					
Total Assets	\$58,563	\$57,244	\$57,319	\$55,739	\$53,810
Long-term Debt	18,644	13,313	14,150	15,275	13,690
Working Capital	33,942	30,136	28,676	28,660	28,033
Stockholders' Equity	28,833	31,218	29,574	28,560	28,048
Stockholders' Equity Per Outstanding Share	8.28	7.14	6.77	6.54	6.42

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

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

Liquidity and Capital Resources

The Company's cash on hand combined with proceeds from operating activities during fiscal 1998 were adequate to meet the Company's capital expenditure needs and short and long-term debt obligations. The primary source of financing related to borrowings under a \$16,000,000 secured revolving credit facility. The Company expects that cash generated from operations and cash available under the Company's bank line of credit will be adequate to meet its short-term liquidity requirements. The Company's primary internal source of liquidity is the cash flow generated from operations. As of June 30, 1998, the Company's unused sources of funds consisted principally of \$1,989,000 in cash and approximately \$1,487,000, which represents the unused portion of its secured revolving credit facility.

In fiscal 1988, the Company completed construction of a new manufacturing and administrative facility in Amityville, New York financed by a \$3.9 million industrial revenue bond issue bearing interest at a variable rate determined weekly by the underwriting bank based upon market conditions. The bonds had a maturity date of April 1, 2000, subject to quarterly sinking fund payments. Such bonds were retired in May 1997 as part of the Company's debt refinancing with its new primary bank as discussed below.

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

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

In addition, a subsidiary of the Company maintains a \$4,500,000 line of credit with another bank, \$1,350,000 of which was outstanding as of June 30, 1998 (see Note 5 to Consolidated Financial Statements).

In May of 1998 the Company repurchased 889,576 shares of Napco common stock for \$5.00 per share from one of its co-founders, Kenneth Rosenberg. \$2.5 million was paid at closing with the balance of the purchase price to be paid over a four (4) year period. The portion of the purchase price paid at closing was financed by the Company's primary bank

and is to be repaid over a five (5) year period. At the closing, Mr. Rosenberg retired as President and Director of the Company but will be available to the Company pursuant to a consulting agreement. The repurchase agreement also provides that Mr. Rosenberg will not compete with the Company for a ten (10) year period.

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

	1998 ----	1997 ----	1996 ----
Current Ratio	4.3 to 1	3.5 to 1	3.2 to 1
Sales to Receivables	3.4 to 1	3.8 to 1	3.6 to 1
Total Debt to Equity	1.0 to 1	.8 to 1	.9 to 1

As of June 30, 1998, the Company had no material commitments for purchases or capital expenditures.

Working Capital. Working capital increased by \$3,806,000 to \$33,942,000 at June 30, 1998 from \$30,136,000 at June 30, 1997. The additional working capital was generated primarily from additional borrowings and a decrease in Income Taxes Payable resulting from the benefit from income taxes as discussed below.

Accounts Receivable. Accounts receivable increased by \$823,000 to \$14,760,000 at June 30, 1998 from \$13,937,000 at June 30, 1997. This increase resulted primarily from more favorable payment terms granted by the Company in certain growing markets.

Inventory. Inventory remained relatively constant at \$25,438,000 at June 30, 1998 as compared to \$25,702,000 at June 30, 1997. The Company generated a significant reduction in its inventory during the quarter ended June 30, 1998 due in part to its efforts at improving various planning and forecasting techniques.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses decreased by \$1,826,000 to \$4,887,000 at June 30, 1998 from \$6,713,000 at June 30, 1997. This decrease is primarily the result of decreased component part purchases during the quarter ended June 30, 1998 as compared to the same period ended June 30, 1997.

Results of Operations

Fiscal 1998 Compared to Fiscal 1997

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

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

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

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

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

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

Fiscal 1997 Compared to Fiscal 1996

Net Sales. Net sales in fiscal 1997 increased approximately \$4,214,000 or 8.6% to \$53,302,000 from \$49,088,000 in fiscal 1996. This increase was primarily the result of increased export sales as well as the markets favorable reception of the Company's new hybrid hard-wired/wireless products and new digital locks that more than offset the decrease in sales of hard-wired only products, decreased sales to one major customer, and continued price pressure in the industry.

Gross Profit. The Company's gross profit increased \$1,476,000 to \$12,778,000 or 24.0% of net sales in fiscal 1997 as compared to \$11,302,000 or 23% of net sales in fiscal 1996. The increase in gross profit as a percentage of net sales was primarily due to improvements in the Company's manufacturing efficiency as well as efficiencies of scale resulting from the higher sales volume mentioned above.

Expenses. Selling, general and administrative expenses in fiscal 1997 increased 9% or \$759,000 to \$9,133,000 or 17.1% of net sales from \$8,374,000 or 17.1% of net sales in fiscal 1996. This increase was primarily due to the Company's additional marketing efforts relating to several new products introduced during the year.

Other Expenses. Other Expenses in fiscal 1997 remained relatively constant at \$1,401,000 as compared to \$1,399,000 in fiscal 1996.

Income Taxes. Provision for income taxes increased \$90,000 to \$605,000 or approximately 27% of income before provision for income taxes during fiscal 1997. This compared to a provision of \$515,000 or approximately 34% of income before provision for income taxes during fiscal 1996. The decrease in the provision as a percentage of income before provision for income taxes was primarily attributable to lower reserve requirements.

Effects of Inflation. During the three-year period ended June 30, 1997, inflation and changing prices did not have a significant impact on the Company's operations.

Year 2000 Date Conversion

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

Virtually all of the Company's systems are fully compliant. Due to the fact that the Company's software manufacturer includes the Year 2000 upgrade as part of its ongoing maintenance, the Company expects to expend a minimal amount of its resources in this area.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

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AS OF JUNE 30, 1998 AND 1997

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To Napco Security Systems, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Napco Security Systems, Inc. (a Delaware corporation) and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1998. These consolidated financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Napco Security Systems, Inc. and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998 in conformity with generally accepted accounting principles.

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

/s/ Arthur Andersen LLP

Melville, New York
September 24, 1998

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF JUNE 30, 1998 AND 1997

ASSETS -----	1998 ----	1997 ----
	(in thousands, except share data)	
CURRENT ASSETS:		
Cash	\$ 1,989	\$ 1,006
Accounts receivable, less reserve for doubtful accounts of \$755 and \$805, respectively	14,760	13,937
Inventories, net	25,438	25,702
Prepaid expenses and other current assets	674	390
Deferred income taxes	1,292	986
	-----	-----
Total current assets	44,153	42,021
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization of approximately \$11,055 and \$10,344, respectively	11,491	12,088
GOODWILL, net of accumulated amortization of approximately \$1,149 and \$1,042 respectively	2,592	2,699
OTHER ASSETS	327	436
	-----	-----
	\$ 58,563	\$ 57,244
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 1,667	\$ 900
Accounts payable	3,862	5,500
Accrued expenses	1,025	1,213
Accrued salaries and wages	653	595
Accrued income taxes	3,004	3,677
	-----	-----
Total current liabilities	10,211	11,885
LONG-TERM DEBT	18,644	13,313
DEFERRED INCOME TAXES	875	828
	-----	-----
Total liabilities	29,730	26,026
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; 21,000,000 shares authorized; 5,908,102 and 5,898,602 shares issued, respectively; 3,489,651 and 4,367,727 shares outstanding, respectively	59	59
Additional paid-in capital	749	724
Retained earnings	32,474	30,436
Less: Treasury stock, at cost (2,418,451 and 1,528,875 shares, respectively)	(4,449)	(1)
	-----	-----
Total stockholders' equity	28,833	31,218
	-----	-----
	\$ 58,563	\$ 57,244
	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

	1998 ----	1997 ----	1996 ----
	(in thousands, except share and per share data)		
NET SALES	\$ 50,269	\$ 53,302	\$ 49,088
COST OF SALES	38,484 -----	40,524 -----	37,786 -----
Gross profit	11,785	12,778	11,302
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,289 -----	9,133 -----	8,374 -----
Operating income	2,496 -----	3,645 -----	2,928 -----
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,130)	(1,081)	(1,278)
Other, net	147 -----	(320) -----	(121) -----
	(983) -----	(1,401) -----	(1,399) -----
Income before (benefit) provision for income taxes	1,513	2,244	1,529
(BENEFIT) PROVISION FOR INCOME TAXES	(525) -----	605 -----	515 -----
Net income	\$ 2,038 =====	\$ 1,639 =====	\$ 1,014 =====
EARNINGS PER SHARE (Note 1):			
Basic	\$.48 =====	\$.38 =====	\$.23 =====
Diluted	\$.48 =====	\$.37 =====	\$.23 =====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 1):			
Basic	4,263,000 =====	4,369,000 =====	4,368,000 =====
Diluted	4,285,000 =====	4,383,000 =====	4,373,000 =====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996
(in thousands except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	Number of Shares	Amount				
BALANCE AT JUNE 30, 1995	5,898,602	\$ 59	\$ 719	\$27,783	\$ (1)	\$28,560
Net income	--	--	--	1,014	--	1,014
BALANCE AT JUNE 30, 1996	5,896,602	59	719	28,797	(1)	29,574
Exercise of employee stock options	2,000	--	5	--	--	5
Net income	--	--	--	1,639	--	1,639
BALANCE AT JUNE 30, 1997	5,898,602	59	724	30,436	(1)	31,218
Purchase of treasury stock	--	--	--	--	(4,448)	(4,448)
Exercise of employee stock options	9,500	--	25	--	--	25
Net income	--	--	--	2,038	--	2,038
BALANCE AT JUNE 30, 1998	5,908,102	\$ 59	\$ 749	\$32,474	\$(4,449)	\$28,833

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996

	1998 ----	1997 ---- (in thousands)	1996 ----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 2,038	\$ 1,639	\$ 1,014
Adjustments to reconcile net income to net cash (used in) provided by operating activities-			
Depreciation and amortization	1,289	1,440	1,425
Provision for doubtful accounts	50	55	202
Deferred income taxes	(259)	(11)	351
Changes in operating assets and liabilities resulting from increases and decreases in:			
Accounts receivable	(873)	(233)	(314)
Inventories	264	242	(1,766)
Prepaid expenses and other current assets	(284)	99	(44)
Other assets	109	(105)	(112)
Accounts payable, accrued expenses, accrued salaries and wages and accrued income taxes	(2,441)	(368)	2,779
	-----	-----	-----
Net cash (used in) provided by operating activities	(107)	2,758	3,535
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net purchases of property, plant and equipment	(585)	(746)	(1,170)
	-----	-----	-----
Net cash used in investing activities	(585)	(746)	(1,170)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from notes payable to bank	2,500	--	--
Principal payments on notes payable to bank	--	--	(500)
Principal payments on capital lease obligation	--	--	(7)
Principal payments on long-term debt	(900)	(13,400)	(1,800)
Proceeds from long-term debt	2,550	11,963	--
Purchase of treasury stock	(2,500)	--	--
Proceeds from exercise of employee stock options	25	5	--
	-----	-----	-----
Net cash provided by (used in) financing activities	1,675	(1,432)	(2,307)
	-----	-----	-----
NET INCREASE IN CASH	983	580	58
CASH, beginning of year	1,006	426	368
	-----	-----	-----
CASH, end of year	\$ 1,989	\$ 1,006	\$ 426
	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ 1,289	\$ 1,076	\$ 1,155
	=====	=====	=====
Income taxes paid	\$ 108	\$ 35	\$ 144
	=====	=====	=====
NON-CASH FINANCING ACTIVITIES:			
Issuance of note payable for purchase of treasury stock	\$ 1,948	\$ --	\$ --
	=====	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1998, 1997 AND 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

Principles of Consolidation

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

Accounting Estimates

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

Inventories

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

Property, Plant and Equipment

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

Goodwill

Goodwill is being amortized on a straight-line basis over 35 years. Subsequent to an acquisition, the Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of the goodwill may warrant revision or that the remaining balance may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the undiscounted cash flows over the remaining life of the goodwill in measuring whether it is recoverable. In the years ended June 30, 1998 and 1997, there were no adjustments to the carrying value of goodwill, other than the straight-line amortization.

Revenue

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

Income Taxes

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

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

The Company does not provide for income taxes on the undistributed earnings of its foreign subsidiary in the Dominican Republic because such earnings are reinvested abroad and it is the intention of management that such earnings will continue to be reinvested abroad. As of June 30, 1998 and 1997, approximately \$19,085,000 and \$18,328,000 in cumulative earnings of this foreign subsidiary are included in consolidated retained earnings.

Earnings Per Share

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

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

	Net Income - Numerator			Shares - Denominator			Per Share Amounts		
	1998	1997	1996	1998	1997	1996	1998	1997	1996
Net income	\$2,038	\$1,639	\$1,014	--	--	--	\$ --	\$ --	\$ --
Basic EPS									
Net income attributable to common stock	2,038	1,639	1,014	4,263	4,369	4,368	0.48	0.38	0.2
Effect of Dilutive Securities Options	--	--	--	22	14	5	--	--	--
Diluted EPS									
Net income attributable to common stock and assumed option exercises	\$2,038	\$1,639	\$1,014	4,285	4,383	4,373	\$ 0.48	\$ 0.37	\$ 0.23

Options to purchase 4,400, 4,200 and 12,600 shares of common stock for the three years ended June 30, 1998, respectively, were not included in the computation of diluted EPS because the exercise prices exceeded the average market price of the common shares for the respective periods. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

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

New Accounting Pronouncements

In June 1997, the FASB issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". SFAS No. 131 establishes standards for the reporting of operating segments in interim and annual financial statements, as well as requiring related disclosures about products and services, geographic areas and major customers. This standard is effective for the Company's fiscal 1999 financial statements. Initial adoption of this standard may take place on an interim or year end basis.

In June 1997, the FASB issued SFAS No. 130 "Reporting Comprehensive Income". SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of financial statements. The Company's consolidated financial statements will be required to include comprehensive income disclosures beginning with the first quarter of fiscal 1999. Restatement of prior period information will be made for comparative purposes.

SFAS No.'s 131 and 130 expand and modify financial statement disclosures and, accordingly, will have no impact on the Company's results of operations or financial position.

2. INVENTORIES:

Inventories, net, consist of the following:

	June 30,	
	1998	1997
	----	----
	(in thousands)	
Component parts	\$10,200	\$12,197
Work-in-process	4,056	3,374
Finished products	11,182	10,131
	-----	-----
	\$25,438	\$25,702
	=====	=====

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consists of the following:

	June 30,		Depreciation/ amortization- annual rates
	1998	1997	
	----	----	-----
	(in thousands)		
Land	\$ 904	\$ 904	-
Building	8,911	8,911	3%
Molds and dies	2,819	2,554	20% to 33%
Furniture and fixtures	912	977	10% to 20%
Machinery and equipment	8,944	8,660	10% to 15%
Leasehold improvements	56	426	Shorter of the lease term or life of asset
	-----	-----	
	22,546	22,432	
Less: Accumulated depreciation and amortization	11,055	10,344	
	-----	-----	
	\$11,491	\$12,088	
	=====	=====	

Depreciation and amortization expense on property, plant and equipment was approximately \$1,182,000, \$1,332,000 and \$1,222,000 for the three years ended June 30, 1998, respectively.

4. INCOME TAXES:

In August 1995, the Internal Revenue Service (the "IRS") informed the Company that it had completed the audit of the Company's Federal tax returns for fiscal years 1986 through 1993. The IRS had issued a report to the Company proposing adjustments that would result in taxes due of approximately \$4.3 million, excluding interest charges. The primary adjustments presented by the IRS related to intercompany pricing and royalty charges, DISC earnings and charitable contributions. The Company disagreed with the IRS and began the process of vigorously appealing this assessment using all remedies and procedural actions available under the law. The Company had provided a reserve to reflect its estimate of the ultimate resolution of this matter, so that the outcome of this matter would not have a material adverse effect on the Company's consolidated financial statements.

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

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

	For the Years Ended June 30,		
	1998	1997	1996
	----	----	----
	(in thousands)		
Taxes currently payable:			
Federal	\$(210)	\$340	\$104
State	(56)	120	19
	-----	-----	-----
	(266)	460	123
Taxes on DISC earnings and other	-	156	41
Deferred income tax (benefit) provision	(259)	(11)	351
	-----	-----	-----
(Benefit) provision for income taxes	\$(525)	\$605	\$515
	=====	=====	=====

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

	1998		1997		1996	
	Amount	% of Pre-tax Income	Amount	% of pre-tax Income	Amount	% of pre-tax Income
	-----	-----	-----	-----	-----	-----
	(in thousands, except percentages)					
Tax at Federal statutory rate	\$ 514	34.0%	\$ 763	34.0%	\$ 520	34.0%
Increases (decreases) in taxes resulting from:						
State income taxes, net of Federal income tax benefit	38	2.5	96	4.3	44	2.9
Amortization of non-deductible goodwill	36	2.4	36	1.6	36	2.4
Non-taxable foreign source income	(257)	(17.0)	(382)	(17.0)	(260)	(17.0)
Adjustment to reflect IRS settlement	(900)	(59.5)	--	--	--	--
Other, net	44	2.9	92	4.1	175	11.4
	-----	-----	-----	-----	-----	-----
(Benefit) provision for income taxes	\$(525)	(34.7)%	\$ 605	27.0%	\$ 515	33.7%
	=====	=====	=====	=====	=====	=====

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

The deferred tax assets and deferred tax liabilities at June 30, 1998 and 1997 are as follows (in thousands):

	Deferred Tax Assets		Deferred Tax Liabilities		Net Deferred Tax Assets (Liabilities)	
	1998	1997	1998	1997	1998	1997
	----	----	----	----	----	----
Current:						
Accounts receivable	\$ 314	\$ 322	\$ --	\$ --	\$ 314	\$ 322
Inventories	902	548	--	--	902	548
Accrued liabilities	194	180	--	--	194	180
Other	29	29	147	93	(118)	(64)
	-----	-----	-----	-----	-----	-----
	1,439	1,079	147	93	1,292	986
Noncurrent:						
Fixed assets	--	--	875	828	(875)	(828)
	-----	-----	-----	-----	-----	-----
Total deferred taxes	\$ 1,439	\$ 1,079	\$ 1,022	\$ 921	\$ 417	\$ 158
	=====	=====	=====	=====	=====	=====

As a result of the Company's U.S. operations generating income in each of the three years in the period ended June 30, 1998, management now believes it is more likely than not that the Company will realize the benefit of the net deferred tax assets existing at June 30, 1998 and 1997. Accordingly, the Company has not reflected any valuation allowance against the deferred tax assets at June 30, 1998 and 1997. Furthermore, management believes that the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. There can be no assurance, however, that the Company will generate taxable earnings or any specific level of continuing earnings in the future.

5. LONG-TERM DEBT:

Long-term debt consists of the following:

	June 30, 1998	1997
	----	----
	(in thousands)	
Revolving credit and term loan facility (a)	\$14,513	\$11,963
Notes payable (b)	5,798	2,250
	-----	-----
	20,311	14,213
Less: Current portion	1,667	900
	-----	-----
	\$18,644	\$13,313
	=====	=====

(a) On May 13, 1997, the Company refinanced the majority of its bank debt with a new primary bank and entered into a \$16,000,000 secured revolving credit agreement, a \$3,000,000 line of credit to be used in connection with commercial and standby letters of credit, and replaced the \$2,500,000 standby letter of credit securing an earlier loan from another bank in connection with the Company's international operations. The revolving credit agreement and the letters of credit are secured by all the accounts receivable, inventory and certain other assets of Napco Security Systems, Inc., a first and second mortgage on the Company's headquarters in Amityville, New York, as well as common stock of two of the Company's subsidiaries. The revolving credit agreement bears interest at either the bank's prime rate (8.5% at June 30, 1998) or an alternate rate based on LIBOR as described in the agreement. The Company restructured its debt to allow for future growth and expansion as well as to obtain terms more favorable to the Company. As part of the debt restructuring, the Company retired the outstanding Industrial Revenue Bonds relating to the financing of the construction of the Company's Amityville, New York facility. The revolving credit agreement will expire in May 2000 and any outstanding borrowings are to be repaid on or before that time. The agreement contains various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings, restrictions on capital expenditures, the maintenance of minimum amounts of tangible net worth, and compliance with other certain financial ratios, as defined in the agreement. As of June 30, 1998, the Company was in compliance with all of these financial covenants.

(b) In November 1991, a subsidiary of the Company entered into a \$4,500,000 line of credit agreement with a bank in connection with the Company's international operations. The line is secured by a letter of credit from the Company's primary bank. Interest on amounts outstanding under this line is payable quarterly at a rate determined periodically based on a number of options available to the Company. The balance outstanding under the line as of December 31, 1994 automatically converted to a term loan payable in 20 equal quarterly installments commencing on that date. At June 30, 1998 and 1997, the amounts outstanding (\$1,350,000 and \$2,250,000, respectively) bore interest at rates of 6.19% and 5.94%, respectively.

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

In May 1997, the Company entered into an agreement with its primary bank to replace a previous \$2,500,000 standby letter of credit agreement which expired in February 1997 with a new \$2,500,000 standby letter of credit, as described above, for the purpose of providing additional collateral for the line of credit agreement.

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

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

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

Year ending June 30,	

1999	\$ 1,667
2000	15,914
2001	1,070
2002	1,118
2003	542

	\$20,311
	=====

6. STOCK OPTIONS:

In November 1992, the stockholders approved a 10-year extension of the already existing 1982 Incentive Stock Option Plan (the "1992 Plan"). The 1992 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of approximately 815,000 shares of the Company's common stock to be acquired by the holders of such awards. Under the 1992 Plan, the Company may grant stock options, which are intended to qualify as incentive stock options ("ISOs"), to key employees, officers, and employee directors. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant and the option must be exercised within five years from the date of grant. Under the 1992 Plan, stock options have been granted to employees and directors for terms of up to 5 years at an exercise price equal to the fair market on the date of grant and are exercisable in whole or in part at 20% per year from the date of grant. At June 30, 1998, 72,800 stock options granted to employees and directors were exercisable. The Company accounts for awards granted to employees, directors and key employees under APB Opinion No. 25, under which compensation cost is recognized for stock options granted at an exercise price less than the market value of the options on the grant date. Had compensation cost for all stock option grants in fiscal years 1998, 1997 and 1996 been determined consistent with SFAS No. 123, the Company's net income and earnings per share would have been:

		1998 ----	1997 ----	1996 ----
NET INCOME	AS REPORTED	\$2,038	\$1,639	\$1,014
	PRO FORMA	1,901	1,629	1,005
BASIC EPS	AS REPORTED	0.48	0.38	0.23
	PRO FORMA	0.45	0.37	0.23
DILUTED EPS	AS REPORTED	0.48	0.37	0.23
	PRO FORMA	0.44	0.37	0.23

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

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

	June 30, 1998		June 30, 1997		June 30, 1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	-----	-----	-----	-----	-----	-----
Outstanding at beginning of year	75,750	3.08	76,000	\$3.02	81,000	\$3.07
Granted	209,000	4.11	3,250	3.59	35,000	2.52
Exercised	(9,500)	2.61	(2,000)	2.25	-	-
Forfeited	(34,500)	3.76	-	-	(2,400)	3.25
Canceled/Lapsed	(4,500)	2.97	(1,500)	2.25	(37,600)	2.63
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	236,250	3.91	75,750	3.08	76,000	3.02
Exercisable at end of year	72,800	3.71	46,750	3.21	35,100	3.14
	=====		=====		=====	
Weighted average fair value of options granted	\$3.04		\$1.76		\$1.24	

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

	1998 ----	1997 ----	1996 ----
Risk-Free Interest Rates	6.10%	5.99%	6.05%
Expected Lives	5 years	5 years	5 years
Expected Volatility	46%	47%	47%
Expected Dividend Yields	0%	0%	0%

The following table summarizes information about stock options outstanding at June 30, 1998:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 6/30/98	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 6/30/98	Weighted Average Exercise Price
-----	-----	----	----	-----	----
\$2.50 - \$3.75	35,750	2.28	2.56	21,500	2.55
3.76 - 5.63	200,500	3.84	4.15	51,300	4.20
-----	-----	----	----	-----	----
2.50 - 5.63	236,250	3.60	3.91	72,800	3.71
	=====	=====	=====	=====	=====

Effective October 1990, the Company established a non-employee stock option plan (the "1990 Plan") to encourage non-employee directors and consultants of the Company to invest in the Company's stock. The 1990 Plan provides for the granting of non-qualified stock options, the exercise of which would allow up to an aggregate of 50,000 shares of the Company's common stock to be acquired by the holders of the stock options. The 1990 Plan provides that the option price shall not be less than 100% of the fair market value of the stock at the date of grant. Options are exercisable at 20% per year and expire five years after the date of grant. The Company has adopted SFAS No. 123 to account for stock-based compensation awards granted to non-employee directors and consultants, under which a compensation cost is recognized for the fair value of the options granted as of the date of grant. As of June 30, 1998, no shares have been granted under this plan.

7. STOCK PURCHASE:

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

8. 401(k) PLAN:

The Company maintains a 401(k) plan covering all employees with one or more years of service. The plan is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. The Company provides for matching contributions of 50% of the first 2% of employee contributions. Company contributions to the plan totaled approximately \$53,000, \$47,000 and \$48,000 for the three years ended June 30, 1998, respectively.

9. BUSINESS AND CREDIT CONCENTRATIONS:

The Company is engaged in one major line of business - the development, manufacture and distribution of security alarm products and door security devices for commercial and residential use. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America, Europe and South America. Identifiable assets (net of intercompany receivables and payables) relating to the Company's foreign operations were approximately \$18,780,000 and \$16,002,000 at June 30, 1998 and 1997, respectively.

Export sales amounted to \$12,101,000, \$10,355,000 and \$7,994,000 for the three years ended June 30, 1998, respectively. At June 30, 1998 and 1997, the Company had three customers with accounts receivable balances that aggregated 36% and 40% of the Company's accounts receivable, respectively. Revenues from the three largest customers are summarized as follows:

	Percentage of Net Sales		

	For the Years Ended June 30,		
	1998	1997	1996
	----	----	----
Customer 1	23%	21%	21%
Customer 2	8%	8%	9%
Customer 3	1%	9%	12%

10. COMMITMENTS AND CONTINGENCIES:

Leases

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

Year ending June 30,	
1999	\$544
2000	302
2001	97

	\$943
	=====

Rent expense totaled approximately \$866,000, \$736,000 and \$389,000 for the three years ended June 30, 1998, respectively.

Land Lease

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

Letters of Credit

At June 30, 1998, the Company was committed for approximately \$2,284,000 under open commercial letters of credit and steamship guarantees.

Litigation

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY

CONDENSED BALANCE SHEETS

ASSETS	As of June 30	
	1998	1997
	----	----
	(in thousands)	
CASH	\$ 1,825	\$ 872
ACCOUNTS RECEIVABLE, net	12,905	11,735
INVENTORIES, net	12,656	16,890
PREPAID EXPENSES AND OTHER CURRENT ASSETS	533	279
DEFERRED INCOME TAXES	1,292	986
	-----	-----
Total current assets	29,211	30,762
INVESTMENT IN SUBSIDIARIES, on equity basis	25,102	24,345
PROPERTY, PLANT AND EQUIPMENT, net	5,744	5,808
OTHER ASSETS	146	240
	-----	-----
	\$60,203	\$61,155
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES	\$ 8,917	\$10,516
DUE TO SUBSIDIARIES	3,384	6,630
LONG-TERM DEBT	18,194	11,963
DEFERRED INCOME TAXES	875	828
	-----	-----
Total liabilities	31,370	29,937
STOCKHOLDERS' EQUITY	28,833	31,218
	-----	-----
	\$60,203	\$61,155
	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY

CONDENSED STATEMENTS OF INCOME

	For the Years Ended June 30,		
	1998	1997	1996
	----	----	----
	(in thousands)		
NET SALES	\$ 41,610	\$ 43,921	\$ 40,482
COST OF SALES	32,022	33,733	30,319
	-----	-----	-----
Gross profit	9,588	10,188	10,163
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,934	7,826	7,277
	-----	-----	-----
Operating income	1,654	2,362	2,886
EQUITY IN EARNINGS (LOSS) OF SUBSIDIARIES	757	1,122	(184)
OTHER EXPENSE, net	(898)	(1,240)	(1,173)
	-----	-----	-----
Income before (benefit) provision for income taxes	1,513	2,244	1,529
(BENEFIT) PROVISION FOR INCOME TAXES	(525)	605	515
	-----	-----	-----
Net income	\$ 2,038	\$ 1,639	\$ 1,014
	=====	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 (in thousands)

Column A	Column B	Column C	Column D	Column E
Description -----	Balance at Beginning of Period -----	Charged to Costs and Expenses -----	Deductions Describe(1) -----	Balance at End of Period -----
For the year ended June 30, 1996:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$662 =====	\$202 =====	\$ -- =====	\$864 =====
For the year ended June 30, 1997:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$864 =====	\$ 55 =====	\$ 114 =====	\$805 =====
For the year ended June 30, 1998:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$805 =====	\$ 50 =====	\$ 100 =====	\$755 =====

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

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

ITEM 11. EXECUTIVE COMPENSATION.

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Part III (Items 10, 11, 12 and 13) is incorporated herein by reference from the Company's definitive proxy statement for the 1998 annual meeting of stockholders which the Company intends to file with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the Company's 1998 fiscal year, and, accordingly, items 10, 11, 12 and 13 are omitted pursuant to General Instruction G(3).

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

(a)1. Financial Statements

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

Page

Report of Independent Public Accountants as of June 30, 1998 and 1997 and for each of the 3 Years in the Period Ended June 30, 1998.....	15
Consolidated Balance Sheets as of June 30, 1998 and 1997.....	16
Consolidated Statements of Income for the Years Ended June 30, 1998, 1997 and 1996.....	17
Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 1998, 1997 and 1996.....	18
Consolidated Statements of Cash Flows for the Years Ended June 30, 1998, 1997 and 1996.....	19
Notes to Consolidated Financial Statements, June 30, 1998, 1997 and 1996.....	20

(a)2. Financial Statement Schedules

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

I: Condensed Financial Information on Parent Company.....	30
II: Valuation and Qualifying Accounts.....	32

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

Exhibit No. ---	Title -----	
Ex-3.(i)	Articles of Incorporation, as amended.....	Exhibit 3a to Report on Form 10-K for fiscal year ended June 30, 1988
Ex-3.(ii)	By-Laws.....	Exhibit 3b to Report on Form 10-K for fiscal year ended June 30, 1988
Ex-10.A	1992 Amended and Restated Incentive Stock Option Plan (extending 1982 Plan).....	Exhibit 4(a) of Form S-8 of the Registrant filed October 24, 1996
Ex-10.B	1990 Non-Employee Stock Option Plan.....	Exhibit 10c to Report on Form 10-K for fiscal year ended June 30, 1991
Ex-10.C	Defined Contribution Pension Plan Basic Plan Document.....	Exhibit 10d to Report on Form 10-K for fiscal year ended June 30, 1989
Ex-10.D	Defined Contribution Pension Plan 401(k) Profit Sharing Plan Adoption Agreement.....	Exhibit 10e to Report on Form 10-K for fiscal year ended June 30, 1989
Ex-10.E	Promissory Note dated as of November 8, 1991 between Citibank, N.A. and the Company.....	Exhibit 10-i to Report on Form 10-K for fiscal year ended June 30, 1992

Ex-10.F	Credit Agreement dated November 8, 1991 between N.S.S. Caribe S.A. and Citibank, N.A.....	Exhibit 10-j to Report on Form 10-K for fiscal year ended June 30, 1992
Ex-10.G	Construction Contract dated June 5, 1993.....	Exhibit 10-l to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.H	First Amendment dated as of November 5, 1993 to Credit Agreement dated as of November 8, 1991 with Citibank, N.A.....	Exhibit 10-0 to Report on Form 10-K for fiscal year ended June 30, 1993
Ex-10.I	Loan and Security Agreement with Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.I to Rpt. On Form 10K for fiscal year ended June 30, 1997
Ex-10.J	Revolving Credit Note #1 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.J to Report on Form 10-K for Fiscal year ended June 30, 1997
Ex-10.K	Revolving Credit Note #2 to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10.K to Report on Form 10-K for fiscal year ended June 30, 1997
Ex-10.L	Promissory Note to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10-L to Report on Form 10K for fiscal year ended June 30, 1997

Ex-10.M	Amendment No. 1 to the Loan and Security Agreement with Marine Midland Bank dated as of May 28, 1998.....	E-1
Ex.-10.N	Term Loan Note to Marine Midland Bank dated as of May 28, 1998.....	E-6
Ex-10.0	Promissory Note to Kenneth Rosenberg dated as of May 28, 1998.....	E-11
Ex-10.P	Consulting Agreement with Kenneth Rosenberg dated as of May 28, 1998.....	E-17
Ex-11	Computation of earnings per share	E-20
Ex-12	Computation of ratios	E-21
Ex-21	Subsidiaries of the Registrant	E-22
Ex-23	Consent of Independent Public Accountants.....	E-23
Ex-27	Financial Data Schedule	E-24

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

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended June 30, 1998, except those filed on May 15, 1998 and May 29, 1998 relating to the Company's purchase of shares of the Company owned by Kenneth Rosenberg, the Company's former president, and his resignation as an officer and director of the Company.

SIGNATURES

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

September 28, 1998

NAPCO SECURITY SYSTEMS, INC.
(Registrant)

By: /s/ RICHARD SOLOWAY

Richard Soloway
Chairman of the Board of
Directors, President and Secretary
(Principal Executive Officer)

By: /s/ KEVIN S. BUCHEL

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

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

Signature -----	Title -----	Date -----
/s/RICHARD SOLOWAY ----- Richard Soloway	Chairman of the Board of Directors	September 28, 1998
/s/ KEVIN S. BUCHEL ----- Kevin S. Buchel	Director	September 28, 1998
/s/RANDY B. BLAUSTEIN ----- Randy B. Blaustein	Director	September 28, 1998
/s/ANDREW J. WILDER ----- Andrew J. Wilder	Director	September 28, 1998

INDEX TO EXHIBITS

Ex-10.M	Amendment No. 1 to the Loan and Security Agreement with Marine Midland Bank Dated as of May 28, 1998.....	E-1
Ex-10.N	Term Loan Note to Marine Midland Bank Dated as of May 28, 1998.....	E-6
Ex-10.O	Promissory Note to Kenneth Rosenberg Dated as of May 28, 1998.....	E-11
Ex-10.P	Consulting Agreement with Kenneth Rosenberg Dated as of May 28, 1998.....	E-17
Ex-11	Computation of earnings per share.....	E-20
Ex-12	Computation of ratios.....	E-21
Ex-21	Subsidiaries of the Registrant.....	E-22
Ex-23	Consent of Independent Public Accountants.....	E-23
Ex-27	Financial Data Schedule.....	E-24

AMENDMENT NO. 1 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 1 to the Loan and Security Agreement dated as of May 28, 1998 ("Amendment No. 1") by and between NAPCO SECURITY SYSTEMS, INC., a New York corporation having a place of business at 333 Bayview Avenue, Amityville, New York 11701 (the "Debtor") and Marine Midland Bank, having a place of business at 534 Broad Hollow Road, Melville, New York 11747 (the "Secured Party").

W I T N E S S E T H :

WHEREAS, as of May 12, 1997, Debtor and Secured Party had entered into a certain loan and security agreement, as further amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party advance the sum of \$2,500,000.00 pursuant to the terms of the Term Loan Note (as hereinafter defined) and the Secured Party has agreed to do so, in the manner set forth below, provided however, that, among other things, Debtor execute this Amendment No. 1.

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

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

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

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

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

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

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

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

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

Section 4.26. Stock Purchase Agreement, etc.

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

Section 4.27. Term Loan Note Proceeds

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

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

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

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

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

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

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

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

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

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

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

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

6. As an inducement to the Bank extending the Term Loan, and modifying the provisions of the Agreement pursuant to the terms herein, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 1, (i) the representations and warranties set forth in Article 4 of the Agreement and the representations and warranties of Debtor and any Third Party set forth in the other Transaction Documents to which any is a party are true and correct in all respects, (ii) no event has occurred and is continuing which constitutes an "Event of Default" under any of the Transaction Documents (as "Event of Default" is defined in each of those Transaction Documents), and (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement.

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

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

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

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

WITNESS:

MARINE MIDLAND BANK

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

WITNESS:

NAPCO SECURITY SYSTEMS, INC.

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

TERM LOAN NOTE

\$2,500,000.00

Garden City, New York
May 28, 1998

FOR VALUE RECEIVED, the undersigned (jointly and severally, if the undersigned be more than one) promise(s) to pay to the order of MARINE MIDLAND BANK (Bank) at its 534 Brood Hollow Road Office in Melville, New York or, at the holder's option, at such other place as may be designated from time to time by the holder, the principal sum of Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00) in lawful money of the United States of America, in sixty (60) installments of principal as follows: 59 equal consecutive monthly installments of \$41,666.67 each, commencing July 1, 1998, and payable on the first day of each month thereafter, to and including May 1, 2003, and one final installment on June 1, 2003, in an amount equal to the then unpaid principal balance hereof, together with interest as hereinafter provided.

This Note shall bear interest until maturity (whether by acceleration or otherwise) at a per annum rate equal to 7.94%. Interest on this Note shall be payable on the 1st day of each month following the date of this Note and on the date the unpaid principal balance is paid in full. In no event shall the rate of interest on this Note exceed the maximum rate authorized by applicable law. If the undersigned is not a corporation, interest will be calculated for each day at 1/365th of the applicable per annum rate. If the undersigned is a corporation, interest will be calculated for each day at 1/360th of the applicable per annum rate, which will result in a higher effective annual rate.

The undersigned does hereby reserve to itself the privilege of prepaying this Note in whole, but not in part, on any payment date upon compliance with the applicable conditions of this paragraph. In the event that there is a partial or complete prepayment of this Note for any reason (including, without limitation, as a result of acceleration upon default of otherwise), the undersigned shall pay to Bank an amount computed in accordance with the provisions of this paragraph (the "Prepayment Premium"). The Prepayment Premium shall equal the aggregate of the present values of the streams of payments of all installments of this Note being fully or partially prepaid. For each installment, the present value of the stream of payments shall be calculated in accordance with generally accepted practices as determined by Bank, using as a basis for calculation (i) the Semiannual Stream of Payments (as hereinafter defined), (ii) the number of whole and partial semiannual periods between the date of prepayment to the due date of such installment (for the purpose of this calculation, any partial period shall be deemed to be the first period) and (iii) the Treasury Yield (as hereinafter defined) adjusted to a semiannual basis. For each installment, the "Semiannual Stream of Payments" shall mean a stream of payments with each component equal to the product (pro-rated in the case of a partial semiannual period) of the amount of principal of such installment prepaid and one-half (1/2) of the excess (if any) of the Effective Annual Interest Rate (as hereinafter defined) over the annual yield of United States Treasury obligations offered on a secondary market as of the date of

prepayment (the "Treasury Yield") with maturities as close to the aforesaid due date as are reasonably available on a constant maturity yield curve as determined by Bank (if necessary, interpolating such yield on a linear basis). If the Effective Annual Interest Rate does not exceed the Treasury Yield as computed in accordance with the preceding sentence, no Prepayment Premium shall be payable hereunder. The "Effective Annual Interest Rate" shall mean the stated interest rate of this Note, adjusted, if necessary, to reflect the same basis of calculation as the Treasury Yield. Bank's calculation of the Prepayment Premium shall be conclusive absent manifest error, and the Prepayment Premium shall be payable on demand. In the event that the Prepayment Premium, as computed in accordance with the provisions of this paragraph, shall exceed the maximum amount permissible by law, the amount of the Prepayment Premium shall be reduced to such permissible amount. Any prepayments of the principal balance of this Note shall be permitted only upon sixty (60) days prior written notice to Bank and shall be accompanied by payment of all accrued interest at the rate of interest then applicable to the date of prepayment. Any partial prepayments shall be credited in inverse order of maturity.

Upon default by the undersigned, and following the acceleration of this Note as provided hereunder, a tender of payment of the amount necessary to satisfy the entire indebtedness secured hereby made at any time prior to foreclosure sale shall constitute an evasion of the prepayment privilege and shall be deemed to be a voluntary prepayment hereunder; and such prepayment, to the extent permitted by law, will therefore include the Prepayment Premium required under the prepayment provision contained in the preceding paragraph.

If any installment of this Note is not paid when due, whether because such installment becomes due on a Saturday, Sunday or a banking holiday, or for any other reason, the undersigned will pay interest thereon at the applicable rate until the date of actual receipt of such installment by the holder of this Note. In addition, if any installment of principal or interest under this Note is not paid within ten days after its due date, the undersigned will pay the holder of this Note a late charge equal to 5% of the overdue installment.

This Note is the Term Loan Note referred to in that certain loan and security agreement by and between undersigned and Bank dated as of May 12, 1997, as amended by amendment no. 1 to the loan and security agreement dated as of even dated hereof, and as the same may be further amended from time to time (the "Agreement"), is subject to all of the provisions contained in the Agreement and the other Transaction Documents (as defined in the Agreement) and is entitled to all of the benefits contained therein, including the security interest granted to the Lender in the Collateral (as defined in the Agreement). All of the representations, warranties, covenants, conditions and agreements contained in the Agreement and the other Transaction Documents are herein incorporated by this reference.

It is expressly agreed that, upon the failure of the Borrower to make any payments due hereunder in a timely manner, or upon the happening of any "Event of Default" hereunder, or under the Agreement or the other Transaction Documents, the principal sum hereof, together with accrued interest and all other expenses, including, but not limited to reasonable attorneys'

fees for legal services incurred by the holder hereof in connection with the collection of this Note whether or not suit is brought, and if suit is brought, then through all appellate actions, shall immediately become due and payable at the option of the holder of this Note. Upon occurrence of an Event of Default, whether or not Bank exercises any of its rights and remedies contained herein or in the Agreement, including the right to declare all obligations hereunder to be immediately due and payable, the undersigned shall pay interest on the unpaid principal balance hereunder at a rate equal to the rate of interest hereinbefore specified plus 3% ("Default Rate"). The unpaid principal balance hereunder shall bear the Default Rate of Interest until (i) all obligations under this Note are paid in full; (ii) the undersigned has cured said Event of Default to the satisfaction of Bank; or (iii) Bank, in writing, has waived said Event of Default.

No failure by the holder hereof to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by such holder of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies of the holder hereof as herein specified are cumulative and not exclusive of any other rights or remedies which such holder may otherwise have.

No rescission, waiver, forbearance, release or amendment of any provision of this Note shall be made, except by a written agreement duly executed by the undersigned and the holder hereof.

This Note shall be governed by the laws of the State of New York. The undersigned agrees to pay all costs and expenses incurred by the holder hereof in enforcing this Note, including, without limitation, actual attorneys' fees and disbursements.

NAPCO Security Systems, Inc.

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

FOR VALUE RECEIVED, the undersigned (jointly and severally, if more than one) irrespective of the genuineness, validity, regularity or enforceability of this Note, hereby indorse(s) and unconditionally guarantees to any holder of this Note the full and prompt payment of the indebtedness evidenced by this Note when due by acceleration or otherwise; agree(s) to all the terms and conditions of this Note; and consent(s) that from time to time, without notice to the undersigned and without affecting any liability of the undersigned, any collateral for payment of such indebtedness may be exchanged, released, surrendered, sold (whether on foreclosure or otherwise), applied or otherwise dealt with by, and at the election of any holder hereof, any time of payment under this Note may be extended or accelerated in whole or in part, and this Note may be renewed in whole or in part.

The undersigned waive(s) presentment, protest and demand and also notice of dishonor, protest and demand.

Alarm Lock Systems, Inc.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

UMI Manufacturing Corp.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

E.E. Electronic Components Inc.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

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Derringer Security Systems, Inc.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

Raltech Logic, Inc.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

NAPCO Security Systems
International, Inc.

By: /s/ KEVIN BUCHEL
Kevin Buchel
Vice President

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\$1,947,880.00

May 28, 1998
New York, New York

PROMISSORY NOTE

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

1. Payments.

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

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

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

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

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

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

4. Security. As security for the performance of the Company's obligations hereunder, the Company hereby grants the Holder a first priority security interest (the "Security Interest") in 650,000 shares of the Company's common stock (the "Shares") which are in the Company's treasury and which are part of the shares that the Company is acquiring from the Holder simultaneously with the execution and delivery of this Note. The Security Interest granted hereby shall also extend to: (i) all shares representing a dividend on any of the Shares, or resulting from a split-up, revision, reclassification or other like change of the Shares or otherwise received in exchange therefor; and (ii) in case of any consolidation or merger in which the Company is not the surviving corporation, all shares of each class of the capital stock of the successor corporation formed by or resulting from such consolidation or merger

(collectively, the "Collateral"). The Security Interest on such Shares shall be released as follows: 150,000 Shares shall be released upon payment of \$400,000.00 on April 1, 1999 and 1/3 of the balance of the Shares shall be released on July 31, 2001 provided all payments due prior to such date shall have been made on a timely basis. Upon payment in full, all Shares shall be released from the Security Interest. The Company hereby agrees that the financial statements contained in its filings with the Securities and Exchange Commission shall disclose the existence and extent of the Holder's lien on the Shares and his rights and remedies with respect to an Event of Default hereunder.

5. Rights with Respect to the Collateral

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

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

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

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

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

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

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

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

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

6. Miscellaneous.

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

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

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

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

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

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

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

NAPCO Security Systems, Inc.

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

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SCHEDULE TO PROMISSORY NOTE

PAYMENT #	DATE	PAYMENT	INTEREST	PRINCIPAL	BALANCE
					1,722,545.00
1	08/01/1999	53,978.30	11,483.63	42,494.67	1,680,050.33
2	09/01/1999	53,978.30	11,200.34	42,777.98	1,637,272.37
3	10/01/1999	63,978.30	10,915.15	43,063.15	1,594,209.22
4	11/01/1999	53,978.30	10,628.06	43,350.24	1,550,858.98
5	12/01/1999	53,978.30	10,338.06	43,639.24	1,507,219.74
6	01/01/2000	53,978.30	10,048.13	43,930.17	1,463,289.57
7	02/01/2000	53,978.30	9,755.26	44,223.04	1,419,066.53
8	03/01/2000	53,978.30	9,460.44	44,217.86	1,374,548.67
9	04/01/2000	53,978.30	9,163.65	44,814.64	1,329,734.03
10	05/01/2000	53,978.30	8,864.89	45,113.41	1,284,620.62
11	06/01/2000	53,978.30	8,534.89	45,414.16	1,239,206.46
12	07/01/2000	53,978.30	8,261.38	45,718.92	1,293,489.54
13	08/01/2000	53,978.30	7,956.60	46,021.70	1,147,467.84
14	09/01/2000	53,978.30	7,649.79	46,328.51	1,101,139.33
15	10/01/2000	53,978.30	7,340.93	46,637.37	1,054,501.96
16	11/01/2000	53,978.30	7,030.01	46,948.29	1,007,553.67
17	12/01/2000	53,978.30	6,717.02	47,261.28	960,282.39
18	01/01/2001	53,978.30	6,401.95	47,576.35	912,716.04
19	02/01/2001	53,978.30	6,084.77	47,893.53	864,822.51
20	03/01/2001	53,978.30	5,765.48	48,212.82	816,609.69
21	04/01/2001	53,978.30	5,444.06	48,534.24	768,075.45
22	05/01/2001	53,978.30	5,120.50	48,857.80	718,217.65
23	06/01/2001	53,978.30	4,794.78	49,183.52	670,034.13
24	07/01/2001	53,978.30	4,466.89	49,511.41	620,522.72
25	08/01/2001	53,978.30	4,136.82	49,841.48	570,681.24
26	09/01/2001	53,978.30	3,804.54	50,173.76	520,507.48
27	10/01/2001	53,978.30	3,470.05	50,508.25	469,999.23
28	11/01/2001	53,978.30	3,133.33	50,844.97	419,154.26
29	12/01/2001	53,978.30	2,794.36	51,183.94	367,970.32
30	01/01/2002	53,978.30	2,453.14	51,525.15	316,445.16
31	02/01/2002	53,978.30	2,109.63	51,868.67	264,576.49
32	03/01/2002	53,978.30	1,763.84	52,214.46	212,362.03
33	04/01/2002	53,978.30	1,415.75	52,562.55	159,799.48
34	05/01/2002	53,978.30	1,065.33	52,912.97	106,886.51
35	06/01/2002	53,978.30	712.58	53,265.72	53,620.79
36	07/01/2002	53,978.30	367.51	53,620.79	0.00

CONSULTING AGREEMENT

This CONSULTING AGREEMENT, dated May 28, 1998 (this "Agreement"), is between Kenneth Rosenberg (the "Consultant"), and Napco Security Systems, Inc., a Delaware corporation (the "Company").

RECITALS

A. The Consultant has been involved in the business (the "Business") of the Company since its formation and simultaneously with the sale of all of his stock in the Company, he is resigning as an officer and director of the Company and its subsidiaries.

B. The Company may wish to consult with the Consultant from time to time, and the Consultant is prepared to provide such consulting services on the terms set forth below.

AGREEMENT

In consideration of the mutual promises contained herein, the Company and the Consultant hereby agree as follows:

Section 1. Retention of Consultant. The Company hereby retains Consultant upon the terms and conditions of this Agreement, and Consultant hereby accepts such retention.

Section 2. Services to be Provided. The Consultant shall provide such consulting services relating to the Business as the Company may reasonably require from time to time; provided, however, that the Consultant shall not be required to devote in excess of 10 hours per month (which shall not be cumulative) to Company matters. The consulting services shall be performed at the home of Consultant, wherever located.

Section 3. Term. This Agreement shall commence on the date hereof and shall terminate on the tenth anniversary of the date of this Agreement (the "Term").

Section 4. Compensation. (a) Consulting Fee. During the Term of this Agreement, the Company shall pay, and the Consultant shall accept in full payment for the services rendered hereunder, a fee of \$25,000 per annum payable in arrears in equal installments on the last day of each month.

(b) Expenses. Consultant shall also be reimbursed, against presentation of vouchers or receipts therefor, for all reasonable expenses properly incurred by him on behalf of the Company in the direct performance of his consulting duties hereunder and authorized in advance in writing by the Company.

(c) Benefits. During the Term, the Company shall pay and the Consultant shall be entitled to continue receiving all benefits currently afforded to him under the Company's health and dental plans which the Company has confirmed with its insurer is permissible; until June 30, 1998, the Company shall continue to pay premiums on his life insurance policy. Upon execution hereof by the Company and the Consultant, the Company shall immediately cause to be transferred to the Consultant the lease on the car the Company currently leases for the Consultant and to pay the Consultant each month the amount of the monthly car lease payment for the term of such car lease, together with the monthly consulting fee.

Section 5. Relationship of the Parties. During the term of this Agreement, the Consultant shall be an independent contractor of the Company, and the Company shall not withhold taxes or any other amounts from fee checks issued in payment to Consultant. Consultant shall be solely responsible for the payment of all taxes owing with respect to the compensation paid to Consultant hereunder and shall indemnify the Company for any taxes, penalties and interest imposed upon the Company as a result of not withholding taxes from payments due hereunder. Any work product arising out of the Consultant's engagement hereunder and relating to the Company's Business shall be owed to and owned solely by the Company. The Consultant may not represent to any third party that he is in any way an employee of, or has the authority to bind, the Company. As an independent contractor, Consultant shall be solely responsible for determining the manner, method and timing of discharging his responsibilities hereunder.

Section 6. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior assignments and understandings, written or oral, relating thereto.

Section 7. Amendment. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

Section 8. No Assignment: Binding Effect. Neither this Agreement nor any right, interest or obligation under this Agreement may be assigned by any party hereto without prior written consent of the other party hereto and any attempt to do so will be void, except for assignments and transfers by operation of law, and except that the Company may assign its rights hereunder to any person who acquires or operates the Business. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns. This Agreement is not intended to confer any benefit on any party other than the parties hereto.

Section 9. Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define or limit the provisions hereof.

Section 10. Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely

affected thereby, (a) such provision will be fully severable, (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

Section 11. Counterparts. This Agreement may be executed with counterpart signature pages, or in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

Section 12. Jurisdiction; Legal Fees. It is contemplated that Consultant's services hereunder shall be performed principally in Florida. Accordingly, the Company agrees to the exclusive jurisdiction of the state and federal courts located in Florida in any action by the Consultant to enforce his rights hereunder. In any such action, as part of any judgment, the substantially prevailing party shall be entitled to recover its reasonable attorney's fees and expenses incurred in such action.

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the duly authorized officer of each party hereto as of the date first above written.

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Richard Soloway
Richard Soloway,
an Authorized Representative

/s/ Kenneth Rosenberg
Kenneth Rosenberg

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

COMPUTATION OF EARNINGS PER SHARE

	1998	1997	1996	1995	1994
	-----	-----	-----	-----	-----
Weighted average number of shares outstanding	4,262,686	4,368,727	4,367,727	4,367,727	4,367,577
Add common stock equivalents	22,536	14,222	5,396	21,904	27,053
	-----	-----	-----	-----	-----
Adjusted weighted average shares outstanding	4,285,222	4,382,949	4,373,123	4,389,631	4,394,630
	=====	=====	=====	=====	=====
Net Income:	\$2,038,000	\$1,639,000	\$1,014,000	\$ 512,000	\$1,254,000
	=====	=====	=====	=====	=====
Earnings per share:					
Basic:	\$.48	\$.38	\$.23	\$.12	\$.29
	=====	=====	=====	=====	=====
Diluted:	\$.48	\$.37	\$.23	\$.12	\$.29
	=====	=====	=====	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

COMPUTATION OF RATIOS

	1998 ----	1997 ----	1996 ----
	(In thousands, except for ratios)		
A. Current Assets	\$44,153	\$42,021	\$41,529
B. Current Liabilities	10,211	11,885	12,853
Current Ratio (Line A / Line B)	4.3 to 1	3.5 to 1	3.2 to 1
C. Sales	\$50,269	\$53,302	\$49,088
D. Receivables	14,760	13,937	13,759
Ratio (Line C / Line D)	3.4 to 1	3.8 to 1	3.6 to 1
E. Total Current Liabilities	\$10,211	\$11,885	\$12,853
F. Long Term Debt	18,644	13,313	14,150
G. Deferred Income Taxes	875	828	742
H. Total Liabilities	29,730	26,026	27,745
I. Equity	28,833	31,218	29,574
Ratio (Line H / Line I)	1.0 to 1	.8 to 1	.9 to 1

SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 1998. All beneficial interests are wholly-owned, directly or indirectly, by the Company and are included in the Company's consolidated financial statements.

Name	State or Jurisdiction of Organization
Alarm Lock Systems, Inc.	Delaware
Derringer Security Systems, Inc.	New York
E.E. Electronic Components Inc.	New York
NAPCO Security Systems International, Inc.	New York
NAPCO/Alarm Lock Grupo International, S.A. (formerly known as NSS Caribe, S.A.)	Dominican Republic
NAPCO/Alarm Lock Exportadora, S.A.	Dominican Republic
NAPCO Group Europe, Limited	England
Raltech Logic, Inc.	New York
UMI Manufacturing Corp.	New York

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

/s/ ARTHUR ANDERSEN LLP

New York, New York
September 28, 1998

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JUN-30-1998
JUL-01-1997
JUN-30-1998
1,989
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14,760
785
25,438
44,153
11,491
11,055
58,563
10,211
0
0
59
749
58,563
50,269
50,269
38,484
38,484
9,289
0
1,130
1,513
(525)
2,038
0
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2,038
0.48
0.48