

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, 2001

or

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

COMMISSION FILE NUMBER: 0-10004

NAPCO SECURITY SYSTEMS, INC.

(Exact name of Registrant as specified in its charter)

Delaware 11-2277818
(State or other jurisdiction of (I.R.S. Employer I.D. Number)
incorporation or organization)

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

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

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

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

Common Stock, par value \$.01 per share
(Title of 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 20, 2001, 3,317,796 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
\$16,456,268.

Documents Incorporated by Reference: Portions of the Registrant's Proxy
Statement in connection with its 2001 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

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

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

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

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

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

Control Panels. A control panel is the "brain" of an alarm system. When activated by any one of the various types of intrusion detectors, it can activate an audible alarm and/or

various types of communication devices. For marketing purposes, the Company refers to its control panels by the trade name, generally "Gemini(TM)" and "Magnum Alert(TM)" followed by a numerical designation.

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

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

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

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

Peripheral Equipment

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

Research and Development

The Company's business involves a high technology element. A substantial amount of the Company's efforts are expended to develop and improve the Products. During the fiscal years ended June 30, 2001, 2000, and 1999, the Company expended approximately \$4,220,000, \$4,234,000, and \$4,008,000, 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 2001, 2000, and 1999 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, 2001, the Company had approximately 800 full-time employees.

Marketing and Major Customers

The Company's staff of 48 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, 2001. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company Products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States cities. Some of the Company's products are marketed under the "private label" of certain customers.

Sales to one customer unaffiliated with the Company accounted for approximately 18%, 27% and 27% of the Company's total sales for the fiscal years ended June 30, 2001, 2000, and 1999, respectively (see Note 3 to Consolidated Financial Statements). The loss of this customer could have a material adverse effect on the Company's business.

Competition

The security alarm products industry is highly competitive. The Company's primary competitors are comprised of approximately 25 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 pricing of, and the incorporation of the latest innovative and technological advances into, its Products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, reputation and its ability to provide Products to customers without delay. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business. Relatively low-priced "do-it-yourself" alarm system products have become available in recent years and are available to the public at retail stores. The Company believes that these products compete with the Company only to a limited extent because they appeal primarily to the "do-it-yourself" segment of the market. Purchasers of such systems do not receive professional consultation, installation, service or the sophistication that the Company's Products provide.

Raw Materials and Sales Backlog

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

In general, orders for the Products are processed by the Company from inventory. A sales backlog of approximately \$851,000 existed as of June 30, 2001. This compared to a sales backlog of approximately \$665,000 a year ago.

Government Regulation

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

Patents and Trademarks

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

Foreign Sales

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

Financial Information Relating to Foreign
and Domestic Operations and Export Sales

	2001 ----	2000 ----	1999 ----
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$54,771	\$53,946	\$50,875
Foreign	0	0	0
Identifiable assets:			
United States	\$38,282	\$32,584	\$33,067
Foreign	25,395	22,945	22,720
Export sales:			
United States(1)	\$ 9,952	\$10,143	\$10,713

ITEM 2. PROPERTIES.

The Company has executive offices and production and warehousing facilities at 333 Bayview Avenue, Amityville, New York. This facility consists of a fully-utilized 90,000 square foot building on a six acre plot. This six-acre plot provides the Company with space for expansion of office, manufacturing and storage capacities. The Company completed construction on this facility in 1988 with the proceeds from industrial revenue bonds that have since been retired. The Company also leases approximately 3,000 square feet of warehouse space in Sparks, Nevada. This lease expires in June 2003.

The Company's foreign subsidiary located in the Dominican Republic, NAPCO/Alarm Lock Grupo Internacional, S.A. (formerly known as NSS Caribe, S.A.), owns a building of approximately 167,000 square feet of production and warehousing space in the Dominican Republic. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092. As of June 30, 2001, most of the Company's sales related to labor on assemblies, goods and subassemblies produced at these sites, utilizing U.S. quality control standards.

The Company's foreign subsidiary located in the United Kingdom, Napco Group Europe Ltd, leases office and warehouse space of approximately 10,000 square feet. This lease expires in June 2005.

(1) Export sales from the United States in fiscal year 2001 included sales of approximately \$6,727,000, \$603,000, \$1,524,000 and \$1,098,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 2000 included sales of approximately \$6,675,000, \$741,000, \$1,118,000 and \$1,609,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 1999 included sales of approximately \$6,730,000, \$869,000, \$1,653,000, and \$1,461,000 to Europe, North America, South America and other areas, respectively.

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

ITEM 3. LEGAL PROCEEDINGS.

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

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 2001			
	Sept. 30	Dec. 31	March 31	June 30
Common Stock				
High	\$ 5.69	\$ 4.50	\$ 5.25	\$ 5.74
Low	\$ 3.25	\$ 3.16	\$ 3.38	\$ 3.55

	Quarter Ended			
	Fiscal 2000			
	Sept. 30	Dec. 31	March 31	June 30
Common Stock				
High	\$ 4.00	\$ 4.13	\$ 4.94	\$ 4.63
Low	\$ 3.13	\$ 2.88	\$ 3.06	\$ 3.19

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 20, 2001 was 175 (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.

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page 36 of this report.

	Year Ended or at June 30				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
Statement of Earnings Data:					
Net sales	\$ 54,771	\$ 53,946	\$ 50,875	\$ 50,636	\$ 53,705
Gross profit	14,317	13,198	11,777	11,420	12,385
Income from operations	1,859	3,122	1,911	2,496	3,645
Net income	251	2,010	2,493	2,038	1,639
Cash Flow Data:					
Net cash flows provided by (used in) operating activities	\$ 1,326	\$ 2,822	\$ 2,926	\$ (107)	\$ 2,758
Net cash flows used in investing activities	(8,283)	(1,221)	(1,050)	(585)	(746)
Net cash flows (used in) provided by financing activities	5,610	(1,447)	(1,635)	1,675	(1,432)
Other Data:					
Earnings before interest, taxes, depreciation and amortization (EBITDA) (1)	\$ 4,074	\$ 4,676	\$ 3,295	\$ 3,932	\$ 4,765
Per Share Data:					
Net earnings per common share:					
Basic	\$.07	\$.57	\$.71	\$.48	\$.38
Diluted	\$.07	\$.57	\$.71	\$.48	\$.37
Weighted average common shares outstanding:					
Basic	3,463,000	3,495,000	3,493,000	4,263,000	4,369,000
Diluted	3,527,000	3,513,000	3,512,000	4,285,000	4,383,000
Cash dividends declared per common share (2)	\$.00	\$.00	\$.00	\$.00	\$.00
Balance Sheet Data:					
Working capital	\$ 33,232	\$ 35,280	\$ 34,920	\$ 33,942	\$ 30,136
Total assets	63,677	55,529	55,787	58,563	57,244
Long-term debt	21,567	16,183	17,241	18,644	13,313
Stockholders' equity	32,944	33,359	31,328	28,833	31,218
Stockholders' equity per outstanding share	9.79	9.53	8.98	8.26	7.14

(1) EBITDA is an additional measure of operating performance used by management. While the components of EBITDA may vary from company to company, we exclude all interest expense, all income tax provisions or benefits, all depreciation charges related to property, plant and equipment and all amortization charges, including amortization of goodwill, leasehold improvements and other intangible assets. While we consider EBITDA useful in analyzing our operating results, it is not intended to replace, or act as a substitute for, any presentation included in the consolidated financial statements prepared in conformity with generally accepted accounting principles.

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

Quarterly Results and Seasonality

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

	Year Ended June 30, 2001			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	\$ 11,094	\$ 13,872	\$ 12,545	\$ 17,260
Gross Profit	3,058	3,744	2,966	4,549
Income (Loss) from Operations	145	720	(152)	1,146
Net Income (Loss)	(327)	434	(598)	742
Net Income (Loss) Per Share				
Basic	(.09)	.12	(.17)	.21
Diluted	(.09)	.12	(.17)	.21

	Year Ended June 30, 2000			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	\$ 10,501	\$ 12,275	\$ 14,155	\$ 17,015
Gross Profit	2,524	2,964	3,515	4,195
Income (Loss) from Operations	(128)	502	996	1,752
Net Income (Loss)	(396)	145	517	1,744
Net Income (Loss) Per Share				
Basic	(.11)	.04	.15	.49
Diluted	(.11)	.04	.15	.49

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 2001 were adequate to meet the Company's capital expenditure needs and short and long-term debt obligations. The primary source of financing related to borrowings under a \$18,000,000 secured revolving credit facility. The Company expects that cash generated from operations and cash available under the Company's bank line of credit will be adequate to meet its short-term liquidity requirements. The Company's primary internal source of liquidity is the cash flow generated from operations. As of June 30, 2001, the Company's unused sources of funds consisted principally of \$1,037,000 in cash and approximately \$2,687,000, which represents the unused portion of its secured revolving credit facility. The Company's management believes that current working capital, cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through the first quarter of fiscal 2003.

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

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

In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to \$18,000,000. The amended revolving credit agreement is secured by all the accounts receivable, inventory and certain other assets of Napco Security Systems, Inc., a first and second mortgage on the Company's headquarters in Amityville, New York and common stock of two of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less 1/4 % or an alternate rate based on LIBOR as described in the agreement. The revolving credit agreement will expire in July 2004 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, 2001, the Company was not in compliance with all of these financial covenants, and accordingly received a waiver from the bank.

In addition, a subsidiary of the Company maintained a \$4,500,000 line of credit with another bank, which was fully repaid as of June 30, 2000 (see Note 7 to Consolidated Financial Statements).

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

In November 2000 the Company adopted a stock repurchase program authorizing the Company to repurchase up to 200,000 shares of its common stock. As of June 30, 2001 the Company had repurchased 153,805 shares under this program.

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

	2001 ----	2000 ----	1999 ----
Current Ratio	4.7 to 1	7.2 to 1	6.2 to 1
Sales to Receivables	3.2 to 1	3.0 to 1	3.1 to 1
Total Debt to Equity	.8 to 1	.5 to 1	.6 to 1

As of June 30, 2001, the Company had no material commitments for purchases or capital expenditures, except as discussed below.

On July 27, 2000, the Company signed an Asset Purchase Agreement to acquire the net assets of Continental Instruments, LLC ("Continental") for an initial purchase price of \$7,500,000, with additional payments, subject to adjustment based on a closing balance sheet and certain other contingent events, of up to \$1,700,000 (the "Deferred Payments"). The Company financed the transaction with borrowings under a term loan of \$8,250,000. Continental designs and sells access control and other security control systems to dealers and distributors worldwide.

The acquisition described above has been accounted for as a purchase and was valued based on management's estimate of the fair value of the assets acquired and liabilities assumed. Any increases or decreases in the Deferred Payments will be recorded as adjustments to the

purchase price and related goodwill prospectively from the date of the change in payment. Costs in excess of net assets acquired of approximately \$7,768,000 has been allocated to goodwill and is being amortized on a straight-line basis over an estimated useful life of 20 years.

Working Capital. Working capital decreased by \$2,048,000 to \$33,232,000 at June 30, 2001 from \$35,280,000 at June 30, 2000. The decrease in working capital was primarily the result of the increase in current portion of long-term debt as of June 30, 2001 as compared to June 30, 2000, which resulted primarily from the debt utilized to acquire Continental in July 2000. In addition, the Company used \$725,000 of working capital in repurchasing its common stock under the repurchase plan discussed above.

Accounts Receivable. Accounts receivable decreased by \$1,087,000 to \$16,940,000 at June 30, 2001 from \$18,027,000 at June 30, 2000. This decrease resulted primarily from the decreased sales to a major customer as discussed below as partially offset by the acquisition of Continental Instruments and the related accounts receivable.

Inventory. Inventory increased by \$3,756,000 to \$23,234,000 at June 30, 2001 as compared to \$19,478,000 at June 30, 2000. The increase in inventory levels was primarily the result of a temporary reduction in purchases of the Company's products by a major customer in the last four months of fiscal 2001. The Company was able to reschedule some deliveries of component parts in response to this but delivery of certain items could not be rescheduled. The increase in inventory was also due, in part, to the acquisition of Continental and the related inventories.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses increased by \$612,000 to \$4,244,000 at June 30, 2001 from \$3,632,000 at June 30, 2000. This increase was due primarily to the acquisition of Continental's assets and liabilities as well as extended payment terms from certain vendors in response to the excess inventory position discussed above.

Fiscal 2001 Compared to Fiscal 2000

Net Sales. Net sales in fiscal 2001 increased by 2% to \$54,771,000 from \$53,946,000 in fiscal 2000. The Company's sales growth was due primarily to the acquisition of Continental in July 2000. In addition, net sales was impacted by an increase in sales of the Company's electronic door locking products through its Alarm Lock subsidiary and a significant decrease in other domestic sales, the majority of which was due to the reduction in purchases by a major customer as discussed above.

Gross Profit. The Company's gross profit increased \$1,119,000 to \$14,317,000 or 26.1% of net sales in fiscal 2001 as compared to \$13,198,000 or 24.5% of net sales in fiscal 2000. The increase in gross profit in both absolute dollars and as a percentage of net sales was due primarily to the acquisition of Continental and the resulting increase in net sales as well as a positive shift in product mix due to the higher margins, in general, of the Continental product lines. Gross profit was also positively impacted by cost reductions of certain of the Company's raw material costs.

Expenses. Selling, general and administrative expenses increased by 23.6% to \$12,458,000 in fiscal 2001 from \$10,076,000 in fiscal 2000. This increase was due primarily to the addition of expenses relating to the Company's newly acquired Continental subsidiary.

Other Expenses. Other expenses increased \$258,000 to \$1,633,000 in fiscal 2001 as compared to \$1,375,000 in fiscal 2000. This increase was due primarily to the increase in interest expense due to the financing used for the Continental acquisition, a partially offsetting decrease in interest expense resulting from the Company's continued reduction of the outstanding principal on its non-Continental related debt and an increase in other income as a result of an insurance settlement during the second quarter of fiscal 2001.

Income Taxes Benefit for income taxes changed by \$238,000 to a benefit of \$25,000 in fiscal 2001 as compared to a benefit of \$263,000 in fiscal 2000. This change was primarily the result of a decrease in the deferred tax benefit in fiscal 2001 as compared to the benefit in fiscal 2000.

EBITDA. EBITDA, as defined on page 9 above, decreased by \$602,000 to \$4,074,000 or 7.4% of net sales in fiscal 2001 as compared with \$4,676,000 or 8.7% of net sales in fiscal 2000. The decrease in EBITDA was primarily attributable to an increase in selling, general and administrative expenses arising from the Continental acquisition and the resulting decrease in income from operations.

Effects of Inflation During the three-year period ended June 30, 2001, inflation and changing prices did not have a significant impact on the Company's operations.

Fiscal 2000 Compared to Fiscal 1999

Net Sales. Net sales in fiscal 2000 increased by 6% to \$53,946,000 from \$50,875,000 in fiscal 1999. The Company's sales growth was due primarily to a significant increase in demand for the Company's door locking products as well as from the effects of one of the Company's customers being acquired during fiscal 1999. This acquisition, while impacting the results for fiscal 1999, did not have any significant effect on the results for fiscal 2000.

Gross Profit. The Company's gross profit increased \$1,421,000 to \$13,198,000 or 24.5% of net sales as compared to \$11,777,000 or 23.1% of net sales in fiscal 1999. The increase both in absolute dollars and as a percentage of net sales was due primarily to the increase in net sales as well as cost reductions of certain of the Company's raw material costs.

Expenses. Selling, general and administrative expenses increased by 2% to \$10,076,000 in fiscal 2000 as compared to \$9,866,000 in fiscal 1999. The increase was due primarily to the 6% increase in net sales as discussed above as well as the Company's increased activities in identifying potential acquisition candidates.

Other Expenses. Other expenses increased by \$32,000 to \$1,375,000 in fiscal 2000 as compared to \$1,343,000 in fiscal 1999. This slight increase was due primarily to increased borrowing rates as mostly offset by reductions in the Company's outstanding debt.

Income Taxes. The benefit for income taxes decreased \$1,662,000 to a benefit of \$263,000 as compared to a benefit of \$1,925,000 in fiscal 1999. This change was primarily due to the large benefit in fiscal 1999 that resulted from the favorable outcome of the IRS audits of fiscal years 1986 through 1997 and the resulting reduction in related reserve requirements.

EBITDA. EBITDA increased by \$1,381,000 to \$4,676,000 or 8.7% of net sales in fiscal 2000 as compared with \$3,295,000 or 6.5% of net sales in fiscal 1999. The increase in EBITDA was primarily attributable an increase in net sales and the resulting increase in gross profit.

Effects of Inflation. During the three-year period ended June 30, 2000, inflation and changing prices did not have a significant impact on the Company's operations.

Goodwill. In June 2001, Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" were issued. These Statements establish financial accounting and reporting standards for acquired goodwill and other intangible assets. Specifically, the standards address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, early application is permitted for entities with fiscal years beginning after March 15, 2001. The Company has adopted this standard effective July 1, 2001 and, accordingly, those intangible assets that will continue to be classified as goodwill or as other intangibles with indefinite lives will no longer be amortized. This could result in the exclusion of approximately \$467,000 in amortization expense for the fiscal year ending June 30, 2002. In accordance with SFAS No. 142, intangible assets, including purchased goodwill, will be evaluated periodically for impairment. The Company's initial evaluations are expected to be completed by September 30, 2001.

Item 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal financial instrument is long-term debt (consisting of a

revolving credit and term loan facility) that provides for interest at a spread above the prime rate. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under this credit facility. A significant rise in the prime rate could materially adversely affect the Company's business, financial condition and results of operations. At June 30, 2001, an aggregate principal amount of approximately \$15,300,000 was outstanding under the Company's credit facility and term loan with a weighted average interest rate of approximately 6%. If principal amounts outstanding under the Company's credit facility remained at this year-end level for an entire year and the prime rate increased or decreased, respectively, by 1.25% the Company would pay or save, respectively, an additional \$191,250 in interest that year. In October 2000, the Company entered into an interest rate swap to maintain the value-at-risk inherent in its interest rate exposures. This transaction meets the requirements for cash flow hedge accounting as the instrument is designated to a specific debt balance. Accordingly, any gain or loss associated with this interest rate swap is included as a component of interest expense. The Company does not hold or enter into derivative financial instruments for trading or speculative purposes.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three fiscal years in the period ended June 30, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 2001 in conformity with accounting principles generally accepted in the United States.

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 28, 2001

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2001 AND 2000
(in thousands, except share data)

ASSETS -----	2001 ----	2000 ----
CURRENT ASSETS:		
Cash	\$ 1,037	\$ 2,384
Accounts receivable, less reserve for doubtful accounts of \$700 and \$622, respectively	16,940	18,027
Inventories	23,234	19,478
Prepaid expenses and other current assets	895	1,086
	-----	-----
Total current assets	42,106	40,975
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization of \$15,288 and \$13,712, respectively	10,663	11,105
GOODWILL, net of accumulated amortization of \$1,824 and \$1,363, respectively	9,686	2,379
DEFERRED INCOME TAXES	785	716
OTHER ASSETS	437	354
	-----	-----
Total assets	\$ 63,677	\$ 55,529
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY -----		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 3,533	\$ 1,023
Accounts payable	3,361	2,551
Accrued expenses	883	1,081
Accrued salaries and wages	1,042	994
Accrued income taxes	55	46
	-----	-----
Total current liabilities	8,874	5,695
LONG-TERM DEBT	21,567	16,183
DEFERRED INCOME TAXES	292	292
	-----	-----
Total liabilities	30,733	22,170
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY:		
Common stock, par value \$.01 per share; 21,000,000 shares authorized; 5,938,852 and 5,917,352 shares issued, respectively; 3,366,596 and 3,498,901 shares outstanding, respectively	59	59
Additional paid-in capital	831	772
Retained earnings	37,228	36,977
Less: Treasury stock, at cost; 2,572,256 and 2,418,451 shares, respectively	(5,174)	(4,449)
	-----	-----
Total stockholders' equity	32,944	33,359
	-----	-----
Total liabilities and stockholders' equity	\$ 63,677	\$ 55,529
	=====	=====

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share data and per share data)

	For the Fiscal Year Ended June 30,		
	2001	2000	1999
NET SALES	\$ 54,771	\$ 53,946	\$ 50,875
COST OF SALES	40,454	40,748	39,098
Gross profit	14,317	13,198	11,777
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	12,458	10,076	9,866
Operating income	1,859	3,122	1,911
OTHER INCOME (EXPENSE):			
Interest expense, net	(1,816)	(1,375)	(1,359)
Other, net	183	--	16
	(1,633)	(1,375)	(1,343)
Income before for income taxes	226	1,747	568
BENEFIT FOR INCOME TAXES	(25)	(263)	(1,925)
Net income	\$ 251	\$ 2,010	\$ 2,493
EARNINGS PER SHARE (Note 1):			
Basic	\$.07	\$.57	\$.71
Diluted	\$.07	\$.57	\$.71
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (Note 1):			
Basic	3,443,000	3,495,000	3,493,000
Diluted	3,527,000	3,513,000	3,512,000

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE FISCAL YEARS ENDED JUNE 30, 2001, 2000 AND 1999
 (in thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	Number of Shares	Amount				
BALANCE AT JUNE 30, 1998	5,908,102	\$ 59	\$ 749	\$ 32,474	\$ (4,449)	\$ 28,833
Exercise of employee stock options	500	--	2	--	--	2
Net income	--	--	--	2,493	--	2,493
	-----	-----	-----	-----	-----	-----
BALANCE AT JUNE 30, 1999	5,908,602	59	751	34,967	(4,449)	31,328
Exercise of employee stock options	8,750	--	21	--	--	21
Net income	--	--	--	2,010	--	2,010
	-----	-----	-----	-----	-----	-----
BALANCE AT JUNE 30, 2000	5,917,352	59	772	36,977	(4,449)	33,359
Purchase of treasury shares	--	--	--	--	(725)	(725)
Exercise of employee stock options	21,500	--	59	--	--	59
Net income	--	--	--	251	--	251
	-----	-----	-----	-----	-----	-----
BALANCE AT JUNE 30, 2001	5,938,852	\$ 59	\$ 831	\$ 37,228	\$ (5,174)	\$ 32,944
	=====	=====	=====	=====	=====	=====

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Fiscal Years Ended June 30,		
	2001	2000	1999
	----	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 251	\$ 2,010	\$ 2,493
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,032	1,554	1,368
Provision for doubtful accounts	78	(265)	230
Deferred income taxes	(69)	(150)	143
Changes in operating assets and liabilities, net of affect from acquisition of business, resulting from increases and decreases in:			
Accounts receivable	1,702	(1,316)	(1,916)
Inventories	(3,159)	2,017	3,943
Prepaid expenses and other current assets	217	(277)	(135)
Other assets	(77)	(79)	1
Accounts payable, accrued expenses, accrued salaries and wages and accrued income taxes	351	(672)	(3,201)
	-----	-----	-----
Net cash provided by operating activities	1,326	2,822	2,926
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of business, net of cash acquired	(7,248)	--	--
Net purchases of property, plant and equipment	(1,035)	(1,221)	(1,050)
	-----	-----	-----
Net cash used in investing activities	(8,283)	(1,221)	(1,050)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Principal payments on long-term debt	(4,774)	(1,468)	(1,637)
Proceeds from long-term debt	11,050	--	--
Purchase of treasury stock	(725)	--	--
Proceeds from exercise of employee stock options	59	21	2
	-----	-----	-----
Net cash provided by (used in) financing activities	5,610	(1,447)	(1,635)
	-----	-----	-----
NET (DECREASE) INCREASE IN CASH	(1,347)	154	241
CASH, beginning of year	2,384	2,230	1,989
	-----	-----	-----
CASH, end of year	\$ 1,037	\$ 2,384	\$ 2,230
	=====	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:			
Interest paid	\$ 2,121	\$ 1,123	\$ 1,301
	=====	=====	=====
Income taxes paid	\$ 21	\$ 101	\$ 259
	=====	=====	=====

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND 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 wholly - owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentation.

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

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

Goodwill

Goodwill is being amortized on a straight-line basis over periods from 20 to 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, 2001, 2000 and 1999, there were no adjustments to the carrying value of goodwill, other than straight-line amortization.

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin 101, "Revenue Recognition in Financial Statements," the Company recognizes revenue when the following criteria are met: (i) pervasive evidence of an agreement exists, (ii) there is a fixed and determinable price for the Company's product, (iii) shipment and passage of title occurs, and (iv) collectibility is reasonably assured. The Company reports its sales levels on a net sales basis, with net sales

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

being computed by deducting from gross sales the amount of actual sales returns and the amount of reserves established for anticipated sales returns.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense in the year incurred. Approximately \$4,220,000, \$4,234,000 and \$4,008,000 of Company-sponsored research and development costs are included within selling, general and administrated expenses for the fiscal years ended June 30, 2001, 2000, and 1999, respectively.

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 benefit for income taxes represents U.S. Federal and state taxes on income generated from U.S. operations and local taxes on income generated from United Kingdom operations. Income generated by the Company's foreign subsidiary in the Dominican Republic is non-taxable. The Company accounts for the research and development credit as a reduction of income tax expense in the year in which such credits are allowable for tax purposes.

In prior years, the Company did not provide for income taxes on the undistributed earnings of its Domestic International Sales Corporation ("DISC") subsidiary because it was the Company's intent to continue the subsidiary's qualification for tax deferral. Due to the shifting of manufacturing outside the U.S., management determined in fiscal 1995 that the DISC no longer qualified for continued tax deferral. As a result, previously deferred earnings of the DISC totaling \$2,031,000 must be reported as taxable income over a ten-year period in the Company's tax returns, starting with the June 30, 1992 tax year.

The Company does not provide for income taxes on the undistributed earnings of its foreign subsidiary in the Dominican Republic because such earnings are reinvested abroad and it is the intention of management that such earnings will continue to be reinvested abroad. As of June 30, 2001 and 2000, approximately \$20,461,000 and \$20,243,000 in cumulative earnings of this foreign subsidiary are included in consolidated retained earnings.

Earnings Per Share

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

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

	Net Income			Shares			Net Income Per Share		
	2001	2000	1999	2001	2000	1999	2001	2000	1999
	----	----	----	----	----	----	----	----	----
Basic EPS									
Net income	\$ 251	\$2,010	\$2,493	3,464	3,495	3,493	\$.07	\$.57	\$ 0.71
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Effect of Dilutive Securities									
Employee stock options	--	--	--	63	18	19	--	--	--
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Diluted EPS									
Net income	\$ 251	\$2,010	\$2,493	3,527	3,513	3,512	\$.07	\$.57	\$ 0.71
	=====	=====	=====	=====	=====	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Options to purchase 149,500, 90,240, and 10,620 shares of common stock for the three fiscal years ended June 30, 2001, 2000 and 1999 respectively, were not included in the computation of Diluted EPS because the exercise prices exceeded the average market price of the common shares for the respective periods and accordingly their inclusion would be anti-dilutive. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of SFAS No. 123 "Accounting for Stock-Based Compensation." Accordingly, the Company has elected to continue 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 8).

Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. The realized and unrealized gains and losses associated with foreign currency translation, as well as related other comprehensive income were not material for the three years ending June 30, 2001.

Comprehensive Income

The Company follows the provisions of SFAS No. 130, "Reporting Comprehensive Income," which established rules for the reporting of comprehensive income and its components. The adoption of this statement had no impact on the Company's net income or stockholders' equity. For the fiscal years ended 2001, 2000 and 1999, the Company's operations did not give rise to items includable in comprehensive income which were not already included in net income. Accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Segment Reporting

The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Pursuant to this pronouncement, the reportable operating segments are determined based on the Company's management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision maker organizes the segments within an enterprise for making operating decisions and assessing performance. The Company's results of operations are reviewed by the chief operating decision maker on a consolidated basis and the Company operates in only one segment. The Company has presented required geographical segment data in Note 12 and no additional segment data has been presented.

Fair Value of Financial Instruments

The Company calculates the fair value of financial instruments and includes this additional information in the notes to the financial statements where the fair value is different than the book value of those financial instruments. When the fair value approximates book value, no additional disclosure is made. The Company uses quoted market prices whenever available to calculate these fair values. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments which take into account the present value of estimated future cash flows. At June 30, 2001 and 2000, management of the Company believes the carrying value of all financial instruments approximated fair value.

Shipping and Handling Revenues and Costs

In July 2000, the Emerging Issues Task Force ("EITF") reached a consensus with respect to EITF Issue No. 00-10, "Accounting for Shipping and Handling Revenues and Costs." The purpose of this issue discussion was to clarify the classification of shipping and handling revenues and costs. The consensus reached was that all shipping and handling billed to customers is revenue and the costs associated with these revenues classified as either cost of sales, or selling, general, and administrative costs, with footnote disclosure as to classification of these costs. This

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

standard will require a restatement of prior periods for changes in classification. Beginning fiscal 2001, the Company records the amount billed to customers in net revenues and classifies the costs associated with these revenues in cost of sales. The Company has retroactively restated prior year financial information to give effect to this new statement.

Derivative Instruments and Hedging Activities

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Pursuant to SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133 - an Amendment of FASB Statement No. 133," SFAS No. 133 was effective for all fiscal quarters of fiscal years beginning after June 15, 2000 and does not require retroactive restatement of prior period financial statements. This Statement requires the recognition of all derivative instruments as either assets or liabilities in the statement of financial position measured at fair value. Generally, increases or decreases in the fair value of derivative instruments will be recognized as gains or losses in earnings in the period of change. If certain conditions are met, where the derivative instrument has been designated as a fair value hedge, the hedged item may also be marked to market through earnings thus creating an offset. If the derivative is designed and qualifies as a cash flow hedge, the changes in fair value of the derivative instrument may be recorded in comprehensive income. There was no material impact on the Company's financial position or results of operations upon adoption on July 1, 2000.

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

New Accounting Pronouncements

In June 2001, SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets" were issued. These Statements establish financial accounting and reporting standards for acquired goodwill and other intangible assets. Specifically, the standards address how acquired intangible assets should be accounted for both at the time of acquisition and after they have been recognized in the financial statements. The provisions of SFAS No. 141 apply to all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, early application is permitted for entities with fiscal years beginning after March 15, 2001. The Company has adopted this standard effective July 1, 2001 and, accordingly, those intangible assets that will continue to be classified as goodwill or as other intangibles with indefinite lives will no longer be amortized. This could result in the exclusion of approximately \$467,000 in amortization expense for the fiscal year ending June 30, 2002. In accordance with SFAS No. 142, intangible assets, including purchased goodwill, will be evaluated periodically for impairment. The Company's initial evaluations are expected to be completed by September 30, 2001.

2. ACQUISITION OF BUSINESS

On July 27, 2000, the Company acquired Continental Instruments LLC ("Continental"), a manufacturer and distributor of access control and security management systems. This acquisition was accounted for by the purchase method and was valued based on management's estimate of the fair value of the assets acquired and liabilities assumed at the date of the acquisition. The purchase price was \$7,522,500 in cash, less subsequent purchase price adjustments of approximately \$460,000, plus future deferred payments of \$1,700,000 in cash to be paid over a period of 24 months. The acquisition was financed by an \$8,250,000 loan from the Company's primary lender, to be repaid in 60 equal monthly installments. The loan is secured by a mortgage, guarantees and other collateral. The excess of the aggregate purchase price over the fair value of net assets acquired of approximately \$7,768,000 has been allocated to goodwill and is being amortized on a straight-line basis over an estimated useful life of 20 years.

Summarized below are the unaudited pro forma results of operations as though this acquisition had occurred at the beginning of fiscal 2000. Pro forma adjustments have been made for amortization of goodwill and deferred financing

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

costs, additional salary expense for employees not previously included in salary expense and additional interest expense for a term loan related to this transaction:

	June 30, -----	
	2001	2000
	----	----
	(in thousands, except per share data)	
PRO FORMA:		
Net Sales	\$ 55,120	\$ 59,115
Net Income	232	2,299
NET INCOME PER SHARE:		
Basic	0.07	0.66
Diluted	0.07	0.65

3. BUSINESS AND CREDIT CONCENTRATIONS

At June 30, 2001, the Company had two customers (Customer A and B) with accounts receivable balances that aggregated 44% of the Company's accounts receivable. At June 30, 2000, the Company had two customers (Customer A and B) with accounts receivable balances that aggregated 55% of the Company's accounts receivable. The Company had one customer (Customer A) that accounted for 18%, 27% and 27% of the Company's net sales in fiscal 2001, 2000 and 1999, respectively. During the past three fiscal years no other customer represented more than 10% of the Company's net sales.

4. INVENTORIES

Inventories consist of the following:

	June 30, -----	
	2001	2000
	----	----
	(in thousands)	
Component parts	\$12,495	\$10,231
Work-in-process	3,538	4,063
Finished products	7,201	5,184
	-----	-----
	\$23,234	\$19,478
	=====	=====

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	June 30, -----		Depreciation/ amortization- annual rates
	2001	2000	-----
	----	----	
	(in thousands)		
Land	\$ 904	\$ 904	--
Building	8,911	8,911	3%
Molds and dies	3,867	3,642	20% to 33%
Furniture and fixtures	1,112	1,022	10% to 20%
Machinery and equipment	10,979	10,283	10% to 15%
Leasehold improvements	178	55	Shorter of the lease term or life of asset
	-----	-----	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	25,951	24,817
Less: Accumulated depreciation and amortization	15,288	13,712
	-----	-----
	\$10,663	\$11,105
	=====	=====

Depreciation and amortization expense on property, plant and equipment was approximately \$1,510,000, \$1,397,000 and \$1,261,000 for the three fiscal years ended June 30, 2001, respectively.

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

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

(Benefit) for income taxes consists of the following:

	For the Fiscal Years Ended June 30,		
	2001	2000	1999
	----	----	----
	(in thousands)		
Taxes currently payable:			
Federal	\$ --	\$ --	\$(2,271)
State	21	1	(4)
Foreign	23	16	--
	-----	-----	-----
	44	17	(2,275)
Deferred income tax (benefit)	(69)	(280)	350
	-----	-----	-----
(Benefit) for income taxes	\$ (25)	\$ (263)	\$(1,925)
	=====	=====	=====

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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	For the Fiscal Years Ended June 30,					
	2001		2000		1999	
	Amount	% of Pre-tax Income	Amount	% of pre-tax Income	Amount	% of pre-tax Income
	-----	-----	-----	-----	-----	-----
	(in thousands, except percentages)					
Tax at Federal statutory rate	\$ 77	34.0%	\$ 594	34.0%	\$ 193	34.0%
Increases (decreases) in taxes resulting from:						
State income taxes, net of Federal income tax benefit	(202)	(89.4)	(155)	(8.9)	(2)	(0.4)
Amortization of non-deductible goodwill	36	15.9	36	2.1	36	6.3
Non-taxable foreign source income	(890)	(393.8)	(2,643)	(151.3)	(362)	(63.7)
Adjustment to reflect IRS settlement	--	--	--	--	(1,896)	(333.8)
Valuation allowance - domestic NOL	830	367.3	1,794	102.7	--	--
Other, net	124	54.9	111	6.4	106	18.7
	-----	-----	-----	-----	-----	-----
(Benefit) for income taxes	\$ (25)	(11.1)%	\$ (263)	(15.0)%	\$ (1,925)	(338.9)%
	=====	=====	=====	=====	=====	=====

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

Deferred tax assets and deferred tax liabilities at June 30, 2001 and 2000 are as follows (in thousands):

	Deferred Tax Assets		Deferred Tax Liabilities		Net Deferred Tax Assets (Liabilities)	
	2001	2000	2001	2000	2001	2000
	-----	-----	-----	-----	-----	-----
Current:						
Accounts receivable	\$ 166	\$ 300	\$ --	\$ --	\$ 166	\$ 300
Inventories	428	782	--	--	428	782
Accrued liabilities	366	198	--	--	366	198
Net operating loss and other carryforwards	2,453	1,167	--	--	2,453	1,167
Other	(4)	63	55	42	(59)	21
	-----	-----	-----	-----	-----	-----
	3,409	2,510	55	42	3,354	2,468
Noncurrent:						
Fixed assets	--	--	292	292	(292)	(292)
	-----	-----	-----	-----	-----	-----
Total deferred taxes	3,409	2,510	347	334	3,062	2,176
Less: Valuation Allowance	(2,624)	(1,794)	--	--	(2,624)	(1,794)
	-----	-----	-----	-----	-----	-----
Net deferred taxes	\$ 785	\$ 716	\$ 347	\$ 334	\$ 438	\$ 382
	=====	=====	=====	=====	=====	=====

As a result of the Company's U.S. operations not generating income in recent years, management believes it is more likely than not that the Company will not realize the benefit of a portion of the net deferred tax assets existing at June 30, 2001 and 2000. Therefore, the Company has reserved for a portion of deferred income taxes as of June 30, 2001 due to uncertainty regarding the generation of sufficient taxable income in the United States to realize deferred taxes associated with net operating loss carryforwards.

7. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30,	
	2001	2000
	-----	-----
	(in thousands)	
Revolving credit and term loan facility (a)	\$15,313	\$14,513
Notes payable (b)	1,670	2,693
Term Loan (c)	6,875	--
Deferred acquisition costs, net (d)	1,242	--
	-----	-----
	25,100	17,206
Less: Current portion	3,533	1,023
	-----	-----
	\$21,567	\$16,183

=====

=====

- (a) In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to \$18,000,000. The amended revolving credit agreement is secured by all the accounts receivable, inventory and certain other assets of Napco Security Systems, Inc., a first and second mortgage on the Company's headquarters in Amityville, New York and common stock of two of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less $-1/4$ % or an alternate rate based on LIBOR as described in the agreement. The revolving credit agreement will expire in July 2004 and any outstanding borrowings are to be repaid on or before that time. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2001, the Company was not in compliance with all of these financial covenants and, accordingly, received a waiver from the bank.

- (b) In connection with the stock purchase agreement described in Note 9, 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 entered into 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 payments began in April 1999, with a final maturity June 2003.

- (c) On July 27, 2000, the Company entered into a five year \$8,250,000 secured term loan with its primary bank in connection with the acquisition of Continental. Under the agreement, the loan is to be repaid in 60 equal monthly installments of \$137,500, plus interest at a LIBOR based rate, as defined in the agreement. 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, 2001, the Company was not in compliance with all of these financial covenants, and accordingly received a waiver from the bank.

The Company has entered into an interest rate swap agreement to exchange floating rate for fixed rate interest payments periodically over the life of the agreement. The interest rate swap has been designated as a cash flow hedge and is effective as of June 30, 2001. At June 30, 2001 there was an outstanding interest rate swap contract totaling \$3,162,500. The contract bears a fixed interest rate of 8.68% and terminates on October 30, 2002. The debt instrument bears interest at LIBOR plus 2%. At June 30, 2001 the interest rate on the debt was 6.06%.

- (d) In connection with the Continental acquisition described in Note 2, the Company is required to make four scheduled future payments to the former owner, beginning on January 27, 2001 with a final payment on July 27, 2002. These payments are recorded at their present value using an interest rate of 7%. The difference between the present value and face value of the payments is accounted for as a debt discount and accreted to interest expense over the term of the payments.

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

Fiscal Year Ending June 30,

2002	\$ 3,533
2003	2,679
2004	1,650
2005	16,963
2006	275

	\$25,100
	=====

8. 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 value on the date of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

grant and are exercisable in whole or in part at 20% per year from the date of grant. At June 30, 2001, 312,610 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 2001, 2000 and 1999 been determined according to SFAS No. 123, the Company's net income and earnings per share would have been:

		June 30		
		2001	2000	1999
		-----	-----	-----
		(in thousands, except per share data)		
NET INCOME:	As reported	\$ 251	\$2,010	\$2,493
	Pro forma	(14)	1,790	2,279
BASIC EPS:	As reported	\$.07	\$.57	\$ 0.71
	Pro forma	(.04)	.51	0.65
DILUTED EPS:	As reported	\$.07	\$.57	\$ 0.71
	Pro forma	(.04)	.51	0.65

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 1992 Plan for the fiscal years ended:

	2001		June 30, 2000		1999	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	-----	-----	-----	-----	-----	-----
Outstanding at beginning of year	499,850	3.33	438,100	\$ 3.39	236,250	\$ 3.91
Granted	109,500	4.18	91,000	3.19	251,600	3.12
Exercised	(19,500)	2.64	(8,750)	2.50	(500)	3.88
Forfeited	(6,000)	3.79	(20,500)	4.29	(35,500)	4.66
Canceled/Lapsed	(4,500)	2.64	--	--	(13,750)	4.28
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	579,350	3.51	499,850	3.33	438,100	3.39
	=====	=====	=====	=====	=====	=====
Exercisable at end of year	312,610	3.47	222,040	3.37	138,570	3.40
	=====	=====	=====	=====	=====	=====
Weighted average fair value of options granted	\$ 1.76		\$ 1.50		\$ 4.25	

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:

	2001	2000	1999
	----	----	----
Risk-Free Interest Rates	6.06%	6.24%	5.22%
Expected Lives	5 years	5 years	5 years
Expected Volatility	42%	44%	45%
Expected Dividend Yields	0%	0%	0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about stock options outstanding at June 30, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at 6/30/01	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable At 6/30/01	Weighted Average Exercise Price
\$ 2.50 - \$3.75	318,750	2.83	3.08	173,150	3.06
3.76 - 5.63	260,600	2.42	4.05	139,460	3.98
	-----	----	----	-----	----
2.50 - 5.63	579,350	2.65	3.51	312,610	3.47
	=====	=====	=====	=====	=====

In September 2000, the stockholders approved a 10 year extension of the already existing 1990 non-employee stock option plan (the "2000 Plan") to encourage non-employee directors and consultants of the Company to invest in the Company's stock. The 2000 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 2000 Plan provides that the option price will not be less than 100% of the fair market value of the stock at the date of grant. Options are exercisable at 20% per year and expire five years after the date of grant. The Company has adopted SFAS No. 123 to account for stock-based compensation awards granted to non-employee consultants, under which a compensation cost is recognized for the fair value of the options granted as of the date of grant. Under this plan there were no options granted as of June 31, 2000. As of June 30, 2001, 40,000 options were granted with a weighted average exercise price of \$4.13 and there were no options exercised, cancelled, or forfeited.

9. 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 consulting and non-compete agreements, each with a period of ten years. Upon closing, \$2,500,000 of the purchase price was paid to the former president with the proceeds of the term loan described in Note 7 (b). The remaining purchase price is to be paid over a 4 year period according to the terms of a note issued to the former president. The common stock purchased is included in treasury stock as of June 30, 2000 and 2001.

10. 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 \$ 63,000, \$55,000 and \$54,000 for the three fiscal years ended June 30, 2001, respectively.

11. COMMITMENTS AND CONTINGENCIES

Leases

The Company is committed under various operating leases which do not extend beyond fiscal 2005. 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):

Fiscal Year Ending June 30,

2002	\$242,322
2003	209,907
2004	53,738
2005	16,940
Thereafter	--

Rent expense totaled approximately \$704,000, \$859,000 and \$805,000 for the three fiscal years ended June 30, 2001, 2000, and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Land Lease

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

Letters of Credit

At June 30, 2001, the Company was committed for approximately \$470,469 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.

12. SEGMENT DATA

The Company is engaged in one major line of business - the development, manufacture and distribution of security alarm products and door security devices for commercial and residential use. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America, Europe and South America. Identifiable assets (net of intercompany receivables and payables) related to the Company's foreign subsidiaries were approximately \$25,395,000 and \$22,945,000 at June 30, 2001 and 2000, respectively.

The Company observes the provisions of SFAS No. 131. While the Company's results of operations are primarily reviewed on a consolidated basis, the chief operating decision maker also manages the enterprise in two geographic segments: (i) United States and (ii) Foreign. The following represents selected consolidated financial information for the Company's segments for the fiscal years ended June 30, 2001, 2000 and 1999:

	2001 ----	2000 ----	1999 ----
	(in thousands)		
Sales to unaffiliated customers:			
United States	\$54,771	\$53,946	\$50,875
Foreign	--	--	--
	-----	-----	-----
	\$54,771	\$53,946	\$50,875
	=====	=====	=====
Identifiable assets:			
United States	38,282	32,584	33,067
Foreign	25,395	22,945	22,720
Export Sales:			
United States	9,952	10,143	10,713

Export sales from the United States in fiscal year 2001 included sales of approximately \$6,727,000, \$603,000, \$1,524,000 and \$1,098,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 2000 included sales of approximately \$6,675,000, \$741,000, \$1,118,000 and \$1,609,000 to Europe, North America, South America and other areas, respectively. Export sales from the United States in fiscal year 1999 included sales of approximately \$6,730,000, \$869,000, \$1,653,000, and \$1,461,000 to Europe, North America, South America and other areas, respectively.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY
CONDENSED BALANCE SHEETS

ASSETS	As of June 30	
	2001	2000
	(in thousands)	
CASH	\$ 124	\$ 971
ACCOUNTS RECEIVABLE, net	10,682	13,442
INVENTORIES	6,032	6,412
PREPAID EXPENSES AND OTHER CURRENT ASSETS	357	700
	-----	-----
Total current assets	17,195	21,525
INVESTMENT IN SUBSIDIARIES, on equity basis	30,482	30,369
PROPERTY, PLANT AND EQUIPMENT, net	4,641	4,871
DEFERRED INCOME TAXES	785	716
OTHER ASSETS	309	227
	-----	-----
	\$ 53,412	\$ 57,708
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES	\$ 4,865	\$ 2,958
DUE TO (FROM) SUBSIDIARIES	(554)	4,916
LONG-TERM DEBT	15,866	16,183
DEFERRED INCOME TAXES	292	292
	-----	-----
Total liabilities	20,469	24,349
STOCKHOLDERS' EQUITY	32,943	33,359
	-----	-----
	\$ 53,412	\$ 57,708
	=====	=====

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

SCHEDULE I - CONDENSED FINANCIAL INFORMATION ON PARENT COMPANY
CONDENSED STATEMENTS OF INCOME

	For the Fiscal Years Ended June 30,		
	2001	2000	1999
	----	----	----
	(in thousands)		
NET SALES	\$ 28,592	\$ 33,611	\$ 35,733
COST OF SALES	18,201	24,020	26,325
	-----	-----	-----
Gross profit	10,391	9,591	9,408
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	9,265	7,318	7,741
	-----	-----	-----
Operating income	1,126	2,273	1,667
EQUITY IN EARNINGS OF SUBSIDIARIES	113	874	284
OTHER EXPENSE, net	(1,014)	(1,400)	(1,383)
	-----	-----	-----
Income before (benefit) for income taxes	225	1,747	568
(BENEFIT) FOR INCOME TAXES	(25)	(263)	(1,925)
	-----	-----	-----
Net income	\$ 250	\$ 2,010	\$ 2,493
	=====	=====	=====

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

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Column A ----- Description -----	Column B ----- Balance at Beginning of Period -----	Column C ----- Charged to Costs and Expenses -----	Column D ----- Deductions (1) -----	Column E ----- Balance at End of Period -----
For the year ended June 30, 1999:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 755 =====	\$ 230 =====	\$ 98 =====	\$ 887 =====
For the year ended June 30, 2000:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 887 =====	\$ 110 =====	\$ 375 =====	\$ 622 =====
For the year ended June 30, 2001:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$ 622 =====	\$ 78 =====	\$- =====	\$ 700 =====

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

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

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

ITEM 11. EXECUTIVE COMPENSATION.

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by Part III (Items 10, 11, 12 and 13) is incorporated herein by reference from the Company's definitive proxy statement for the 2001 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 2001 fiscal year, and, accordingly, items 10, 11, 12 and 13 are omitted pursuant to General Instruction G(3).

PART IV

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:

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Report of Independent Public Accountants as of June 30, 2001 and 2000 and for each of the 3 Years in the Period Ended June 30, 2001.....	18
Consolidated Balance Sheets as of June 30, 2001 and 2000.....	19
Consolidated Statements of Income for the Years Ended June 30, 2001, 2000 and 1999.....	20

Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2001, 2000 and 1999.....	21
Consolidated Statements of Cash Flows for the Years Ended June 30, 2001, 2000 and 1999.....	22
Notes to Consolidated Financial Statements, June 30, 2001, 2000 and 1999.....	23

(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.....	34
II: Valuation and Qualifying Accounts.....	36

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

(a)3 and (c). Exhibits

Exhibit No. ---	Title -----	
Ex-3.(i)	Articles of Incorporation, as amended.....	Exhibit 3a to Report on Form 10-K for fiscal year ended June 30, 1988
Ex-3.(ii)	Amended and Restated By-Laws	Exhibit 3.(ii) to Report on Form 10-K for fiscal year ended June 30, 1999
Ex-10.A	Amended and Restated 1992 Incentive Stock Option Plan	Exhibit 10.A to Report on Form 10-K for fiscal year ended June 30, 1999

Ex-10.B 2000	Non-Employee Stock Option Plan.....	E-1
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	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.H	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.I	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.J	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.K	Promissory Note to Marine Midland Bank dated as of May 12, 1997.....	Exhibit 10-L to Report on Form 10-K for fiscal year ended June 30, 1997
Ex-10.L	Amendment No. 1 to the Loan and Security Agreement with Marine Midland Bank dated as of May 28, 1998.....	Exhibit 10-M to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex.-10.M	Term Loan Note to Marine Midland Bank dated as of May 28, 1998.....	Exhibit 10-N to Report in Form 10-K For fiscal year ended June 30, 1998.
Ex-10.N	Promissory Note to Kenneth Rosenberg dated as of May 28, 1998.....	Exhibit 10.O to Report in Form 10-K for fiscal year ended June 30, 1998.
Ex-10.O	Consulting Agreement with Kenneth Rosenberg dated as of May 28, 1998.....	Exhibit 10.P to Report in Form 10-K for fiscal year ended June 30, 1998.

Ex-10.P	Employment Agreement with Richard Soloway	Exhibit 10.Q to Report in Form 10-Q for period ended March 31, 1999.
Ex-10.Q	Employment Agreement with Jorge Hevia	Exhibit 10.R to Report in Form 10-Q for period ended March 31, 1999.
Ex-10.R	Amendment No. 2 to the Loan and Security Agreement with HSBC Bank dated as of June 30, 1999	Exhibit 10.S to Report on Form 10-K for fiscal year ended June 30, 1999
Ex-10.S	Employment Agreement with Michael Carrieri	Exhibit 10.U to Report on Form 10-Q For fiscal quarter ended September 30, 1999
Ex-10.T	Indemnification Agreement dated August 9, 1999 ..	Exhibit 10.T to Report on Form 10-K For fiscal year ended June 30, 1999
Ex-10.U	Asset Purchase Agreement (1).....	Exhibit 2.1 to Report on Form 8-K Filed July 27, 2000
Ex-10.V	Amendment No. 4 to Loan and Security Agreement	Exhibit 10.V to Report on Form 8-K Filed July 27, 2000
Ex-10.W	Amendment No. 8 to Loan and Security Agreement ..	E-6
Ex-10.X	Note Modification Agreements	E-14
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

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, 2001.

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, 2001

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, 2001
/s/ KEVIN S. BUCHEL ----- Kevin S. Buchel	Director	September 28, 2001
/s/ANDREW J. WILDER ----- Andrew J. Wilder	Director	September 28, 2001
/s/ARNOLD BLUMENTHAL ----- Arnold Blumenthal	Director	September 28, 2001
/s/DONNA SOLOWAY ----- Donna Soloway	Director	September 28, 2001

Index to Exhibits

Ex-10.B	2000 Non-Employee Stock Option Plan, as amended	E-1
Ex-10.W	Amendment No. 8 to Loan and Security Agreement	E-6
Ex-10.X	Note Modification Agreements	E-14
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

NAPCO SECURITY SYSTEMS, INC.

2000 NON-EMPLOYEE STOCK OPTION PLAN
(Extended 1990 Non-Employee Stock Option Plan)

1. Purpose of the Plan. This 2000 Non-Employee Stock Option Plan (hereinafter referred to as the "Plan"), constituting a ten-year extension of the 1990 Non-Employee Stock Option Plan, is intended to encourage ownership of stock of Napco Security Systems, Inc. (hereinafter referred to as the "Corporation") by non-employee directors and consultants of the Corporation and its subsidiaries, if any, and to provide additional incentive for them to promote the success of the business. As used in the Plan the term "subsidiary" shall have the same meaning as the term "subsidiary corporation" defined in Section 425(f) of the Internal Revenue Code of 1986, as amended (the "Code"). All options granted under the Plan shall be non-qualified stock options and do not qualify as incentive stock options within the meaning of Section 422 or any successor Section of the Code.

2. Scope of the Plan. An aggregate of Fifty Thousand (50,000) shares (representing Ten Thousand (10,000) shares for future options and Forty Thousand (40,000) shares for outstanding options) of the Corporation's Common Stock, par value \$.01 per share (hereinafter referred to as "Common Stock"), shall be available and reserved for issue under the Plan subject, however, to the provisions of Section 12 hereof. If an option should expire or terminate for any reason without having been exercised in full, the unpurchased shares that were subject thereto shall, unless the Plan shall have terminated, become available for other options under the Plan. Common Stock shall not be issued in respect of an option granted under the Plan unless the exercise of such option and the issuance and delivery of shares of Common Stock pursuant thereto shall comply with all relevant provisions of law, including the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations thereunder, and the requirements of any stock exchange upon which the Common Stock may then be listed, and shall be further subject to the approval of the Corporation's counsel with respect to such compliance.

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

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

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

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

Without limiting the generality of the foregoing, the Board of Directors shall have full and final authority in its discretion, but subject to the express provisions of the Plan, to determine the fair market value of the Common Stock covered by each option; to select the key non-employee individuals of the Corporation and its subsidiaries to whom, and the time or times at which, options shall be granted; to determine the manner in which options may be exercised; to determine the number of shares to be covered by each option and the consideration, if any, to flow to the Corporation for each option; to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating to the Plan; to determine the terms and provisions of each option granted under the Plan (which need not be identical); to accelerate any exercise date of any option; to waive restrictions imposed with respect to the transferability of stock acquired on exercise of options granted under the Plan; to cancel an option previously granted to an optionee and issue a new option to such optionee at a lower price, provided that such optionee's consent is first obtained; to authorize any person to execute on behalf of the Corporation an option agreement with respect to an option previously granted by the Board of Directors; and to make all other determinations deemed necessary or advisable for the administration of the Plan.

4. Eligibility. Options may be granted only to non-employee directors serving on the Board of Directors of the Corporation or any subsidiary and/or non-employee consultant serving the Corporation or any subsidiary. In selecting the individuals to whom options shall be granted, as well as in determining the number of shares subject to each option, the Board of Directors may take into consideration the recommendation of the members of the Board of Directors who are also employees of the Corporation or a subsidiary and such factors as it shall deem relevant in connection with accomplishing the purposes of the Plan. An individual who has been granted an option may, if he is otherwise eligible, be granted an additional option or options.

5. Option Price. The purchase price to be paid for Common Stock transferred pursuant to the exercise of any option granted under the Plan shall be not less than the fair market value of such stock on the date the option is granted as provided in Section 14 hereof (but in no event less than the par value of the Common Stock), and shall not thereafter be subject to reduction except as provided in Section 12 hereof. For purposes of the Plan the fair market value of the Common Stock on any date shall be determined by the Board of Directors. The proceeds of sale of Common Stock subject to option are to be added to the general funds of the Corporation and used for such corporate purposes as the Board of Directors may determine.

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

7. Non-Transferability of Options. An option granted under the Plan shall by its terms not be transferable and an option may be exercised, during the lifetime of the holder of the option, only by such holder; provided, however, an option may be transferred, by will or the laws of descent and distribution, to the estate of a deceased holder, and such option may be exercised by the estate's legal representative within three (3) months of the date of death. More particularly, but without limiting the generality of the foregoing, an option may not be assigned, transferred, pledged, or hypothecated in any way (whether by operation of law or otherwise), and will not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of any option contrary to the provisions of the Plan, and any levy of any attachment or similar process upon an option will be null and void and without effect, and the Board of Directors may, in its discretion, upon the happening of any such event, terminate an option forthwith.

8. Annual Limitation on Options Granted. The amount of the aggregate fair market value of stock, determined at the time of the grant of the option, for which any non-employee director or consultant may be granted stock options under this Plan in any calendar year shall not exceed One Hundred Thousand (\$100,000) Dollars.

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

Notwithstanding anything herein to the contrary, such holder's options will vest and become immediately exercisable in full for a period of three (3) months following a change in control. For purposes of this Plan, a "change in control" shall mean:

(i) either (x) any merger or consolidation of the Company into or with another corporation, or (y) the acquisition by another person, group or entity after the date hereof of beneficial ownership of more than 25% of the Common Stock of the Company (such person, group or entity reporting, or being required to report, the acquisition pursuant to Section 13 of the Securities Exchange Act of 1934 of all the voting and investment powers of such stock), or

(ii) any sale by the Company of substantially all of the assets and business of Company for cash, stock, or any combination thereof, unless, immediately after such sale, the holders of Common Stock of the Company immediately prior to such sale own more than 50% or more of the voting capital stock of the acquiring corporation or, if the acquiring person or entity is not a corporation, more than 50% of the voting equity interests of such acquiring person or entity, or

(iii) if a majority of Company's Board of Directors consists of individuals who were not Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of the Company as of the date hereof, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company).

The purchase price of any shares as to which an option shall be exercised shall be paid in full at the time of exercise. The holder of an option shall not have any of the rights of a stockholder with respect to the shares covered by his option until such shares shall have been issued to him (as evidenced by the appropriate entry on the books of a duly authorized transfer agent of the Corporation) upon the purchase of such shares upon exercise of the option.

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

11. Exercise Upon Cessation of Relationship With Corporation. Except as provided in Sections 7 and 9 above, the right of a holder of an option to exercise such option shall terminate immediately upon voluntary termination of service as a non-employee director or consultant or dismissal, disability, retirement, death or otherwise. Option agreements may contain such provisions as the Board of Directors shall approve with reference to the effect of approved leaves of absence, provided, however, that all options shall terminate not more than five years after the date of grant.

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

13. Effectiveness of the Plan. The Plan shall become effective on October 15, 2000, but shall be subject to approval by the holders of Common Stock at a meeting of stockholders of the Corporation duly called and held no later than twelve months after the date of adoption of the Plan by the Board of Directors.

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

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

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

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

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

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

Dated as of: October 15, 2000

Amended: June 11, 2001

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Richard Soloway

Richard Soloway, President

ATTEST:

By: /s/ Kevin S. Buchel

Kevin S. Buchel,
Senior Vice President

AMENDMENT NO. 8 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 8 to the Loan and Security Agreement dated as of May 15, 2001 ("Amendment No. 8") by and between NAPCO SECURITY SYSTEMS, INC., a New York corporation having a place of business at 333 Bayview Avenue, Amityville, New York 11701 (the "Debtor") and HSBC BANK USA F/K/A MARINE MIDLAND BANK, having a place of business at 534 Broad Hollow Road, Melville, New York 11747 (the "Secured Party").

W I T N E S S E T H :

WHEREAS, as of May 12, 1997, Debtor and Secured Party had entered into a certain loan and security agreement, as amended by amendment no. 1 to the loan and security agreement dated as of May 28, 1998, as amended by amendment no. 2 to the loan and security agreement dated as of June 30, 1999, as amended by amendment no. 3 to the loan and security agreement dated as of February 9, 2000, as amended by amendment no. 4 to the loan and security agreement dated as of July 27, 2000, as amended by amendment no. 5 to the loan and security agreement dated as of September 22, 2000, as amended by amendment no. 6 to the loan and security agreement dated as of November 22, 2000, as amended by amendment no. 7 to the loan and security agreement dated as of February 14, 2001 as may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party increase the Borrowing Capacity, extend the Termination Date, and modify the Variable Rate Option, 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. 8.

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

BORROWING CAPACITY means, at the time of computation, \$18,000,000.

2. The definition of "Consolidated Subsidiary" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

CONSOLIDATED SUBSIDIARY means Alarm Lock Systems, Inc. ("Alarm"), NAPCO Security Systems International, Inc. ("NAPCO International"), NAPCO/Alarm Lock Grupo Internacional, S.A. ("NAPCO/Alarm Lock"), Continental Instruments LLC, f/k/a Continental Instruments Systems, LLC ("Continental Systems"), NAPCO Group Europe Limited ("NAPCO Europe"), and any other corporation of which at least 50% of the voting stock is owned by Debtor directly, or indirectly, through one or more Consolidated Subsidiaries, and any other limited liability company of which at least 50% of the membership interest is owned by Debtor directly, or indirectly, through one or more Consolidated Subsidiaries, and each of their respective successors and/or assigns.

3. The definition of "Debt Service Coverage Ratio" contained in

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

DEBT SERVICE COVERAGE RATIO means earnings before interest, taxes, depreciation and amortization, less distributions, all divided by prior period current portion of long term debt plus interest expense.

4. The definition of "Revolving Credit Note" or "Note" contained

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

REVOLVING CREDIT NOTE or NOTE means, individually, jointly, severally, and collectively, the revolving credit note #1 dated May 12, 1997, in the aggregate sum not to exceed \$1,000,000, as modified and reaffirmed as of the date hereof, as the same may be further extended, amended, reaffirmed and/or otherwise modified from time to time ("Note #1") and the revolving credit note # 2 dated May 12, 1997, in the original aggregate sum not to exceed \$15,000,000, as increased (so that such note is in the aggregate sum not to exceed \$17,000,000, otherwise modified and reaffirmed as of the date hereof, as the same may be further extended, amended, reaffirmed and/or otherwise modified from time to time("Note #2").

5. The definition of "Termination Date" contained in Section 1.1.

of the Agreement is hereby amended to read in its entirety as follows:

TERMINATION DATE shall mean the earlier to occur of (a) July 1, 2004, or, if such day shall not be a Business Day, the next succeeding Business Day, or (b) upon the occurrence of an Event of Default.

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

TRANSACTION DOCUMENTS means, individually, jointly, severally and collectively, the Agreement (including all amendments to date, including this Amendment No. 7) and all documents, instruments, notes and agreements by Debtor, Continental Systems or any other Third Party or any Responsible Party in favor of Secured Party, whether in existence now or hereinafter created, executed and delivered to Secured Party, as the same may be extended, re-executed, modified or otherwise amended from time to time, including, without limitation, the Term Loan Note, the Continental Term Loan Note, the Note, collateral documents, letter of credit agreements, notes, acceptance credit agreements, security agreements, pledges, guaranties, mortgages, title insurance, assignments, and subordination agreements required to be executed by Debtor, Continental Systems any other Third Party, or any Responsible Party pursuant hereto or in connection herewith, or in connection with a letter of credit application and reimbursement agreement, each dated as of May 12, 1997, as may be reaffirmed or restated from time to time, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of \$2,500,000.00, as may be extended or otherwise modified from time to time, the Note, the Continental Term Loan Note in the principal sum of \$8,250,000, that certain ISDA master agreement dated as of July 27, 2000 by and between Continental Systems and Secured Party, inclusive of all schedules thereto, as the same may be modified from time to time (the "Master Agreement") and all such other mortgages, security agreements, guaranties and other documents as may be executed and delivered to Secured Party to evidence, guaranty and secure the Continental Term Loan Note, and the obligations thereunder, as may be extended or otherwise modified from time to time, and uncommitted line of credit facility to be used by Debtor to finance certain acquisitions, as may be executed and delivered to Secured Party from time to time to evidence and secure the obligations under such facilities pursuant to the terms that the Secured Party shall request, and all other documents, agreements, reaffirmations, certificates and resolutions related thereto, and amendments or supplements thereto, all such other agreements, resolutions, certificates, resolutions and opinion letters executed and/or issued as a condition precedent to or in connection with the Agreement, the

Term Loan Note, Note, the Continental Term Loan Note, and all such other documents, agreements, and instruments delivered hereunder or as a supplement or amendment thereto or as Secured Party may reasonably require from time to time in order to evidence, guaranty and/or secure any and all indebtedness of Debtor and/or Continental Systems, as the case may be, to Secured Party or to create, perfect, continue the perfection or protect the Secured Party's security interest in the Collateral or any of the other collateral specified in the other Transaction Documents.

7. The definition of "Variable Rate Option" contained in Section 1.1. of the Agreement is hereby amended to read in its entirety as follows:

VARIABLE RATE OPTION means a fluctuating annual rate equal to the Prime Rate minus 1/4 of 1%.

8. The definition "EBIDTA" shall be added to Section 1.1. of the Agreement and shall read as follows:

EBIDTA means earnings before interest, taxes, depreciation and amortization.

9. The definition "Funded Debt" shall be added to Section 1.1. of the Agreement and shall read as follows:

FUNDED DEBT means all interest bearing debt.

10. Section 7.3. of the Agreement is hereby amended in its entirety to read as follows:

PROMISE TO PAY FEES. Debtor promises to pay to Secured Party monthly, on the first day of each calendar month, an unused fee equal to one quarter of one percent (.25%) of \$18,000,000. less the aggregate principal balance of all Advances outstanding during the calendar month just ended under the Revolving Credit Facility.

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

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

during the period commencing as of the date hereof through the fiscal year ending June 30, 2001, and thereafter while any Indebtedness remains outstanding, 1.50 to 1.

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

(i) during the period commencing as of the date hereof through June 29, 2001, \$21,000,000, and

(ii) during the period commencing on June 30, 2001 through June 29, 2002, \$24,500,000, and

(iii) during the period commencing on June 30, 2002 through June 29, 2003, \$27,000,000, and

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

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

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

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

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

(d) 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. hereof.

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

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

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

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

(i) of not greater than 4.00 to 1 from the date hereof through the period ending June 29, 2002, and

(ii) of not greater than 3.00 to 1 from June 30, 2002 through the period ending June 29, 2003, and

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

(h) At all times while any Indebtedness remains outstanding, the Debtor and its Consolidated Subsidiaries shall maintain, on a consolidated basis, not less than fifty (50%) of the value of all of their identifiable assets (as disclosed in the 10K statement) in the United States, to be tested annually, at each fiscal year end.

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

12. As an inducement to the Bank extending and modifying the Revolving Credit Facility, and modifying the provisions of the Agreement and other Transaction Documents pursuant to the terms hereof, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 8, (i) the representations and warranties set forth in Article 4 of the Agreement and the representations and warranties of Debtor and any Third Party set forth in the other Transaction Documents to which any is a party are true and correct in all respects, (ii) no event has occurred and is continuing which constitutes an "Event of Default" under any of the Transaction Documents (as "Event of Default" is defined in each of those Transaction Documents"), (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement, (iv) Debtor has paid the Commitment Fee of \$36,000, (v) Debtor will pay Secured Party's reasonable legal fees and disbursements thereof, and (vi) Debtor will deliver such corporate resolutions and opinions of counsel as Secured Party may reasonably request.

13. 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.

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

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

16. This Amendment No. 8 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 8 to the Loan and Security Agreement as of the day and year first above written.

HSBC BANK USA F/K/A MARINE MIDLAND BANK

By: /s/ Roger Coleman

Roger Coleman, Vice President

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchel

Kevin S. Buchel, Senior Vice President

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

On this 15th day of May, 2001, before me, the undersigned, a Notary Public in and for said State, personally came ROGER COLEMAN, personally known to me or proved to me on the basis of satisfactory evidence to be the person, whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or entity upon behalf of which the person acted executed the instrument.

/s/

Notary Public

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

On this 15th day of May, 2001, before me, the undersigned, a Notary Public in and for said State, personally came KEVIN BUCHEL personally known to me or proved to me on the basis of satisfactory evidence to be the person, whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity and that by his signature on the instrument, the person or entity upon behalf of which the person acted executed the instrument.

/s/

Notary Public

As of May 15, 2001

HSBC Bank USA
534 Broad Hollow Road
Melville, New York 11747

Re: Revolving Credit Note #1 by NAPCO SECURITY SYSTEMS, INC. (the "Borrower") to MARINE MIDLAND BANK, NOW KNOWN AS HSBC BANK USA ("Lender") in the aggregate principal sum of up to \$1,000,000.00, dated May 12, 1997, as may be extended or otherwise modified from time to time ("Note #1" or "Revolving Credit Note #1")

Ladies and Gentlemen:

The undersigned hereby reaffirms and ratifies all the terms, conditions, representations and covenants contained in Note #1 and certifies that (i) no default, nor events which with notice and/or passage of time would constitute a default, has occurred and is continuing under Note #1 or any of the other instruments executed and delivered to evidence and/or secure the revolving credit facility or under any other note, loan or security agreement to which the Borrower is a party, (ii) there are no offsets, defenses or counterclaims to the Borrower's obligations under Note #1 and the other Transaction Documents and (iii) the Borrower has not entered into any agreement with creditors that expressly or otherwise prohibit the Borrower from entering into any extension or modification of Note #1 as of the date hereof.

The undersigned further covenants and agrees that Lender has agreed to extend the Termination Date pursuant to and in accordance with amendment No. 8 to the loan and security agreement dated as of even date hereof, and that Borrower's liability under Note #1 shall include the obligations of Borrower under the loan and security agreement by and between the Borrower and Lender dated as of May 12, 1997, as amended by amendment No. 1 to the loan and security agreement dated as of May 28, 1998, as further amended by amendment No. 2 to the loan and security agreement dated as of June 30, 1999 as further amended by amendment No. 3 to the loan and security agreement dated as of February 14, 2000, as further amended by amendment No. 4 to the loan and security agreement dated as of July 27, 2000, as further amended by amendment No. 5 to the loan and security agreement dated as of September 22, 2000, as further amended by amendment No. 6 to the loan and security agreement dated as of November 22, 2000, as further amended by amendment No. 7 to the loan and security agreement dated as of February 14, 2001, as further amended by amendment No. 8 to the loan and security agreement dated as of even date hereof ("Amendment No. 8"), as may be further amended, extended or otherwise modified from time to time (the "Agreement" or the "Loan Agreement").

Note # 1 continues to be secured by and the parties hereto are entitled to the benefits of that certain Second Mortgage and Security Agreement in the principal amount of \$1,000,000., dated as May 12, 1997, as the same may be extended or otherwise modified from time to time (the "Mortgage"), made by the Borrower to the Lender, encumbering, among other things, certain real property and improvements now or hereafter located on said real property, situate at 333 Bayview Avenue, a/k/a 359 Bayview Avenue, Amityville, in the Town of Babylon, County of Suffolk, State of New York, as more particularly described in the Mortgage ("Mortgaged Premises" or "Mortgaged Property") and the Assignment of Leases and Rents dated as of May 12, 1997 by the Borrower in favor of the Lender covering the Mortgaged Property, as the same may be modified from time to time (the "Assignment of Leases and Rents"). The Mortgage and the Assignment of Leases were each executed and delivered pursuant to the Loan Agreement, with all of the covenants, conditions and agreements of the Mortgage and the Assignment of Leases and Rents being made a part of Note # 1 by the references contained in Note # 1 and herein to the Mortgage and other Transaction Documents. The Borrower hereby reaffirms and ratifies all the terms, conditions, representations and covenants contained in the Mortgage and the Assignment of Leases and Rents, hereby reaffirms and ratifies the grant of the mortgage on and security interest in the Mortgaged Property pursuant to the terms of the Mortgage, hereby reaffirms and ratifies the assignment of leases and rents pursuant to the terms of the Assignment of Leases and Rents, and hereby certifies that there are no defenses, offsets or counterclaims to the Mortgage and/or the Assignment of Leases and Rents of the date hereof.

Note # 1 also is secured by the Collateral of the Borrower described in the Loan Agreement, the pledged collateral described in certain pledge agreements dated as of May 17, 1997, and/or July 27, 2000, as the case may be, as may have been reaffirmed from time to time, and the collateral of the domestic Consolidated Subsidiaries described in the general security agreements executed and delivered to the Lender by each of the domestic Consolidated Subsidiaries as of May 17, 1997 and/or July 27, 2000, as the case may be, as may have been reaffirmed from time to time, and the Lender is entitled to the benefits of all of the collateral described therein and the collateral described in the other Transaction Documents.

Note # 1 is the Note # 1 referred to in the Loan Agreement (including Amendment No. 8), and the Lender shall be entitled to the benefit of all of the provisions contained therein and in the other Transaction Documents. The Loan Agreement, among other things, contains provisions for payment of principal, interest, fees and charges in connection with the Revolving Credit Facility as well as provisions for acceleration of Note # 1 upon the happening of certain stated events. The Loan Agreement also contains representations, warranties, covenants and conditions precedent to Advances under the Revolving Credit Facility, all of which are hereby made part of Note # 1 to the same extent and with the same effect as if set forth herein at length. Amendment No. 8, among other provisions, extends the Termination Date, and modifies the Variable Rate Option and the Libor Rate Option, all of which are hereby made part of Note # 1 by this reference.

Except as modified herein, in Note #2 and in Amendment No. 8, each entered into as of even date hereof, all other provisions of Note #1 and the other Transaction Documents remain unmodified and each of the Transaction Documents remain in full force and effect. All capitalized terms not otherwise specifically defined herein or in Note #1 shall have the meanings ascribed to such terms in the Loan Agreement.

Very truly yours,

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchel

Kevin S. Buchel, Senior Vice President

Accepted and Agreed:

HSBC BANK USA

By: /s/ Roger Coleman

Roger Coleman, Vice President

As of May 15, 2001

HSBC Bank USA
534 Broad Hollow Road
Melville, New York 11747

Re: Revolving Credit Note #2 by NAPCO SECURITY SYSTEMS, INC. (the "Borrower") to MARINE MIDLAND BANK, NOW KNOWN AS HSBC BANK USA ("Lender") in the original aggregate principal sum of up to \$15,000,000.00, dated May 12, 1997, as the same may be increased, extended or otherwise modified from time to time ("Note #2" or "Revolving Credit Note #2")

Ladies and Gentlemen:

The undersigned hereby reaffirms and ratifies all the terms, conditions, representations and covenants contained in Note #2 and certifies that (i) no default, nor events which with notice and/or passage of time would constitute a default, has occurred and is continuing under Note #2 or any of the other instruments executed and delivered to evidence and/or secure the revolving credit facility or under any other note, loan or security agreement to which the Borrower is a party, (ii) there are no offsets, defenses or counterclaims to the Borrower's obligations under Note #2 and the other Transaction Documents and (iii) the Borrower has not entered into any agreement with creditors that expressly or otherwise prohibit the Borrower from entering into any extension or modification of Note #2 as of the date hereof.

The first paragraph of Note #2 contained on page 2 of Note #2 is herein amended to read in its entirety as follows:

FOR VALUE RECEIVED, the Borrower does hereby covenant and promise to pay to the order of the Lender at its office at 534 Broad Hollow Road; Melville, New York 11747 or at such other place or places as the Lender may designate to the Borrower in writing from time to time, in check, coin or currency of the United States which is then legal tender for the payment of public or private debts, in immediately available funds, the lesser of (a) the principal amount of Seventeen Million (\$17,000,000.00) Dollars; or (b) the aggregate unpaid principal amount of all loans (or Advances) made by the Lender to the Borrower from time to time hereunder (collectively the "Loans", or if used in the singular, the "Loan").

The undersigned further covenants and agrees that Lender has agreed to extend the Termination Date pursuant to and in accordance with amendment No. 8 to the loan and security agreement dated as of even date hereof, and that Borrower's liability under Note #2 shall include the obligations of Borrower under the loan and security agreement by and between the Borrower and Lender dated as of May 12, 1997, as amended by amendment No. 1 to the loan and security agreement dated as of May 28, 1998, as further amended by amendment No. 2 to the loan and security agreement dated as of June 30, 1999 as further amended by amendment No. 3 to the loan and security agreement dated as of February 14, 2000, as further amended by amendment No. 4 to the loan and security agreement dated as of July 27, 2000, as further amended by amendment No. 5 to the loan and security agreement dated as of September 22, 2000, as further amended by amendment No. 6 to the loan and security agreement dated as of November 22, 2000, as further amended by amendment No. 7 to the loan and security agreement dated as February 14, 2001, as further amended by amendment No.8 to the loan and security agreement dated as of even date hereof ("Amendment No. 8"), as may be further amended, extended or otherwise modified from time to time (the "Agreement" or the "Loan Agreement").

Note #2 also is secured by the Collateral of the Borrower described in the Loan Agreement, the pledged collateral described in certain pledge agreements dated as of May 17, 1997, and/or July 27, 2000, as the case may be, as may have been reaffirmed from time to time, and the collateral of the domestic Consolidated Subsidiaries described in the general security agreements executed and delivered to the Lender by each of the domestic Consolidated Subsidiaries as of May 17, 1997 and/or July 27, 2000, as the case may be, as may have been reaffirmed from time to time, and the Lender is entitled to the benefits of all of the collateral described therein and the collateral described in the other Transaction Documents.

Note #2 is the Note #2 referred to in the Loan Agreement (including Amendment No. 8), and the Lender shall be entitled to the benefit of all of the provisions contained therein and in the other Transaction Documents. The Loan Agreement, among other things, contains provisions for payment of principal, interest, fees and charges in connection with the Revolving Credit Facility as well as provisions for acceleration of Note #2 upon the happening of certain stated events. The Loan Agreement also contains representations, warranties, covenants and conditions precedent to Advances under the Revolving Credit Facility, all of which are hereby made part of Note #2 to the same extent and with the same effect as if set forth herein at length. Amendment No. 8, among other provisions, increases the Borrowing Capacity, extends the Termination Date, and modifies the Variable Rate Option and the Libor Rate Option, all of which are hereby made part of Note #2 by this reference.

Except as modified herein, in Note #1 and in Amendment No. 8, each entered into as of even date hereof, all other provisions of Note #2 and the other Transaction Documents remain unmodified and each of the Transaction Documents remain in full force and effect. All capitalized terms not otherwise specifically defined herein or in Note #1 shall have the meanings ascribed to such terms in the Loan Agreement.

Very truly yours,

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin S. Buchel

Kevin S. Buchel, Senior Vice President

Accepted and Agreed:

HSBC BANK USA

By: /s/ Roger Coleman

Roger Coleman, Vice President

EXHIBIT 11

	2001	2000	1999	1998	1997
	-----	-----	-----	-----	-----
Weighted average number of shares outstanding	3,463,895	3,495,221	3,492,501	4,262,686	4,369,727
Add common stock equivalents	62,619	17,303	19,607	22,536	14,222
	-----	-----	-----	-----	-----
Adjusted weighted average shares outstanding	3,526,514	3,512,524	3,512,108	4,285,222	4,383,949
	=====	=====	=====	=====	=====
Net Income:	\$ 251,000	\$2,010,000	\$2,493,000	\$2,038,000	\$ 1,639,000
	=====	=====	=====	=====	=====
Earnings per share:					
and fully diluted: Basic	\$.07	\$.57	\$.71	\$.48	\$.37
Diluted	\$.07	\$.57	\$.71	\$.48	\$.37
		=====	=====	=====	=====

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.

COMPUTATION OF RATIOS

	2001 ----	2000 ----	1999 ----
	(In thousands, except for ratios)		
A. Current Assets	\$42,106	\$40,975	\$41,696
B. Current Liabilities	8,874	5,695	6,776
Current Ratio (Line A = Line B)	4.7 to 1	7.2 to 1	6.2 to 1
C. Sales	\$54,771	\$53,946	\$50,875
D. Receivables	16,940	18,027	16,446
Ratio (Line C = Line D)	3.2 to 1	3.0 to 1	3.1 to 1
E. Total Current Liabilities	\$ 8,874	\$ 5,695	\$ 6,776
F. Long Term Debt	21,567	16,183	17,241
G. Deferred Income Taxes	292	292	442
H. Total Liabilities	30,733	22,170	24,459
I. Equity	32,944	33,359	31,328
Ratio (Line H / Line I)	.9 to 1	.7 to 1	.8 to 1

SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 2001. 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
Napco Security Systems International, Inc.	New York
Napco/Alarm Lock Exportadora, S.A.	Dominican Republic
Napco/Alarm Lock Grupo Internacional, S.A. (formerly known as NSS Caribe, S.A.)	Dominican Republic
Napco Group Europe, Limited	England

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.

ARTHUR ANDERSEN LLP

Melville, New York
September 28, 2001

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