

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2005

or

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

COMMISSION FILE NUMBER 0-10004

NAPCO SECURITY SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

333 BAYVIEW AVENUE,
AMITYVILLE, NEW YORK
(Address of principal executive offices)

11701
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(631) 842-9400

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, PAR VALUE \$.01 PER SHARE
(Title of Each Class)

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

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

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

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

As of December 31, 2004, the aggregate market value of the common stock of
Registrant held by non-affiliates based upon the last sale price of the stock on
such date was \$ 74,355,947.

As of September 23, 2005, 8,779,906 shares of common stock of Registrant
were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the Registrant's
definitive proxy statement to be filed with the Securities and Exchange
Commission in connection with the solicitation of proxies for the Registrant's
2005 Annual Meeting of Stockholders.

PART I

ITEM 1. BUSINESS.

NAPCO Security Systems, Inc. ("NAPCO" or the "Company") was incorporated in December 1971 in the State of Delaware. Its executive offices are located at 333 Bayview Ave, NY 11701. It's telephone number is (631) 689-9400.

The Company is a diversified manufacturer of security products, encompassing intrusion and fire alarms, building access control systems and electronic locking devices. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment.

PRODUCTS

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

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

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

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

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

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

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

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

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

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

PERIPHERAL EQUIPMENT

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

RESEARCH AND DEVELOPMENT

The Company's business involves a high technology element. A substantial amount of the Company's efforts are expended to develop and improve the Products. During the fiscal years ended June 30, 2005, 2004, and 2003, the Company expended approximately \$4,865,000, \$4,254,000, and \$4,516,000, respectively, on Company-sponsored research and development activities conducted by its engineering department. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

EMPLOYEES

As of June 30, 2005, the Company had approximately 860 full-time employees.

MARKETING

The Company's staff of 57 sales and marketing support employees located at the Company's Amityville and United Kingdom offices sells and markets the Products primarily to independent distributors and wholesalers of security alarm and security hardware equipment. Management estimates that these channels of distribution represented approximately 73% and 72% of the Company's total sales for the fiscal year ended June 30, 2005 and 2004, respectively. The remaining revenues are primarily from alarm installers and governmental institutions. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company Products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States and European cities. Some of the Company's products are marketed under the "private label" of certain customers.

In the ordinary course of the Company's business the Company grants extended payment terms to certain customers. Those customers have materially complied with the extended payment terms.

COMPETITION

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

The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into, its Products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide Products to customers on a

timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business. Relatively low-priced "do-it-yourself" alarm system products have become available in recent years and are available to the public at retail stores. The principal components in the Company's products are integrated circuits, printed circuit boards, microprocessors, sheet metal, plastic resin, machined and cast metal components. 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

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

SALES BACKLOG

In general, orders for the Products are processed by the Company from inventory. A sales backlog of approximately \$438,000 and \$469,000 existed as of June 30, 2005 and 2004, respectively. The Company does not generally have a material backlog.

GOVERNMENT REGULATION

The Company's telephone dialers, microwave transmitting devices utilized in its motion detectors and any new communication equipment that may be introduced from time to time by the Company must comply with standards promulgated by the Federal Communications Commission ("FCC") in the United States and similar agencies in other countries where the Company offers such products, specifying permitted frequency bands of operation, permitted power output and periods of operation, as well as compatibility with telephone lines. Each new Product that is subject to such regulation must be tested for compliance with FCC standards or the standards of such similar governmental agencies. Test reports are submitted to the FCC or such similar agencies for approval. Cost of compliance with these regulations has not been material.

PATENTS AND TRADEMARKS

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

FOREIGN SALES

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

Financial Information Relating to Domestic and Foreign Operations

	2005	2004	2003
	-----	-----	-----
	(in thousands)		
Sales to external customers(1):			
Domestic	\$54,654	\$48,626	\$47,965
Foreign	10,575	9,467	9,375
	-----	-----	-----
Total Net Sales	\$65,229	\$58,093	\$57,340
	=====	=====	=====
Identifiable assets:			
United States	\$41,753	\$40,153	\$39,005
Dominican Republic (2)	14,658	13,075	15,691
Other foreign countries	3,496	3,444	2,653

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

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

ITEM 2. PROPERTIES.

The Company owns executive offices and production and warehousing facilities at 333 Bayview Avenue, Amityville, New York. This facility consists of a fully-utilized 90,000 square foot building on a six acre plot. This six-acre plot provides the Company with space for expansion of office, manufacturing and storage capacities.

The Company's foreign subsidiary located in the Dominican Republic, NAPCO/Alarm Lock Grupo International, S.A. (formerly known as NSS Caribe, S.A.), owns a building of approximately 167,000 square feet of production and warehousing space in the Dominican Republic. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092. As of June 30, 2005, a majority of the Company's products were manufactured at this facility, utilizing U.S. quality control standards.

The Company's foreign subsidiary located in the United Kingdom, Napco Group Europe Ltd, leases office space of approximately 800 square feet. This lease expires in May 2008.

The Company's joint venture located in the United Arab Emirates leases office and warehouse space of approximately 1,100 square feet. This lease expires in February 2006.

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

ITEM 3. LEGAL PROCEEDINGS.

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

As previously reported, on or about August 27, 2001, a Complaint was filed against NAPCO Security Group and Alarm Lock Systems, Inc. by Jose Ramirez and Glenda Ramirez in the Supreme Court of State of New York, County of the Bronx. The Complaint seeks fifteen million dollars (\$15,000,000) in damages

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

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

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

Not Applicable

PART II

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

PRINCIPAL MARKET

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

The tables set forth below reflect the range of high and low sales of the Common Stock in each quarter of the past two fiscal years as reported by the NASDAQ National Market System and as adjusted for the 2:1 stock split effective as of April 2004 and the 20% stock dividend effective November 2004.

Quarter Ended Fiscal 2005				
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	\$7.542	\$13.38	\$13.24	\$10.52
Low	\$5.583	\$7.342	\$10.06	\$ 8.77

Quarter Ended Fiscal 2004				
Common Stock	Sept. 30	Dec. 31	March 31	June 30
High	\$4.062	\$3.687	\$7.129	\$ 9.35
Low	\$3.632	\$3.046	\$3.004	\$5.675

APPROXIMATE NUMBER OF SECURITY HOLDERS

The number of holders of record of NAPCO's Common Stock as of September 23, 2005 was 144 (such number does not include beneficial owners of stock held in nominee name).

DIVIDEND INFORMATION

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

EQUITY COMPENSATION PLAN INFORMATION AS OF JUNE 30, 2005

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS (a)	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS (b)	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE (EXCLUDING SECURITIES REFLECTED IN COLUMN a) (c)
Equity compensation plans approved by security holders:	744,240	\$3.50	352,800
Equity compensation plans not approved by security holders:	--	--	--
Total	744,240	\$3.50	352,800

ITEM 6. SELECTED FINANCIAL DATA.

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

	Fiscal Year Ended or at June 30				
	(In thousands, except share data)				
	2005	2004(1)	2003(1)	2002(1)	2001(1)
Statement of earnings data:					
Net Sales	\$ 65,229	\$ 58,093	\$ 57,340	\$ 55,836	\$ 54,771
Gross Profit	23,924	19,540	15,401	14,717	14,317
Income from Operations	8,910	6,065	2,225	2,817	1,859
Net Income	5,629	3,335	1,010	1,575(5)	251(2)
Cash Flow Data:					
Net cash flows provided by operating activities	7,205	\$ 6,275	\$ 6,482	\$ 7,091	\$ 1,326
Net cash flows used in investing activities	(658)	(681)	(752)	(709)	(8,283)
Net cash flows (used in) provided by financing activities	(6,165)	(\$6,592)	(\$5,436)	(\$5,919)	\$ 5,610
Per Share Data:					
Net earnings per common share:					
Basic	\$.66	\$.42	\$.13	\$.20	\$.03
Diluted	\$.62	\$.39	\$.12	\$.19	\$.03
Weighted average common shares outstanding:					
Basic	8,562,000	7,958,000	7,974,000	8,045,000	8,326,000
Diluted	9,015,000	8,497,000	8,537,000	8,494,000	8,465,000
Cash Dividends declared per common share (3)	\$.00	\$.00	\$.00	\$.00	\$.00
Balance sheet data (4):					
Working capital	\$ 31,017	\$ 28,992	\$ 28,843	\$ 31,812	\$ 33,232
Total assets	59,907	56,672	57,349	60,752	63,677
Long-term debt	1,950	6,400	14,100	16,588	21,567
Stockholders' equity	43,678	37,904	33,357	34,528	32,944

(1) Share and per share data have been restated to reflect the effect of a 2:1 stock split effective April

2004 and 20% stock dividend effective November 2004.

- (2) Net income results for 2001 include Amortization Expense related to goodwill. Effective July 2001 the Company adopted SFAS No. 141 which, among other provisions, provides that those intangible assets that are classified as Goodwill with indefinite lives are no longer amortized (see also Note 1 to the Consolidated Financial Statements).
- (3) The Company has never paid a dividend on its common stock. It is the policy of the Board of Directors to retain earnings for use in the Company's business. Any dividends must be authorized by the Company's primary lender.
- (4) Working capital is calculated by deducting Current Liabilities from Current Assets.
- (5) The Company eliminated a deferred tax asset and a related valuation allowance in fiscal 2002. This had the effect of increasing net income by \$688,000 in fiscal 2002.

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

OVERVIEW

The Company is a diversified manufacturer of security products, encompassing intrusion and fire alarms, building access control systems and electronic locking devices. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. International sales accounted for approximately 16% of our revenues for fiscal year 2005.

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

In February 2004 the Company entered into a joint venture with an unrelated company to sell security-related products, including those manufactured by the Company, in the Middle East. The Company owns 51% of the newly formed company, an LLC organized in New York, which has its main operations in the United Arab Emirates. To date, revenues generated by this joint venture have been immaterial.

The security market is characterized by constant incremental innovation in product design and manufacturing technologies. Generally, the Company devotes 7-8% of revenues to research and development (R&D) on an annual basis. Products resulting from our R&D investments in fiscal 2005 did not contribute materially to revenue during this fiscal year, but should benefit the Company over future years. In general, the new products introduced by the Company are initially shipped in limited quantities, and increase over time. Prices and manufacturing costs tend to decline over time as products and technologies mature.

ECONOMIC AND OTHER FACTORS

The post September 11 era has generally been characterized by a favorable business climate for suppliers of electronic security products and services versus the rather sluggish performance of most technology related sectors during the similar period. Electronic security vendors, however, did not completely escape the fallout from the broader downturn in capital spending in the economy. The Company believes the security equipment market is likely to continue to exhibit healthy growth, particularly in industrial sectors, due to ongoing concerns over the adequacy of security safeguards.

SEASONALITY

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of Napco's products want to install its products prior to the summer; therefore sales of its products peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. To a lesser degree, sales in Europe are also adversely impacted in the Company's first fiscal quarter because of European vacation patterns, i.e., many distributors and installers are closed for the month of August.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

REVENUE RECOGNITION

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

Our sales return accrual is a subjective critical estimate that has a direct impact on reported net sales and income. This accrual is calculated based on a history of gross sales and actual sales returns, as well as management's estimate of anticipated returns and allowances. As a percentage of gross sales, sales returns and allowances were 6%, 7% and 10% in fiscal 2005, 2004 and 2003, respectively.

CONCENTRATION OF CREDIT RISK

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

The Company had two customers (Customer A and B) with accounts receivable balances that aggregated 35% and 31% of the Company's accounts receivable at June 30, 2005 and 2004, respectively. Sales to neither of these customers exceeded 10% of net sales in any of the past three years.

In the ordinary course of business, we have established an allowance for doubtful accounts and customer deductions in the amount of \$380,000 and \$355,000 as of June 30, 2005 and 2004, respectively. Our allowance for doubtful accounts is a subjective critical estimate that has a direct impact on reported net earnings. This allowance is based upon the evaluation of accounts receivable agings, specific exposures and historical trends.

INVENTORY

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

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

GOODWILL

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

Impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The Company has performed its annual impairment evaluation required by this standard and determined that the goodwill is not impaired.

INCOME TAXES

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

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

The Internal Revenue Service has issued a Revenue Procedure which is inconsistent with the Code exemption described above. The Code is the actual law; a Revenue Procedure is the IRS's interpretation of the law. The Code has a higher level of authority than a Revenue Procedure. Management believes that it has appropriately relied on the guidance in the Code when filing its income tax return. If challenged, the Company believes that the potential liability would range from \$0 to \$9,450,000. However, the Company also believes there are other mitigating factors that would limit the amount of the potential liability, and as a result, management accrued a liability of \$2,243,000 as of June 30, 2002. The Company's tax provision utilizes estimates made by management and as such, is subject to change as described in Note 1 of the Consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash on hand combined with proceeds from operating activities during fiscal 2005 were adequate to meet the Company's capital expenditure needs and short and long-term debt obligations. The Company's primary internal source of liquidity is the cash flow generated from operations. 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. As of June 30, 2005, the Company's unused sources of funds consisted principally of \$1,178,000 in cash and approximately \$16,050,000 which represents the unused portion of its secured revolving credit facility. The Company's management believes that current working capital, cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through at least the first quarter of fiscal 2007.

In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to \$18,000,000. The amended revolving credit agreement is secured by all the accounts receivable, inventory and certain other assets of Napco Security Systems, Inc., a first and second mortgage on the Company's headquarters in Amityville, New York and common stock of three of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less 1/4% or an alternate rate based on LIBOR as described in the agreement. The revolving credit agreement, which previously had an expiration date of July 2005, has been extended to September 2008. Any outstanding borrowings must be repaid or refinanced on or before that time. The agreement contains various restrictions and covenants including, among others, restrictions on payment of cash 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, 2005, the Company was not in compliance with one of these covenants for which it has received the appropriate waiver from its bank. In December 2004 the Company utilized a portion of this facility to accelerate full repayment of its 2003 and 2000 term loans described below.

In January 2003, the Company repurchased 600,000 shares of its common stock from two shareholders, unaffiliated with the Company, at \$4.06 per share, a discount from its then current trading price of \$4.17. The transaction was approved by the board of directors and the purchase price of \$2,442,000 (including fees of \$5,000) was financed through the Company's revolving line of credit and a new five (5) year term loan from its primary lender for \$1,250,000. The Company repaid the loan in full in December 2004.

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

	2005	2004	2003
	-----	-----	-----
Current Ratio	4.0 to 1	4.3 to 1	4.2 to 1
Sales to Receivables	3.0 to 1	2.9 to 1	3.3 to 1
Total debt to equity	.04 to 1	.2 to 1	.5 to 1

As of June 30, 2005, the Company had no material commitments for purchases or capital expenditures, except as discussed below.

On April 26, 1993, the Company's foreign subsidiary entered into a 99-year land lease of approximately 4 acres of land in the Dominican Republic, at an annual cost of approximately \$288,000.

On July 27, 2000, the Company signed an Asset Purchase Agreement to acquire the net assets of Continental Instruments, LLC ("Continental") for an purchase price of \$7,522,500 in cash, less subsequent purchase price adjustments of approximately \$460,000, plus future deferred payments of \$1,700,000 in cash to be paid over 24 months. The Company financed the transaction with borrowings under a 60 Month Installment loan of \$8,250,000. Continental designs and sells access control and other security control systems to dealers and distributors worldwide. The Company repaid the loan in full in December 2004.

Working Capital. Working capital increased by \$2,025,000 to \$31,017,000 at June 30, 2005 from \$28,992,000 at June 30, 2004. The increase in working capital was primarily the result of the increase in net income as partially offset by debt reduction and an increase in accounts receivable and inventory. Working capital is calculated by deducting Current Liabilities from Current Assets.

Accounts Receivable. Accounts Receivable increased by \$1,972,000 to \$21,899,000 at June 30, 2005 from \$19,927,000 at June 30, 2004. This increase resulted primarily from the granting of additional payment terms to certain of the Company's burglar alarm customers as well as the increased sales during the fourth quarter of fiscal 2005 as compared to the fourth quarter of fiscal 2004.

Inventory. Inventory increased by \$1,648,000 to \$16,242,000 at June 30, 2005 as compared to \$14,594,000 at June 30, 2004. The increase in inventory levels was primarily the result of the Company's production planning for the increased sales levels.

Accounts Payable, and Accrued Expenses. Accounts payable and accrued expenses increased by \$2,260,000 to \$8,923,000 as of June 30, 2005 as compared to \$6,663,000 at June 30, 2004.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

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

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual obligations					
Long-term debt obligations	\$ 1,950,000	--	--	\$1,950,000	--
Land lease (87 years remaining) (1)	25,056,000	288,000	576,000	576,000	23,616,000
Operating lease obligations	154,000	86,000	68,000	--	--
Other long-term obligations	2,517,000	1,125,000	1,392,000	--	--
Total	<u>\$29,677,000</u>	<u>\$1,499,000</u>	<u>\$2,036,000</u>	<u>\$2,526,000</u>	<u>\$23,616,000</u>

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

RESULTS OF OPERATIONS

FISCAL 2005 COMPARED TO FISCAL 2004

	Fiscal year ended June 30,		
	2005	2004	% Increase/ (decrease)
Net sales	\$65,229	\$58,093	12%
Gross profit	23,924	19,540	22%
Gross profit as a % of net sales	36.7%	33.6%	3.1%
Selling, general and administrative	15,014	13,475	11%
Income from operations	8,910	6,065	47%
Interest expense	224	420	(47)%
Other expense	58	109	(47)%
Provision for income taxes	3,227	2,201	47%
Net income	5,629	3,335	69%

Net Sales. Net sales in fiscal 2005 increased by 12% to \$65,229,000 from \$58,093,000 in fiscal 2004. The Company's sales growth was primarily due to increased sales of the Company's burglar alarm and door locking products. During the quarter ended December 31, 2003, the Company began the process of realigning its burglar alarm products distribution network which culminated in the termination of a major burglar alarm distributor. The Company reallocated its burglar alarm products business across its extensive national network of independent distributors. The Company has seen the positive effects of this realignment reflected in the increase in net sales as well as the increase in gross profit as discussed below.

Gross Profit. The Company's gross profit increased \$4,384,000 to \$23,924,000 or 36.7% of net sales in fiscal 2005 as compared to \$19,540,000 or 33.6% of net sales in fiscal 2004. The increase in gross profit in both absolute dollars and as a percentage of net sales was due primarily to the increased overhead absorption associated with the increase in net sales, a decrease in the Company's inventory obsolescence reserve resulting primarily from the increase in net sales, increased margins resulting from the realignment of the Company's burglar alarm products as well as cost reductions of certain of the Company's raw material costs.

Expenses. Selling, general and administrative expenses as a percentage of net sales remained relatively constant at 23% in both fiscal 2005 and fiscal 2004.

Interest expense for fiscal 2005 decreased by \$196,000 to \$224,000 from \$420,000 for the same period a year ago. The decrease in interest expense is primarily the result of the reduction of the Company's outstanding debt by \$6,350,000 during fiscal 2005.

Other Expenses. Other expenses decreased \$51,000 to \$58,000 in fiscal 2005 as compared to \$109,000 in fiscal 2004.

Income Taxes. The Company's provision for income taxes increased by \$1,026,000 to a provision of \$3,227,000 in fiscal 2005 as compared to \$2,201,000 in fiscal 2004. This increase in the provision for income taxes is primarily due to a \$3,092,000 increase in income before income taxes in fiscal 2005 as compared to fiscal 2004. The increase in income before income taxes is due primarily to the items discussed above.

FISCAL 2004 COMPARED TO FISCAL 2003

	Fiscal year ended June 30,		
	2004	2003	% Increase/ (decrease)
Net sales	\$58,093	\$57,340	1%
Gross profit	19,540	15,401	27%
Gross profit as a % of net sales	33.6%	26.9%	6.7%
Selling, general and administrative	13,475	13,176	2%
Income from operations	6,065	2,225	173%
Interest expense	420	727	(42)%
Other expense	109	(127)	(186)%
Provision for income taxes	2,201	615	258%
Net income	3,335	1,010	230%

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

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

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

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

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

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

STOCK DIVIDEND AND STOCK SPLIT

In November 2004, the Company's Board of Directors approved a twenty percent (20%) stock dividend of the Company's common stock payable to stockholders of record on November 22, 2004. The effect of the stock dividend, which has been accounted for similar to a stock split, has been retroactively reflected in all share and per share data. The additional shares of 1,424,118 were distributed on December 6, 2004. There is no net effect on total stockholders' equity as a result of the stock dividend.

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

FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K and the information incorporated by reference may include "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. The Company intends the Forward-Looking Statements to be covered by the Safe Harbor Provisions for Forward-Looking Statements. All statements regarding the Company's expected financial position and operating results, its business strategy, its financing plans and the outcome of any contingencies are Forward-Looking Statements. The Forward-Looking Statements are based on current estimates and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of such words and similar expressions are intended to identify such Forward-Looking Statements. The Forward-Looking Statements are subject to risks and uncertainties that could cause actual results to differ materially from those set forth or implied by any Forward-Looking Statements. For example, the Company is highly dependent on its Chief Executive Officer for strategic planning. If he is unable to perform his services for any significant period of time, the Company's ability to continue growing could be adversely affected. In addition, factors that could cause actual results to differ materially from the Forward-Looking Statements include, but are not limited to, adverse tax consequences of offshore operations, distribution problems, unforeseen environmental liabilities and the uncertain military, political and economic conditions in the world.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal financial instrument is long-term debt (consisting of a revolving credit and term loan facility) that provides for interest at a spread below the prime rate. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under this credit facility. At June 30, 2005, an aggregate principal amount of approximately \$1,950,000 was outstanding under the Company's credit facility with a weighted average interest rate of approximately 5%. If principal amounts outstanding under the Company's credit facility remained at this year-end level for an entire year and the prime rate increased or decreased, respectively, by 1% the Company would pay or save, respectively, an additional \$20,000 in interest that year.

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 many of 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. In addition, the Company transacts certain sales in Europe in British Pounds Sterling, therefore exposing itself to a certain amount of foreign currency risk. Management believes that the amount of this exposure is immaterial. We are also exposed to foreign currency risk relative to the Dominican Peso

("RD\$"), the local currency of the Company's production facility in the Dominican Republic. The result of a 10% strengthening in the U.S. dollar to our RD\$ expenses would result in an annual decrease in income from operations of approximately \$260,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

- a. Financial Statements: Financial statements required pursuant to this Item are presented on pages FI-1 through FI-25 of this report as follows:

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
AS OF JUNE 30, 2005 AND 2004

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Consolidated Balance Sheets as of June 30, 2005 and 2004.....	F-2
Consolidated Statements of Income for the Fiscal Years Ended June 30, 2005, 2004 and 2003.....	F-4
Consolidated Statements of Stockholders' Equity for the Fiscal Years Ended June 30, 2005, 2004 and 2003.....	F-5
Consolidated Statements of Cash Flows for the Fiscal Years Ended June 30, 2005, 2004 and 2003.....	F-6
Notes to Consolidated Financial Statements, June 30, 2005.....	F-8
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Napco Security Systems, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of June 30, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2005. Our audits also included the financial statement schedule as of and for the years ended June 30, 2005, 2004 and 2003 listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Napco Security Systems, Inc. and subsidiaries as of June 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ MARCUM & KLIEGMAN LLP

Melville, New York
September 14, 2005

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004
(In Thousands, Except Share Data)

ASSETS

	2005	2004
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,178	\$ 796
Accounts receivable, less reserve for doubtful accounts of \$380 and \$355, respectively	21,899	19,927
Inventories	16,242	14,594
Prepaid expenses and other current assets	799	760
Deferred income taxes	1,356	1,763
	-----	-----
Total Current Assets	41,474	37,840
Property, plant and equipment, net	8,533	8,987
Goodwill, net	9,686	9,686
Other assets	214	159
	-----	-----
TOTAL ASSETS	\$59,907	\$56,672
	=====	=====

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004
(In Thousands, Except Share Data)

LIABILITIES AND STOCKHOLDERS' EQUITY

	2005	2004
	-----	-----
CURRENT LIABILITIES		
Current portion of long-term debt	\$ --	\$ 1,900
Accounts payable	5,249	3,789
Accrued expenses	1,156	963
Accrued salaries and wages	2,518	1,911
Accrued income taxes	1,534	285
	-----	-----
Total Current Liabilities	10,457	8,848
Long-term debt, net of current portion	1,950	6,400
Accrued income taxes	2,243	2,243
Deferred income taxes	1,579	1,277
	-----	-----
Total Liabilities	16,229	18,768
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (1)		
Common stock, par value \$0.01 per share; Authorized 21,000,000 shares; issued and outstanding 8,655,110 and 8,503,670 shares, respectively	87	85
Additional paid-in capital	11,628	11,381
Retained earnings	31,963	26,438
	-----	-----
TOTAL STOCKHOLDERS' EQUITY	43,678	37,904
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$59,907	\$56,672
	=====	=====

(1) The 20% stock dividend declared on November 8, 2004 (see Note 1), has been retroactively reflected in Stockholders' Equity.

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Years Ended June 30, 2005, 2004, and 2003
(In Thousands, Except Share and Per Share Data)

	2005	2004	2003
	-----	-----	-----
Net sales	\$ 65,229	\$ 58,093	\$ 57,340
Cost of sales	41,305	38,553	41,939
	-----	-----	-----
Gross Profit	23,924	19,540	15,401
Selling, general, and administrative expenses	15,014	13,475	13,176
	-----	-----	-----
Operating Income	8,910	6,065	2,225
	-----	-----	-----
Other income (expense):			
Interest expense, net	(224)	(420)	(727)
Other, net	(58)	(109)	127
	-----	-----	-----
	(282)	(529)	(600)
	-----	-----	-----
Income Before Income Taxes	8,628	5,536	1,625
Minority interest in loss of subsidiary	228	--	--
Provision for income taxes	3,227	2,201	615
	-----	-----	-----
Net Income	\$ 5,629	\$ 3,335	\$ 1,010
	=====	=====	=====
Earnings per share: (1)			
Basic	\$.66	\$ 0.42	\$.13
Diluted	\$.62	\$ 0.39	\$.12
Weighted average number of shares outstanding: (1)			
Basic	8,562,211	7,958,400	7,974,400
Diluted	9,014,962	8,497,200	8,536,800

(1) The 20% stock dividend declared on November 8, 2004 (see Note 1), has been retroactively reflected in all 2004 and 2003 share and per share data.

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (1)

Years Ended June 30, 2005, 2004 and 2003
(In Thousands, Except Share Data)

	Common stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock		Total
	Number of Shares	Amount			Number of Shares	Amount	
BALANCE - June 30, 2002	6,766,392	68	--	34,460	--	--	34,528
Retroactive effect of 20% stock dividend Effective November 2004	1,353,278	13	11,236	(11,250)	--	--	(1)
BALANCE - June 30, 2002 as adjusted	8,119,670	81	11,236	23,210	--	--	34,527
Purchase of treasury shares	(600,000)	(6)	--	(2,437)	--	--	(2,443)
Exercise of employee stock options	157,200	2	--	260	--	--	262
Net income	--	--	--	1,010	--	--	1,010
BALANCE - June 30, 2003	7,676,870	77	11,236	22,043	--	--	33,356
Exercise of employee stock options, July 1, 2003 to April 27, 2004	728,208	7	--	956	--	--	963
Tax benefit in connection with exercise of stock options	--	--	--	104	--	--	104
Exercise of employee stock options, April 28, 2004 to June 30, 2004	98,592	1	145	--	--	--	146
Net income	--	--	--	3,335	--	--	3,335
BALANCE - June 30, 2004	8,503,670	\$85	\$11,381	\$ 26,438	--	\$--	\$37,904
Exercise of employee stock options	151,440	2	247	--	--	--	249
Net income	--	--	--	5,629	--	--	5,629
Adjustment to tax benefit on exercise of stock options	--	--	--	(104)	--	--	(104)
BALANCE - June 30, 2005	8,655,110	\$87	11,628	\$ 31,963	--	\$--	\$43,678
	=====	===	=====	=====	===	===	=====

(1) Restated to reflect the effect of a 20% stock dividend effective November 2004.

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005, 2004, and 2003
(In Thousands)

	2005	2004	2003
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 5,629	\$ 3,335	\$ 1,010
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,156	1,189	1,294
Provision for doubtful accounts	43	140	16
Deferred income taxes	709	(49)	173
Tax adjustment in connection with exercise of stock options	(104)	104	--
Changes in operating assets and liabilities:			
Accounts receivable	(2,014)	(2,642)	872
Inventories	(1,648)	2,328	2,041
Prepaid expenses and other current assets	(39)	(235)	366
Other assets	(35)	90	(90)
Accounts payable, accrued expenses, accrued salaries and wages, and accrued income taxes	3,508	2,015	800
Net Cash Provided By Operating Activities	7,205	6,275	6,482
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	(658)	(681)	(752)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(9,700)	(8,700)	(7,505)
Proceeds from long-term debt	3,350	1,000	4,250
Purchase of treasury shares	--	--	(2,442)
Proceeds from exercise of employee stock options	249	1,108	261
Loan costs paid	(64)	--	--
Net Cash Used In Financing Activities	(6,165)	(6,592)	(5,436)
	-----	-----	-----
Net Increase (Decrease) In Cash and Cash Equivalents	382	(998)	294
CASH AND CASH EQUIVALENTS - Beginning	796	1,794	1,500
	-----	-----	-----
CASH AND CASH EQUIVALENTS - Ending	\$ 1,178	\$ 796	\$ 1,794
	-----	-----	-----

See accompanying notes to consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005, 2004, and 2003
(In Thousands)

	2005	2004	2003
	-----	-----	-----

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid, net	\$ 217	\$427	\$733
Income taxes paid	\$1,366	\$106	\$ 15

See accompanying notes to consolidated financial statements.

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NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Nature of Business

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

Principles of Consolidation

The consolidated financial statements include the accounts of Napco Security Systems, Inc. and all of its wholly-owned subsidiaries. The Company has also consolidated a 51%-owned joint venture. The 49% interest, held by a third party, is reflected as minority interest. All intercompany balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates include management's judgments associated with revenue recognition, concentration of credit risk, inventories, goodwill and income taxes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include approximately \$419,000 and \$308,000 of short-term time deposits at June 30, 2005 and 2004, respectively. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

The Company has cash balances in banks in excess of the maximum amount insured by the FDIC as of June 30, 2005 and 2004.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts of \$380,000 and \$355,000 as of June 30, 2005 and June 30, 2004, respectively. Our allowance for doubtful accounts is a subjective critical estimate that has a direct impact on reported net earnings. This allowance is based upon the evaluation of accounts receivable agings, specific exposures and historical trends.

Inventories

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

In addition, the Company records an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. For the fiscal years 2005, 2004 and 2003, charges/(recoveries) and balances in these reserves amounted to \$(517,000) and \$1,518,000; \$1,035,000 and \$2,035,000; \$300,000 and \$1,000,000; respectively. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Property, Plant, and Equipment

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

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

Goodwill

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

Impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The Company has performed its annual impairment evaluation required by this standard and determined that the goodwill is not impaired.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Long-Lived Assets

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

Revenue Recognition

In accordance with SEC Staff Accounting Bulletin Topic 13, Revenue Recognition, the Company recognizes revenue when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) there is a fixed and determinable price for the Company's product, (iii) shipment and passage of title occurs, and (iv) collectibility is reasonably assured. Revenues from merchandise sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of the sale. The Company reports its sales levels on a net sales basis, with net sales being computed by deducting from gross sales the amount of actual sales returns and the amount of reserves established for anticipated sales returns.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for the fiscal years ended June 30, 2005, 2004 and 2003 was \$1,255,000, \$1,030,000 and \$1,128,000, respectively.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense in the year incurred. Company-sponsored research and development costs of \$4,865,000, \$4,254,000 and \$4,516,000 were charged to expense for the fiscal years ended June 30, 2005, 2004 and 2003, respectively and are included in "Cost of Sales" in the consolidated statements of income.

Income Taxes

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Stock Dividend and Stock Split

In November 2004, the Company's Board of Directors approved a twenty percent (20%) stock dividend of the Company's common stock payable to stockholders of record on November 22, 2004. The effect of the stock dividend, which has been accounted for similar to a stock split, has been retroactively reflected in all share and per share data. The additional shares of 1,424,118 (on a pre-dividend basis) were distributed on December 6, 2004. There is no net effect on total stockholders' equity as a result of the stock dividend.

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

Earnings Per Share

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

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

	Net income			Weighted Average Shares			Net income per share		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Basic EPS:	\$5,629	\$3,335	\$1,010	8,562	7,958	7,974	\$.66	\$ 0.42	\$ 0.13
Effect of Dilutive Securities:									
Employee stock options	--	--	--	453	539	563	(.04)	(0.03)	(0.01)
Diluted EPS:	\$5,629	\$3,335	\$1,010	9,015	8,497	8,537	\$.62	\$ 0.39	\$ 0.12
	=====	=====	=====	=====	=====	=====	=====	=====	=====

Options to purchase 0, 12,000 and 67,200 shares of common stock for the three fiscal years ended June 30, 2005, 2004 and 2003, respectively, were not included in the computation of Diluted EPS because the exercise prices exceeded the average market price of the common shares for the respective periods and, accordingly, their inclusion would be anti-dilutive. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of SFAS No. 123, Accounting for Stock-Based Compensation. Accordingly, the Company has elected to continue to apply the intrinsic value method of accounting set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, while providing the required pro forma disclosures as if the fair value method of SFAS No. 123 had been applied.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

	Year Ended June 30,		
	2005	2004	2003
	-----	-----	-----
	(In thousands, except per share data)		
Net income, as reported	\$5,629	\$3,335	\$1,010
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	227	210	329
	-----	-----	-----
Pro forma net income	\$5,402	\$3,125	\$ 681
	=====	=====	=====
Earnings per common share (1):			
Net earnings per common share - Basic, as reported	\$.66	\$.42	\$ 0.13
	=====	=====	=====
Net earnings per common share - Basic, pro forma	\$.63	\$.39	\$ 0.09
	=====	=====	=====
Net earnings per common share - Diluted, as reported	\$.62	\$.39	\$ 0.12
	=====	=====	=====
Net earnings per common share - Diluted, pro forma	\$.60	\$.37	\$ 0.08
	=====	=====	=====

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

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

(1) Information reflects stock dividend and stock split discussed above.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. The realized and unrealized gains and losses associated with foreign currency translation, as well as related other comprehensive income, were not material for the three years ended June 30, 2005.

Comprehensive Income

The Company follows the provisions of SFAS No. 130, Reporting Comprehensive Income, which established rules for the reporting of comprehensive income and its components. For the fiscal years ended June 30, 2005, 2004 and 2003, the Company's operations did not give rise to material items includable in comprehensive income, which were not already included in net income. Accordingly, the Company's comprehensive income is the same as its net income for all periods presented.

Segment Reporting

The Company follows the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Pursuant to this pronouncement, the reportable operating segments are determined based on the Company's management approach. The management approach, as defined by SFAS No. 131, is based on the way that the chief operating decision maker organizes the segments within an enterprise for making operating decisions and assessing performance. The Company's results of operations are reviewed by the chief operating decision maker on a consolidated basis and the Company operates in only one segment. The Company has presented required geographical data in Note 11, and no additional segment data has been presented.

Fair Value of Financial Instruments

The Company calculates the fair value of financial instruments and includes this additional information in the notes to the financial statements where the fair value is different than the book value of those financial instruments. When the fair value approximates book value, no additional disclosure is made. The Company uses quoted market prices whenever available to calculate these fair values. When quoted market prices are not available, the Company uses standard pricing models for various types of financial instruments which take into account the present value of estimated future cash flows. At June 30, 2005 and 2004, management of the Company believes the carrying value of all financial instruments approximated fair value.

Shipping and Handling Revenues and Costs

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Derivative Instruments and Hedging Activities

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

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

New Accounting Pronouncement

In November 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period costs. The provisions of SFAS 151 are effective for fiscal 2006. Management is currently evaluating the provisions of SFAS 151 and does not expect adoption will have a material impact on the Company's financial position, results of operations or cash flows.

In December 2004, the FASB finalized SFAS No. 123R "Share-Based Payment" ("SFAS 123R"), amending SFAS No. 123, effective beginning the Company's first quarter of fiscal 2006. SFAS 123R will require the Company to expense stock options based on grant date fair value in its financial statements. Further, the adoption of SFAS 123R will require additional accounting related to the income tax effects and additional disclosure regarding the cash flow effects resulting from share-based payment arrangements. The effect of expensing stock options on the Company's results of operations using a Black-Scholes option-pricing model is presented in Note 1. The adoption of SFAS 123R will have no effect on the Company's cash flows or financial position, but will have an adverse impact on results of operations.

In December 2004, the FASB issued FASB Staff Position No. SFAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provisions within the American Jobs Creation Act of 2004", ("SFAS 109-2"). The American Jobs Creation Act introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer ("repatriation provision"), provided certain criteria are met. SFAS 109-2 provides accounting and disclosure guidance for the repatriation provision. The provisions of SFAS 109-2 will not have a material impact on the Company's tax provision and financial position.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29". This statement amends APB Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for the Company's fiscal year ending June 2006. The adoption of FAS No. 153 is not expected to have a material impact on the Company's consolidated financial position, liquidity or results of operations.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Errors Corrections, a replacement of APB Opinion No. 20 and FAS No. 3". This statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impractical. APB Opinion No. 20 previously required that most voluntary changes in accounting principle to be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 improves the financial reporting because its requirements enhance the consistency of the financial reporting between periods. During the reporting period, the Company did not have any accounting changes or error corrections.

NOTE 2 - Business and Credit Concentrations

The Company had two customers (Customer A and B) with accounts receivable balances that aggregated 35% and 31% of the Company's accounts receivable at June 30, 2005 and 2004, respectively. Sales to neither of these customers exceeded 10% of net sales in any of the past three years.

The Company had a third customer (Customer C) whose sales accounted for 0%, 1% and 19% of the Company's net sales in fiscal 2005, 2004 and 2003. During the past three fiscal years no other customer represented more than 10% of the Company's net sales. The Company terminated its relationship with Customer C in fiscal 2004.

NOTE 3 - Inventories

Inventories consist of the following:

	June 30	
	2005	2004
	(In thousands)	
Component parts	\$10,740	\$ 9,423
Work-in-process	1,697	1,352
Finished products	3,805	3,819
	\$16,242	\$14,594
	=====	=====

NOTE 4 - Property, Plant, and Equipment

Property, plant and equipment consist of the following:

	June 30		Useful Life In years
	2005	2004	
	(In thousands)		
Land	\$ 904	\$ 904	--
Buildings	8,911	8,911	30 to 40
Molds and dies	4,563	4,438	3 to 5
Furniture and fixtures	1,401	1,334	5 to 10
Machinery and equipment	12,780	12,314	7 to 10
			Shorter of the lease term or life of asset
Leasehold improvements	191	191	
	28,750	28,092	
Less: accumulated depreciation and amortization	20,217	19,105	
	\$ 8,533	\$ 8,987	
	=====	=====	

Depreciation and amortization expense on property, plant, and

equipment was approximately \$1,112,000, \$1,159,000 and \$1,254,000 in fiscal 2005, 2004 and 2003, respectively.

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NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Income Taxes

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

	For the Years Ended June 30		
	2005	2004	2003
	(In thousands)		
Current income taxes:			
Federal	\$2,496	\$2,250	\$428
State	5	--	--
Foreign	17	--	15
	2,518	2,250	443
Deferred income tax expense (benefit)	709	(49)	172
Provision for income taxes	\$3,227	\$2,201	\$615
	=====	=====	=====

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

	For the Years Ended June 30					
	2005		2004		2003	
	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income	Amount	% of Pre-Tax Income
Tax at Federal statutory rate	\$3,011	34.0%	\$1,882	34.0%	\$553	34.0%
Increases (decreases) in taxes resulting from:						
Meals and entertainment	60	.7	54	1.0	55	3.4
State income taxes, net of Federal income tax benefit	3	--	97	1.7	--	--
Foreign source income and taxes	(2)	--			19	1.1
Valuation allowance	--	--	(97)	(1.7)	--	--
Other, net	155	1.7	265	4.8	(12)	(.7)
Provision for income taxes	\$3,227	36.4%	\$2,201	39.8%	\$615	37.8%
	=====	=====	=====	=====	=====	=====

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 - Income Taxes, continued

Deferred tax assets and deferred tax liabilities at June 30, 2005 and 2004 are as follows (in thousands):

	Current Deferred Tax Assets (Liabilities)		Long-Term Deferred Tax Assets (Liabilities)	
	2005	2004	2005	2004
Accounts receivable	\$ 67	\$ 105	\$ --	\$ --
Inventories	1,020	1,229	--	--
Accrued liabilities	269	249	--	--
State net operating loss carryforward	354	97	--	--
Goodwill	--	--	(798)	(509)
Property, plant and equipment	--	--	(824)	(768)
Alternative minimum tax credit	--	167	43	--
Other	--	13	--	--
	1,710	1,860	(1,579)	(1,277)
Valuation allowance	(354)	(97)	--	--
Net deferred taxes	\$1,356	\$1,763	\$(1,579)	\$(1,277)
	=====	=====	=====	=====

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

The Internal Revenue Service has issued a Revenue Procedure which is inconsistent with the Code exemption described above. The Code is the actual law; a Revenue Procedure is the IRS's interpretation of the law. The Code has a higher level of authority than a Revenue Procedure. Management believes that it has appropriately relied on the guidance in the Code when filing its income tax return. If challenged, the Company believes that the potential liability would range from \$0 to \$9,450,000. However, the Company also believes there are other mitigating factors that would limit the amount of the potential liability, and as a result, management accrued a liability of \$2,243,000 as of June 30, 2002. The Company's tax provision utilizes estimates made by management and as such, is subject to change as described in Note 1 of the Consolidated financial statements.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - Long-Term Debt

Long-term debt consists of the following:

	June 30	
	2005	2004
	(In thousands)	
Revolving credit and term loan facility (a)	\$1,950	\$5,713
Term loan (b)	--	1,650
Term loan (c)	--	937
	1,950	8,300
Less: current portion of long-term debt	--	1,900
	\$1,950	\$6,400
	=====	=====

- (a) In May 2001, the Company amended its secured revolving credit agreement with its primary bank. The Company's borrowing capacity under the amended agreement was increased to \$18,000,000. The amended revolving credit agreement is secured by all the accounts receivable, inventory, the Company's headquarters in Amityville, New York and certain other assets of Napco Security Systems, Inc. and the common stock of three of the Company's subsidiaries. The revolving credit agreement bears interest at either the Prime Rate less 1/4% or an alternate rate based on LIBOR as described in the agreement. At June 30, 2005, the interest rate on this debt was 4.7%. The revolving credit agreement which was to expire in July 2005 was subsequently extended to September 2008 and any outstanding borrowings are to be repaid or refinanced on or before that time. The agreement contains various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings, restrictions on capital expenditures, the maintenance of minimum amounts of tangible net worth, and compliance with other certain financial ratios, not as defined in the agreement. As of June 30, 2005, the Company was not in compliance with one of these covenants for which it has received an appropriate waiver from its bank.
- (b) On July 27, 2000, the Company entered into a five year \$8,250,000 secured term loan with its primary bank in connection with the acquisition of Continental Instruments Systems, LLC. Under the agreement, the loan was to be repaid in 60 equal monthly installments of \$137,500, plus interest. The agreement contained 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. In December 2004, the Company accelerated full repayment of this secured term loan and the treasury stock repurchase term loan described in paragraph (c) below.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - Long-Term Debt, continued

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

Maturities of long-term debt are as follows:

Year Ending June 30,	Amount

(In thousands)	
2006	\$ --
2007	--
2008	--
2009	1,950

Total	\$1,950
	=====

NOTE 7 - Stock Options

In November 1992, the stockholders approved a 10-year extension of the already-existing 1982 Incentive Stock Option Plan (the 1992 Plan). The 1992 Plan authorized the granting of awards, the exercise of which would allow up to an aggregate of approximately 1,958,400 shares of the Company's common stock to be acquired by the holders of such awards. The 1992 Plan terminated in October 2002. As of June 30, 2005, there were 200,640 stock options granted to employees of which 173,760 were exercisable.

In December 2002, the stockholders approved the 2002 Employee Stock Option Plan (the 2002 Plan). The 2002 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 816,000 shares of the Company's common stock to be acquired by the holders of such awards. Under the 2002 Plan, the Company may grant stock options, which are intended to qualify as incentive stock options (ISOs), to key employees. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - Stock Options, continued

Under the 2002 Plan, stock options have been granted to key employees with a term of 10 years at an exercise price equal to the fair market value on the date of grant and are exercisable in whole or in part at 20% per year from the date of grant. At June 30, 2005, 486,000 stock options were granted, 328,800 stock options were available for grant, and 266,160 stock options were exercisable under this plan.

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

	June 30					
	2005		2004		2003	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	838,080	\$3.28	1,541,280	\$2.18	1,340,880	\$1.58
Granted	--	--	124,800	4.48	386,400	4.08
Exercised	(151,440)	1.64	(826,800)	1.34	(157,200)	1.66
Forfeited	--	--	(1,200)	2.71	(7,200)	1.62
Canceled/lapsed	--	--	--	--	(21,600)	1.62
Outstanding at end of year	686,640	\$3.65	838,080	\$3.28	1,541,280	\$2.18
Exercisable at end of year	439,920	\$2.78	441,120	\$2.78	1,020,480	\$1.63
Weighted average fair value of options granted	\$ n/a		\$ 2.54		\$ 1.63	

The following table summarizes information about stock options outstanding at June 30, 2005:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2005	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at June 30, 2005	Weighted average exercise price
\$1.62 to \$1.65	8,160	0.03	\$1.61	8,160	\$1.61
\$1.66 to \$2.65	132,480	0.88	2.13	117,600	2.11
\$2.66 to \$4.70	546,000	7.34	4.05	314,160	3.96
	686,640	6.01	3.65	439,920	\$2.78
	=====	=====	=====	=====	=====

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - Stock Options, continued

In September 2000, the stockholders approved a 10 year extension of the already existing 1990 nonemployee stock option plan (the 2000 Plan) to encourage nonemployee directors and consultants of the Company to invest in the Company's stock. The 2000 Plan provides for the granting of nonqualified stock options, the exercise of which would allow up to an aggregate of 120,000 shares of the Company's common stock to be acquired by the holders of the stock options. The 2000 Plan provides that the option price will not be less than 100% of the fair market value of the stock at the date of grant. Options are exercisable at 20% per year and expire five years after the date of grant. The Company has adopted SFAS No. 123 to account for stock-based compensation awards granted to nonemployee consultants, under which a compensation cost is recognized for the fair value of the options granted as of the date of grant. Under this plan, as of June 30, 2005, 2004 and 2003, 96,000 options were granted to directors with a weighted average exercise price of \$1.72 and a weighted average remaining contractual life at June 30, 2005 of 0.24 years. There were 38,400 options exercised under the 2000 Plan during the year ended June 30, 2004. There were no other options exercised, cancelled, or forfeited under this plan during the years ended June 30, 2005, 2004 and 2003. As of June 30, 2005, 2004 and 2003, respectively, 57,600, 38,400 and 57,600 stock options were exercisable under this plan. No compensation expense was recorded for stock options granted to directors.

NOTE 8 - Stock Purchase

In January 2003, the Company repurchased 600,000 shares of its common stock from two stockholders, unaffiliated with the Company, at \$4.06 per share, a discount from its then current trading price of \$4.17. The transaction was approved by the Board of Directors and the purchase price of \$2,442,000 (including fees of \$5,000), was financed through the Company's revolving line of credit and a new five year term loan from its primary bank for \$1,250,000. The term loan was being repaid in 60 equal monthly installments commencing on April 30, 2003. In December 2004, the Company repaid this term loan in full.

NOTE 9 - 401(k) Plan

The Company maintains a 401(k) plan covering all U.S. employees with one or more years of service. The plan is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. The Company provides for matching contributions of 50% of the first 2% of employee contributions. Company contributions to the plan totaled approximately \$80,000, \$73,000, and \$73,000 for the fiscal years ended 2005, 2004 and 2003, respectively.

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - Commitments and Contingencies

Leases

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

Year Ending June 30,	Amount
-----	-----
2006	\$ 86,000
2007	53,000
2008	15,000
2009	--
2010	--

Total	\$154,000
	=====

Rent expense, with the exception of the land lease referred to below, totaled approximately \$138,000, \$192,000 and \$321,000 for the fiscal years ended June 30, 2005, 2004 and 2003, respectively.

Land Lease

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

Letters of Credit

At June 30, 2005, the Company was committed for approximately \$299,000 under open commercial letters of credit.

Litigation

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

In December 2004, the Company became a defendant in a product related lawsuit, in which the plaintiff seeks damages of approximately \$1,500,000. This action is being defended by the Company's insurance company on behalf of the Company. Management believes that the action is without merit and plans to have this action vigorously defended.

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

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 Commitments and Contingencies, continued

Employment Agreements

As of June 30, 2005, the Company was obligated under four employment agreements and one severance agreement. Compensation under the agreements includes annual salaries approximating \$1,125,000. The employment agreements provide for annual bonuses based upon sales and profits, or a formula to be determined by the Board of Directors, and various severance payments as defined in each agreement. One agreement, with current annual compensation of \$471,000, includes additional compensation of 100,000 stock options that vest 20% per year or upon a change in control, as defined, and a termination payment in an amount equal to 299% of the average of the prior five calendar year's compensation, subject to certain limitations, as defined. The employment agreements expire at various times through June 2008.

NOTE 11 - Geographical Data

The Company is engaged in one major line of business: the development, manufacture, and distribution of security alarm products and door security devices for commercial and residential use. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America, Europe, and South America.

The Company observes the provisions of SFAS No. 131. The following represents selected consolidated geographical data for the fiscal years ended June 30, 2005, 2004, and 2003:

	2005	2004	2003
	-----	-----	-----
	(In thousands)		
Sales to external customers(1):			
Domestic	\$54,654	\$48,626	\$47,965
Export	10,575	9,467	9,375
	-----	-----	-----
	\$65,229	\$58,093	\$57,340
	=====	=====	=====
Identifiable assets:			
United States	\$41,753	\$40,153	\$39,005
Foreign(2)	18,154	16,519	18,344
	-----	-----	-----
	\$59,907	\$56,672	\$57,349
	=====	=====	=====

- (1) All of the Company's sales occur in the United States and are shipped primarily from the Company's facilities in the United States and United Kingdom. There were no sales into any one foreign country in excess of 10% of total net sales.
- (2) Foreign identifiable assets consist primarily of inventories and fixed assets, which are located at the Company's principal manufacturing facility in the Dominican Republic.

SCHEDULE II

NAPCO SECURITY SYSTEMS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Years Ended June 30, 2005, 2004, and 2003
(In Thousands)

Column A	Column B	Column C	Column D	Column E
-----	-----	-----	-----	-----
Description	Balance at beginning of period	Charged to costs and expenses	Deductions/ (recoveries) (1)	Balance at end of period
-----	-----	-----	-----	-----
For the year ended June 30, 2003:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$393	\$ 16	\$194	\$215
For the year ended June 30, 2004:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$215	\$140	\$ --	\$355
For the year ended June 30, 2005:				
Allowance for doubtful accounts (deducted from accounts receivable)	\$355	\$ 43	\$ 18	\$380

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

b. Supplementary Financial Data

QUARTERLY RESULTS

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

Fiscal Year Ended June 30, 2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	\$13,440	\$16,019	\$15,743	\$20,027
Gross Profit	4,273	4,918	5,096	9,637
Income from Operations	901	1,450	1,673	4,886
Net Income	513	872	1,013	3,231
Net Income Per Share				
Basic EPS	.06	.10	.12	.38
Diluted EPS	.06	.10	.11	.35

Fiscal Year Ended June 30, 2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	\$9,835	\$14,629	\$14,742	\$18,887
Gross Profit	2,983	4,552	4,622	7,383
Income (Loss) from Operations	(294)	1,247	1,259	3,853
Net Income (Loss)	(282)	728	734	2,155
Net Income (Loss) Per Share*				
Basic EPS	(.04)*	.09	.09	.28
Diluted EPS	(.04)*	.09	.09	.25

* Restated to reflect 20% stock dividend reported in the first fiscal quarter of 2005.

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

None

ITEM 9A. CONTROL AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management's control objectives.

At the conclusion of the period ended June 30, 2005, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective in alerting them in a timely manner to information relating to the Company required to be disclosed in this report.

Our independent registered accounting firm Marcum & Kliegman, LLP ("MK"), informed us and our Audit Committee of the Board of Directors that in connection with their audit of our financial results for the fiscal year ended June 30, 2005, MK had discovered conditions which they deemed to be significant deficiencies, (as defined by standards established by the Public Company Accounting Oversight Board) in our financial statement closing process. A significant deficiency is a control deficiency where there is more than a remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected. The significant deficiencies related to the timely performance of processes and procedures for the period end closing process and its review by internal accounting personnel. Management has informed MK and the Audit Committee that it will modify its controls over the financial statement closing process to prevent reoccurrences of this deficiency and will continue to monitor the effectiveness of these actions and will make any other changes or take such additional actions as management determines to be appropriate.

During the fourth quarter of 2005, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting except as described above. Management does not believe that the above significant deficiencies affected the results of the fiscal year ended June 30, 2005 or any prior period.

ITEM 9B. OTHER INFORMATION

None

PART III

The information called for by Part III is hereby incorporated by reference from the information set forth and under the headings "Election of Directors", "Corporate Governance and Board Matters", "Executive Compensation", "Beneficial Ownership of Common Stock" and "Principal Accountant Fees" in the Company's definitive proxy statement for the 2005 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(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 Registered Public Accounting Firm

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Consolidated Financial Statements:

Consolidated Balance Sheets as of June 30, 2005 and 2004

Consolidated Statements of Income for the Fiscal Years Ended June 30,
2005, 2004 and 2003

Consolidated Statements of Stockholders' Equity for the Fiscal Years
Ended June 30, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the Fiscal Years Ended
June 30, 2005, 2004 and 2003

Notes to Consolidated Financial Statements, June 30, 2005

(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:

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II: Valuation and Qualifying Accounts	FS-24

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

(a)3 and (b). Exhibits

Management Contracts designated by asterisk.

Exhibit No. - - - - -	Title -----	
Ex-3.(i)	Amended and Restated Certificate of Incorporation	Exhibit 3.(I) to Report on Form 10-Q for the fiscal quarter ended December 31, 2001
Ex-3.(ii)	Amended and Restated By-Laws	Exhibit 3.(ii) to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.A (i)	Amended and Restated 1992 Incentive Stock Option Plan	E-1
Ex-10.A (ii)	2002 Employee Stock Option Plan	Exhibit 10.Y to Report on Form 10-Q for the fiscal quarter ended December 31, 2002
*Ex-10.B	2000 Non-Employee Stock Option Plan	Exhibit 10.B to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.C	Loan and Security Agreement with Marine Midland Bank dated as of May 12, 1997	Exhibit 10-C to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.D	Revolving Credit Note #1 to Marine Midland Bank dated as of May 12, 1997	Exhibit 10-D to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.E	Revolving Credit Note #2 to Marine Midland Bank dated as of May 12, 1997	Exhibit 10-E to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.F	Promissory Note to Marine Midland Bank dated as of May 12, 1997	Exhibit 10-F to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.G	Amendment No.1 to the Loan and Security Agreement with Marine Midland Bank dated as of May 28, 1998	Exhibit 10-G to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.H	Term Loan Note to Marine Midland Bank dated as of May 28, 1998	Exhibit 10-H to Report on Form 10-K for the fiscal year ended June 30, 2004
*Ex-10.I	Amended and Restated Employment Agreement with Richard Soloway	Exhibit 10.I to Report on Form 10-K for fiscal year ended June 30, 2003
*Ex-10.J	Employment Agreement with Jorge Hevia	E-6
Ex-10.K	Amendment No. 2 to the Loan and Security Agreement with HSBC Bank dated as of June 30, 1999	E-8
*Ex-10.L	Employment Agreement with Michael Carrieri	E-10
*Ex-10.M	Indemnification Agreement dated August 9, 1999	E-16

Ex-10.0	Amendment No. 4 to Loan and Security Agreement	E-21
Ex-10.P	Amendment No. 8 to Loan and Security Agreement	Exhibit 10.W to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.Q	Note Modification Agreement	Exhibit 10.X to Report on Form 10-K for fiscal year ended June 30, 2001
Ex-10.R	Amendment No. 10 to the Loan and Security Agreement	Exhibit 10.R to Report on Form 10-K for fiscal year ended June 30, 2003
Ex-10.S	Amendment No. 3 to the Loan and Security Agreement	Exhibit 10-S to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.T	Amendment No. 9 to the Loan and Security Agreement	Exhibit 10-T to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.U	Amendment No. 11 to the Loan and Security Agreement	Exhibit 10-U to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.V	Amendment No. 12 to the Loan and Security Agreement	Exhibit 10-V to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-10.W	Amendment No. 13 to the Loan and Security Agreement	Exhibit 10-W to Report on Form 10-K for the fiscal year ended June 30, 2004
Ex-14.0	Code of Ethics	Exhibit 14.0 to Report on Form 10-K for the fiscal year ended June 30, 2003
Ex-21.0	Subsidiaries of the Registrant	E-34
Ex-23.1	Consent of Independent Auditors	E-35
Ex-31.1	Section 302 Certification of Chief Executive Officer	E-36
Ex-31.2	Section 302 Certification of Chief Financial Officer	E-37
Ex-32.1	Certification of Chief Executive Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-38
Ex-32.2	Certification of Chief Financial Officer Pursuant to 18 USC Section 1350 and Section 906 of Sarbanes - Oxley Act of 2002	E-39

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 29, 2005

NAPCO SECURITY SYSTEMS, INC.
(Registrant)

By: /s/ RICHARD SOLOWAY

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

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

Signature -----	Title -----	Date -----
/s/ RICHARD SOLOWAY ----- Richard Soloway	Chairman of the Board of Directors, President and Secretary (Principal Executive Officer) and Director	September 29, 2005
/s/ KEVIN S. BUCHEL ----- Kevin S. Buchel	Senior Vice President of Operations and Finance and Treasurer (Principal Financial and Accounting Officer) and Director	September 29, 2005
/s/ PAUL STEPHEN BEEBER ----- Paul Stephen Beeber	Director	September 29, 2005
/s/ RANDY B. BLAUSTEIN ----- Randy B. Blaustein	Director	September 29, 2005
/s/ ARNOLD BLUMENTHAL ----- Arnold Blumenthal	Director	September 29, 2005
/s/ DONNA SOLOWAY ----- Donna Soloway	Director	September 29, 2005
/s/ ANDREW J. WILDER ----- Andrew J. Wilder	Director	September 29, 2005

NAPCO SECURITY SYSTEMS, INC.

AMENDED AND RESTATED

1992 INCENTIVE STOCK OPTION PLAN

(Extended 1982 Incentive Stock Option Plan)

1. Purpose of the Plan. This 1992 Incentive Stock Option Plan (hereinafter referred to as the "Plan"), constituting a ten-year extension of the 1982 Incentive Stock Option Plan, is intended to encourage ownership of stock of Napco Security Systems, Inc. (hereinafter referred to as the "Corporation") by key employees 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").

2. Scope of the Plan. An aggregate of Eight Hundred Fifteen Thousand Nine Hundred Thirty-Three (815,933) shares (representing Seven Hundred Twenty-seven Thousand Nine Hundred Thirty-three (727,933) shares for future options and Eighty-Eight Thousand (88,000) 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 employees 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 valued employees (including officers and directors who are employees) of the Corporation or any subsidiary; provided, however, that no option shall be granted hereunder to any person in whose hands such option is not an "incentive stock option" within the meaning of Section 422 of the Code by reason of the stock ownership test set forth in Section 422(b)(6) of the Code. However, options may be granted to such persons under the Plan if such options would qualify as incentive stock options by virtue of meeting the option price and term requirements set forth in Section 422(c)(5) of the Code. 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; provided, however, that the purchase price to be paid for Common Stock issued pursuant to an option granted to an individual who, at the time of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Corporation or its subsidiaries, as described in Section 422(b)(6) of the Code, shall, as provided by Section 422(c)(5) of the Code, be not less than 110% of the fair market value of the Common Stock. 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. 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. To the extent that the aggregate fair market value of stock with respect to which incentive stock options (determined without regard to this subsection) are exercisable for the first time by any individual during any calendar year (under all plans of the individual's employer corporation and its parent and subsidiary corporations) exceeds One Hundred Thousand (\$100,000) Dollars, such options shall be treated as options which are not incentive stock options.

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, an option shall not be exercisable unless the holder thereof shall, at the time of exercise, be an employee of the Corporation or a subsidiary.

Notwithstanding anything herein to the contrary, to the extent that the Corporation has entered into a written employment agreement with the holder of the option and such agreement provides that such options will vest upon a "change in control" of the Corporation (as defined in such agreement), such holder's options will vest and become immediately exercisable in full upon such a change in control.

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. The right of a holder of an option to exercise such option shall terminate immediately upon voluntary termination of service as an employee 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 8, 1992, 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 employees or class of employees 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 employee, or by an employee (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 employee, 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 8, 1992

Last Amended: February 22, 1999

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Richard Soloway, President

ATTEST:

By: /s/ Kevin S. Buchel, Senior Vice President

September 15, 1998

Mr. Jorge Hevia

- -----
- -----

Dear Jorge:

As per our meeting today, we agree to the following points for your employment as Vice President of sales and marketing. We would like your employment to commence October 5, 1998.

- 1) Annual Salary of \$165,000, with annual reviews hereafter on your anniversary date. Upon being promoted to Senior Vice President of Sales and Marketing (estimated to occur approximately May 1999) salary will be increased to \$175,000.

- 2) Signing Bonus- A signing bonus will be paid as follows:

\$10,000 upon employment

\$10,000 end of December 1998

\$10,000 end of May 1998

- 3) Bonus Plan- An additional 61% of annual salary (or \$95,000) can be earned as follows:

A) *Sales Volume- Sales volume bonus plan is as follows:

a) Net sales increase 5%- Bonus = \$10,000

b) Net sales increase 10%- Bonus = \$28,875

c) Net sales increase 15% or greater- Bonus = \$50,000

*Sales volume will be measured for the year ended 6/30/99 as compared to 6/30/98. In the event of an acquisition, this plan will be adjusted.

B) Profitability- Profitability bonus plan is based on the average selling price of the top 250 stock keeping units (SKU's), which represent approximately 99% of overall corporate sales. The plan is as follows:

a) Average selling price is 6.5% below target (level 1 pricing)-
Bonus = \$7,000

b) Average selling price is 6% below target- Bonus = \$17,325

c) Average selling price is 5% below target- Bonus = \$25,000

C) *Sales and Marketing Budget-

a) If the Sales and Marketing Budget is met (not exceeded)- Bonus = \$11,550

b) If the Sales and Marketing expenses are 5% or more below budget-
Bonus = \$20,000

*The budget may be adjusted throughout the year, and would require approval of joint executive management.

As discussed, since you will be joining the Company approximately in October 1998, the bonus plan would have to be prorated.

- 4) Stock Options- 16,600 stock options would be awarded upon employment, at

the fair market value price of the Napco stock at that time. Future stock options will be granted based on performance.

- 5) A contract will be drawn up for two (2) years and will include a clause for severance of nine (9) months salary and health insurance for six (6) months. The contract will be reviewed for renewal one (1) year before its expiration date.
- 6) 401K- The Company 401K policy allows for a company match of 1% of compensation (salary and bonus). The policy also includes a one (1) year waiting period before new employees can be added to the plan.
- 7) Auto Allowance- You will be entitled to an auto allowance of \$540 per month.
- 8) Vacation- You will be entitled to three (3) weeks vacation.

I look forward to a long and prosperous relationship with you. This should be a lot of fun.

Sincerely,

/s/ Richard Soloway

Richard Soloway
Chairman

Soloway/ Hevia- 9-15-98

AMENDMENT NO. 2 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 2 to the Loan and Security Agreement dated as of June 30, 1999 ("Amendment No. 2") 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").

WITNESSETH

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 may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party extend the Termination Date, as set forth in the Agreement and the Secured Party has agreed to do so, in the manner set forth below, provided however, that, among other things, Debtor execute this Amendment No. 2.

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

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

"Termination Date" shall mean the earlier to occur of (a) November 30, 2000 or, if such day shall not be a Business Day, the next succeeding Business Day, or (b) upon the occurrence of an Event of Default.

2. As an inducement to the Bank extending the Termination Date, Debtor represents and warrants to Secured Party that, as of the date of execution of this Amendment No. 2, (i) the representations and warranties set forth in Article 4 of the Agreement and the representations and warranties of Debtor and any Third Party set forth in the other Transaction Documents to which any is a party are true and correct in all respects, (ii) no event has occurred and is continuing which constitutes an "Event of Default" under any of the Transaction Documents (as "Event of Default" is defined in each of those Transaction Documents), and (iii) Debtor is in compliance with the covenants set forth in Articles 9 and 10 of the Agreement.

3. 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.

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

5. This Amendment No. 2 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 2 as of the day and year first above written.

HSBC BANK USA F/K/A MARINE
MIDLAND BANK

By: /s/ Thomas J. Dionian

Vice President

NAPCO SECURITY SYSTEMS, INC.

By: /s/ Kevin Buchel

Senior Vice President

STATE OF NEW YORK

SS:

COUNTY OF SUFFOLK

On this 9th day of August, 1999, before me, the undersigned, a Notary Public in and for said State, personally came THOMAS J. DIONIAN, 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/ Antonella Stallone

Notary Public

STATE OF NEW YORK

SS:

COUNTY OF SUFFOLK

On this 9th day of August, 1999, 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/ Antonella Stallone

Notary Public

EMPLOYMENT AGREEMENT

This AGREEMENT is made this 27th day of July 1999, by and between Napco Security Systems, Inc. and/or its related subsidiaries and/or affiliates (herein referred to collectively as "NAPCO"), a Delaware corporation having its principle place of business at 333 Bayview Avenue, Amityville, New York 11701 and Michael Carrieri (hereinafter "EXECUTIVE") residing at .

WHEREAS, NAPCO desires to employ EXECUTIVE as Vice President of Engineering Development and EXECUTIVE desires to be employed by NAPCO.

NOW THEREFORE:

I. EMPLOYMENT:

Subject to the terms and conditions hereinafter set forth, NAPCO hereby employs EXECUTIVE and EXECUTIVE agrees to be employed by NAPCO as its Vice President of Engineering Development. EXECUTIVE agrees to devote his full time and best efforts to the business of NAPCO.

II. DUTIES:

EXECUTIVE shall, during the continuance of his employment hereunder:

(a) Devote the whole of his time and attention and abilities to the business of NAPCO during regular working hours and at such other times as may be necessary;

(b) Perform such duties as are usually performed by an EXECUTIVE serving in his capacity and such other duties as may be assigned to him from time to time by the Chairman of NAPCO;

(c) Use his best efforts to promote the business of NAPCO; and

(d) Perform his duties subject to the direction of the Chairman of NAPCO.

III. COMPENSATION:

For the services to be rendered under this AGREEMENT, NAPCO agrees to pay the EXECUTIVE the following compensation:

(a) SALARY - An annual salary of \$150,000.00 subject to annual reviews and compensation adjustments hereinafter on the anniversary date of the commencement of employment. Upon being promoted to Senior Vice President of Engineering Development (anticipated to occur approximately May 2000 depending on performance), EXECUTIVE's annual salary will be increased to \$160,000.00. The annual salary will be paid periodically in accordance with NAPCO's standard payroll practices, which is presently on a weekly basis.

(b) BONUS PLAN - A bonus of \$30,000.00 may be earned by

EXECUTIVE based on getting each of the new products on the Phoenix #1 program into the shipping department on or before March 2000, and by getting the Phoenix #2 Program products into the shipping department by August 2000. The \$30,000.00 could be prorated to reflect the portions of the Phoenix #1 and Phoenix #2 programs that are already shipped by March 2000 and the August 2000 dates. But it is understood that shipping 100% of the products of the Phoenix #1 and #2 programs by March 2000 and August 2000 respectively are the goals.

In addition, the EXECUTIVE will receive \$5,000.00 for meeting the Engineering budget for the fiscal year ending June 30, 2000.

(c) STOCK OPTIONS - 15,000 stock options, in accordance with NAPCO's Incentive Stock Option Plan, will be awarded to EXECUTIVE upon employment, at the fair market value price of NAPCO stock (Nasdaq: "NSSC") at that time. These stock options will be recorded according to regulations set forth by the Securities and Exchange Commission ("SEC") and/or other government entities. EXECUTIVE will also receive an additional 10,000 stock options upon being promoted to Senior Vice President of Engineering Development. Thereafter, future stock options may be granted based on performance.

(d) SEVERANCE AND HEALTH INSURANCE - In consideration for EXECUTIVE entering a new industry, upon any termination of employment not based on cause, EXECUTIVE will be entitled to severance pay equaling six (6) months' salary and continued health insurance for a period of six (6) months. The payment of any such severance or continued health insurance will be paid according to the same payment schedule as if EXECUTIVE was still employed during that time frame.

(e) VACATION - EXECUTIVE will be granted three (3) weeks' vacation time.

(f) 401(K) PLAN - NAPCO will provide EXECUTIVE with 401(k) benefits in accordance with the terms and conditions of its corporate plan in effect.

IV. RESTRICTIVE COVENANTS:

(a) EXECUTIVE acknowledges that technical, financial and other confidential information of NAPCO or any third party with which NAPCO is in technical or commercial cooperation, or which EXECUTIVE may obtain knowledge in the course of and by virtue of his employment, constitutes valuable and confidential assets and that unauthorized disclosure or utilization thereof would be detrimental to NAPCO. EXECUTIVE therefore agrees that he will not disclose or utilize, either during his employment or thereafter, any such technical or other confidential information, without first obtaining NAPCO's written consent thereto, except as such disclosure or utilization may be required by EXECUTIVE's service to NAPCO or by law.

(b) All trade secrets and proprietary information including, but not limited to, all formulas, patterns, designs, sales and business plans, plant secrets, processes, methods for determination of costs, customer lists, and other confidential secrets, or internal information which heretofore have been or hereafter may be conceived by or

disclosed to EXECUTIVE in the course of EXECUTIVE's employment, shall at all times be and remain the sole and exclusive property of NAPCO, except as required by law or by EXECUTIVE's employment at NAPCO, and shall be kept confidential by EXECUTIVE and not be utilized personally by EXECUTIVE or divulged by EXECUTIVE to any third party or company.

(c) All inventions, improvements, patent pendings, ideas concerning patents or improvements relating thereto (collectively hereinafter referred to as "Inventions") which EXECUTIVE solely, or with others, receives or reduces to practice or may conceive in the course of such employment or with the use of NAPCO time, material or facilities, or relating to any subject matter with which my work for NAPCO is or may be concerned or reduced to practice during the term of my employment by NAPCO, shall be the sole property of NAPCO.

(d) EXECUTIVE shall promptly disclose in writing to NAPCO and maintain adequate and current written records of such Inventions, in the form of notes, sketches, drawings or reports, which shall be the property of NAPCO, shall specifically assign to NAPCO all such Inventions and shall execute all papers and perform all other lawful acts which NAPCO deems necessary or advisable for the preparation and prosecution of patent applications and the procurement and maintenance of United States and foreign patents and for the transfer of interests therein to NAPCO. It is understood and agreed that all expenses incurred with respect to the obligations of this paragraph shall be by NAPCO or its nominee. EXECUTIVE shall make no other application for intellectual property relating to such Inventions without the express written approval of NAPCO.

(e) EXECUTIVE shall not make or permit to be made, except pursuant to his duties hereunder and for the sole use and account of NAPCO, any papers or documents, including drawings and records of research, made by EXECUTIVE or at EXECUTIVE's directions or which may come into EXECUTIVE's possession in any way, and EXECUTIVE shall deliver to NAPCO on the termination of employment, all such materials in EXECUTIVE'S possession.

(f) EXECUTIVE agrees that during the term of employment hereunder, he will not, except with the prior written consent of NAPCO, directly or indirectly engage in, or accept any position as an agent, employee, officer or director of, or consult, advise with, invest in, or otherwise in any way give assistance to aid any person, firm or corporation (or any of their related entities) in the security alarm, fire alarm, security lock, security hardware or entry access products industry either as a manufacturer, installer and/or distributor. For a period of three (3) years after the termination of EXECUTIVE's employment hereunder, he will not, without the prior written consent of NAPCO, directly or indirectly engage in, or accept any position as agent, employee, officer or director of, or consult, advise with, invest in (except in insignificant amounts) or otherwise in any way give assistance or aid to any person, firm, or corporation (or any of their related entities) engaging in business which relates directly or indirectly with the business of NAPCO or which would be competitive or a competitive substitute with any product(s) or product lines in the security alarm, fire alarm, security lock, security hardware or entry

access products industry either as a manufacturer, installer, and/or distributor of which NAPCO was involved with at the time of termination of EXECUTIVE's employment hereunder. This provision applies to any aforementioned affiliation of EXECUTIVE to any person, firm, or corporation (or any of their related entities) engaging in business which relates directly or indirectly with the business of NAPCO or which would be competitive or a competitive substitute with any product(s) or product lines in the security alarm, fire alarm, security lock, security hardware or entry access products industry either as a manufacturer, installer, and/or distributor which is conducting any business in the United States of America. EXECUTIVE explicitly acknowledges the reasonableness of the scope of this paragraph in view of the fact that EXECUTIVE was never previously engaged in any businesses relating to NAPCO, and in view of the fact that EXECUTIVE's position at NAPCO will enable him to become privy to significant and sensitive information.

(g) EXECUTIVE covenants and agrees that so long as he is in the employ of NAPCO and after leaving the employ of NAPCO, he will not directly or indirectly disclose, communicate, divulge or furnish to or use for the benefit of himself (except while he is in the employ solely and in the pursuit of the activities of NAPCO) or any other person, firm or corporation, any other of the trade secrets, designs, improvements, marketing plans, inventions of NAPCO belonging to NAPCO, or the designs, or processes of distribution, or processes of manufacture of any product or article sold or distributed by NAPCO, which EXECUTIVE may learn by virtue by his activities or which he may develop for NAPCO.

V. EXCEPTION TO SECTION IV:

Based on EXECUTIVE's representation that he has conceived an invention in the field of telephone answering machines ("the Invention") that is unrelated to NAPCO's business, the parties agree to exclude the Invention from the obligations of Section IV herewith. In order to avoid any future disputes as to the nature and scope of the Invention and to avoid disclosure of the Invention at this time, EXECUTIVE has agreed to provide Attachment A hereto which is a sealed envelope that EXECUTIVE represents contains a written description of the Invention. NAPCO agrees not to unseal Attachment A unless either authorized by EXECUTIVE to do so or if a dispute arises under this Section.

In order to avoid any potential conflict of interest, EXECUTIVE agrees not to directly market his Invention or any patent received thereon to any known customer or vendor of NAPCO without prior authorization from NAPCO's Chairman of the Board.

VI. REMEDIES:

The parties hereto recognize that, in the event of any breach or threatened breach by the EXECUTIVE of the provisions of Section IV hereunder of, NAPCO will suffer irreparable injury in connection with which damages would be difficult, if not impossible, to ascertain and it is therefore agreed that NAPCO, in addition to and without limiting any other remedy or right it may have under this AGREEMENT, or at law or in equity, shall be entitled to an injunction against the EXECUTIVE issued by any court of competent jurisdiction enjoining

any such breach or threatened breach.

VII. EFFECT OF WAIVER:

The waiver by either party of a breach of any provision of this AGREEMENT shall not operate or be construed as a waiver of any subsequent breach thereof.

VIII. NOTICE:

Any and all notices referred to hereunder shall be sufficient if furnished in writing and sent by registered or certified mail to the parties at the addresses given herein, or to such other addresses as may hereafter be designated by notice in writing given in accordance with the provisions of this paragraph.

IX. GOVERNING LAW:

The parties agree that this AGREEMENT shall be governed, interpreted and construed in accordance with the substantive laws of the State of New York.

X. SEVERABILITY:

If any provision of this AGREEMENT shall, to any extent, be deemed invalid or unenforceable, the remainder of this AGREEMENT shall not be affected, and each term shall be valid and shall be enforced to the extent permitted by law.

XI. AMENDMENTS TO AGREEMENT:

No amendment of this AGREEMENT shall be effective unless reduced to writing and executed by a duly authorized officer of NAPCO and by EXECUTIVE.

XII. TERM:

This AGREEMENT shall be for a term of two years from the first date of employment and may be renewed upon mutual written agreement by the parties. The AGREEMENT will be reviewed with respect to a possible renewal one (1) year prior to its expiration date. However, nothing in this provision requires NAPCO to pay severance greater than that established in Section III.

XIII. TERMINATION OF EMPLOYMENT:

In the event that EXECUTIVE voluntarily leaves the employ of employer without cause or he is terminated with cause, all benefits of this AGREEMENT shall cease.

XIV. MISCELLANEOUS:

This AGREEMENT is to be read in conjunction with the rights and obligations presented in NAPCO's Salaried Employee Handbook. Furthermore, nothing in this AGREEMENT is intended or should be interpreted to circumvent any obligations applicable to NAPCO pursuant to federal, state or local laws.

Napco Security Systems, Inc.

EXECUTIVE

By: /s/ Richard L. Soloway

/s/ Michael Carrieri

Richard L. Soloway
Chairman of the Board

Michael Carrieri

Dated: 7/15/99

Dated: 7/26/99

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INDEMNIFICATION AGREEMENT

AGREEMENT, effective as of the 9th day of August, 1999, between NAPCO SECURITY SYSTEMS, INC., a Delaware corporation (the "Company"), and the individuals listed on the signature page (each an "Indemnitee" and collectively the "Indemnitees").

WHEREAS, Indemnitee is a director, officer or employee of the Company; and

WHEREAS, both the Company and the Indemnitee recognize the risk of litigation and other claims being asserted against corporate agents or public companies in today's environment; and

WHEREAS, the Articles of Incorporation and Bylaws of the Company permit the Company to indemnify and advance expenses to its directors and officers to the fullest extent now or hereafter authorized or permitted by law.

NOW, THEREFORE, in consideration of the premises and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain Definitions.

(a) Approved Counsel shall mean any attorney or law firm located and selected by an Indemnitee and reasonably acceptable to the Company.

(b) Board of Directors shall mean the Board of Directors of the Company.

(c) Claim shall mean any threatened, pending or completed action, suit or proceeding, or any inquiry or investigation, whether instituted by the Company or any other party, that an Indemnitee in good faith believes might lead to the institution of any such action, suit or proceeding, whether civil, criminal, administrative, investigative or other and shall also include litigation of the type described in Section 3(b), 3(c) or 5.

(d) Expenses shall include attorneys' fees of approved counsel and all other costs, expenses, disbursements, and obligations paid or incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in any Claim relating to any Indemnifiable Event, including any litigation described in Section 3(b), 3(c) or 5 together with interest calculated at the Company's average cost of funds for short-term borrowings, accrued from the date of payment of such expense of the date Indemnitee received reimbursement therefor.

(e) Indemnifiable Event shall mean any event or occurrence related to the fact that an Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request

of the Company as a director, officer, employee, trustee, agent or fiduciary of another corporation of any type or kind, domestic or foreign, partnership, joint venture, employee benefit plan, trust or other enterprise, or by reason of anything done or not done by an Indemnatee in any such capacity. Without limitation of an indemnification provided hereunder, an Indemnatee serving (i) another corporation, partnership, joint venture or trust of which twenty (20%) percent or more of the voting power or residual economic interest is held, directly or indirectly, by the Company, or (ii) any employee benefit plan of the Company or any entity referred to in clause (i), in any capacity shall be deemed to be doing so at the request of the Company.

2. Basic Indemnification Arrangement. If an Indemnatee was, is or becomes at any time a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, a Claim by reason of (or arising in part out of) an Indemnifiable Event, the Company shall indemnify such Indemnatee to the fullest extent now or hereafter authorized or permitted by law as soon as practicable but in any event no later than fifteen (15) days after written demand is presented to the Company, against any and all Expenses, judgments, fines (including excise taxes assessed against an Indemnatee with respect to an employee benefit plan), penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties or amounts paid in settlement) of such Claim. If so requested by Indemnatee, the Company shall advance (within two (2) business days of such request) any and all Expenses to an Indemnatee (an "Expense Advance"), provided however, the Indemnatee must sign an undertaking to reimburse the Company for such Expenses if it is ultimately determined that the Indemnatee was not entitled to indemnification with respect to the Claim. As to any action or suit by or in the right of the Company, such indemnification shall be subject to the provisions of Section 145(b) of the DGCL.

3. Payment. (a) Notwithstanding the provisions of Section 2, the obligations of the Company under Section 2 shall in no event be deemed to preclude any right to indemnification to which an Indemnatee may be entitled under the Delaware General Corporation Law (the "DGCL").

(b) In the event an Indemnatee seeks indemnification in a proceeding initiated by such Indemnatee (other than a proceeding under Section 3(c) hereof), the obligations of the Company under Section 2 shall be subject to the requirement that such proceeding was specifically authorized, or later ratified, by the Company.

(c) If the Company refuses to indemnify an Indemnatee for any reason whatsoever and such Indemnatee substantively would be permitted to be indemnified in whole or in part under applicable law, such Indemnatee shall have the right to commence litigation in any court in the States of New York or Delaware having subject matter jurisdiction thereof and in which venue is proper seeking an initial determination by the court or challenging any such refusal by the Company or any aspect thereof, including the legal or factual bases therefor, and the Company hereby consents to service of process relating thereto and hereby consents to personal jurisdiction of any such court and agrees to appear in any such proceeding. In any such litigation, an Indemnatee shall be entitled to the benefits of the burden of proof presumption provided in Section 7 hereof.

4. No Duplication of Payments. The Company shall not be liable under this Agreement to make any payment in connection with any Claim made

against an Indemnitee to the extent such Indemnitee has otherwise actually received payment (under any insurance policy, Bylaw or otherwise) of the amounts otherwise indemnifiable hereunder.

5. Indemnification for Additional Expenses. The Company shall indemnify Indemnitees against any and all Expenses (including attorneys' fees) and, if requested by such Indemnitee, shall (within two business days of such request) advance such expenses to Indemnitee, which are incurred by Indemnitee in connection with any claim asserted or action brought by Indemnitee for (i) indemnification or payment of Expenses by the Company or advance of expenses under this Agreement or any other agreement or Company Bylaw now or hereafter in effect relating to Claims for Indemnifiable Events and/or (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether such Indemnitee ultimately is determined to be entitled to such indemnification, advance expense payment or insurance recovery, as the case may be.

6. Partial Indemnity, Etc. If an Indemnitee is entitled under any provision of this Agreement or otherwise to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties and amounts paid in settlement of a Claim but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify such Indemnitee for the portion thereof to which such Indemnitee is entitled. Moreover, notwithstanding any other provision of this Agreement, to the extent that such Indemnitee has been successful on the merits or otherwise in defense of any or all Claims relating in whole or in part to an Indemnifiable Event or in defense of any issue or matter therein, including dismissal without prejudice, such Indemnitee shall be indemnified, to the extent permitted by law, against all Expenses incurred in connection with such Indemnifiable Event.

7. Burden of Proof. In connection with any determination hereunder or otherwise, including any litigation of the sort described in Section 3(b) or 3(c), as to whether an Indemnitee is entitled to be indemnified hereunder the burden of proof shall be on the Company to establish that such Indemnitee is not so entitled.

8. No Adverse Presumptions. For purposes of this Agreement, the termination of any claim, action, suit or proceeding, whether civil or criminal, by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that an Indemnitee did not meet any particular standard of conduct or have any particular belief or that a court has determined that indemnification is not permitted by applicable law.

9. Nonexclusivity, Etc. The rights of an Indemnitee hereunder shall be in addition to any other rights Indemnitee may have under the Company's Bylaws or the DGCL or otherwise. To the extent that a change in the DGCL (whether by statute or judicial decision) permits greater indemnification by agreement than those currently afforded under the Company's Bylaws and this Agreement, it is the intent of the parties hereto that such Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change.

5. Liability Insurance. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, an Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage

available for any director or officer of the Company.

6. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company against an Indemnatee, an Indemnatee's spouse, heir, executors or personal or legal representatives from and after the date hereof.

7. Amendments, Etc. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be effective unless in writing and no written waiver shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a waiver.

8. Subrogation. In the event of payment under this Agreement to an Indemnatee, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of such Indemnatee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company effectively to bring suit to enforce such rights.

9. Specific Performance. The parties recognize that if any provision of this Agreement is violated by the Company, an Indemnatee may be without an adequate remedy at law. Accordingly, in the event of any such violation, such Indemnatee shall be entitled, if such Indemnatee so elects, to institute proceedings, either in law or at equity, to obtain damages or reimbursements for costs, expenses, or disbursements, to enforce specific performance, to enjoin such violation, or to obtain any relief or any combination of the foregoing as such Indemnatee may elect to pursue.

10. Binding Effect, Etc. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors, including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business and/or assets of the Company, assigns, spouses, heirs, executors, and personal and legal representatives. This Agreement shall continue in effect regardless of whether an Indemnatee continues to serve as an officer or director of the Company or of any other enterprise at the Company's request or in any other capacity, such as agent or consultant.

11. Severability; Several Obligations. The provisions of this Agreement shall be severable in the event that any of the provisions hereof (including any provisions within a single section, paragraph or sentence) is held by a court of competent jurisdiction to be invalid, void or otherwise unenforceable in any respect, and the validity and enforceability of any such provision in every other respect and with respect to all other Indemnitees and of the remaining provisions hereof shall not be in any way impaired and shall remain enforceable to the fullest extent permitted by law. The indemnities afforded hereby are several and not joint obligations, and no requirement of joinder, common pleadings, joint request or the like shall be needed for any single Indemnatee to enjoy the rights hereby afforded.

THE INDEMNITOR:

NAPCO SECURITY SYSTEMS, INC.

By: /s/

Name: Richard Soloway
Title: President

THE IMDEMNITEES:

/s/

Richard Soloway

/s/

Kevin S. Buchel

/s/

Randy Blaustein

/s/

Andrew J. Wilder

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AMENDMENT NO. 4 TO THE LOAN AND SECURITY AGREEMENT

AMENDMENT NO. 4 to the Loan and Security Agreement dated as of July 27, 2000 ("Amendment No. 4") 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").

WITNESSETH:

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 may be amended from time to time (the "Agreement");

WHEREAS, the Debtor has requested that the Secured Party extend a \$8,250,000 term loan to Continental Instruments Systems, LLC ("Continental Systems"), a wholly owned subsidiary of Debtor, in order that Continental Systems may acquire all of the assets of Continental Instruments LLC ("Seller") and partially fund a two-year earn-out payable to John Banks ("Owner") pursuant to a certain asset purchase agreement dated as of July __, 2000 [sic] by and between Seller, with its sole place of business at 250-H Executive Drive, Edgewood, New York 11717, Owner, residing at 40 Ridgewood Street, East Northport, New York 11731 and Debtor, which asset purchase agreement, and the rights of Debtor thereunder, were duly assigned to Continental Instruments Systems, LLC by assignment dated July 27, 2000 ("Asset Purchase Agreement"), and the Secured Party has agreed to do so, in the manner set forth below, provided however, that, among other things, Debtor execute this Amendment No. 4.

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 "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"), UMI Manufacturing Corp. ("UMI"), E.E. Electronic Components Inc. ("E.E."), Derringer Security Systems, Inc. ("Derringer"), Raltech Logic, Inc. ("Raltech"), NAPCO/Alarm Lock Grupo Internacional, S.A. ("NAPCO/Alarm Lock"), 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.

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

CONTINENTAL TERM LOAN means the \$8,250,000 term loan made available to Continental Systems by Secured Party pursuant to the Term Loan Note.

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

CONTINENTAL TERM LOAN NOTE means the \$8,250,000 note evidencing the Continental Term Loan executed by Continental Systems and delivered to Secured Party as of even date hereof, as such note may be extended or otherwise modified from time to time; Continental Systems has used or will use the proceeds of the Continental Term Loan Note to acquire all of the assets of Seller (as the term "Seller" is defined in the recital paragraphs) and fund a two-year earn-out payable to Owner (as the term "Owner" is defined in the recital paragraph hereinabove) pursuant to the Asset Purchase Agreement (as the term "Asset Purchase Agreement" is defined in the recital paragraph hereinabove).

4. 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 this Amendment No. 4 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, 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, a certain uncommitted trade line established by Secured Party in favor of Debtor to provide for commercial and standby letters of credit, evidenced by, among other documents, a continuing letter of credit agreement, and a continuing indemnity agreement, each dated as of May 12, 1997, as may be re-executed, amended, extended or otherwise modified from time to time, the Term Loan Note in the principal sum of \$2,500,000., as may be extended or otherwise modified from time to time, 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, 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.

4. Section 3.3. of the Agreement is hereby amended to read in its entirety as follows:

3.3. INDEBTEDNESS SECURED. The Security Interest secures payment of any and all indebtedness, and performance of all obligations and agreements, of Debtor to Secured Party, whether now existing or hereafter incurred or arising, of every kind and character, primary or secondary, direct or indirect, absolute or contingent, sole, joint or several, and whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred, including, without limitation: (a) all Advances; (b) all interest which accrues on any such indebtedness, until payment of such indebtedness in full, including, without limitation, all interest provided for under this Agreement; (c) all other monies payable by Debtor, and all obligations and agreements of Debtor to Secured Party, pursuant to the Transaction Documents; (d) all debts owed, or to be owed, by Debtor to others which Secured Party has obtained, or may obtain, by assignment or otherwise; (e) all monies payable by any Third Party, and all obligations and agreements of any Third Party to Secured Party, pursuant to any of the Transaction Documents; (f) all monies due, and to become due, pursuant to Section 7.3; and (g) all obligations arising under that certain unlimited continuing guaranty of Debtor to Secured Party dated July 27, 20000, wherein Debtor unconditionally guaranteed the full and prompt payment to Secured Party when due, whether by acceleration or

otherwise, of any and all indebtedness (as defined in such guaranty) of Continental Systems to Secured Party, as such guaranty may be modified, reaffirmed or otherwise amended from time to time; and (h) the obligations of Continental Systems in favor of Secured Party under the Master Agreement.

5. A new SECTION 5 shall be added to the Agreement, and shall be read in its entirety as follows:

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

5.1. CORPORATE EXISTENCE. Continental Systems is a duly formed limited liability company, in good standing under the laws of the state of New York and is duly licensed or qualified to do business and in good standing in every state in which the nature of its business or ownership of its property requires such licensing or qualification.

5.2 CORPORATE CAPACITY. The execution, delivery and performance of the Transaction Documents are within Continental Instrument's corporate powers, have been duly authorized by all necessary and appropriate membership consent, and are not in contravention of any law or the terms of Debtor's articles of organization or operating agreement or any amendment thereto, or of any indenture, agreement, undertaking, or other document to which Continental Systems is a party or by which Debtor or any of Debtor's property is bound or affected.

5.3. VALIDITY OF RECEIVABLES. With respect to each Receivable owned or to be owned by Continental Systems: (a) each copy of each invoice is a true and genuine copy of the original invoice sent to the account debtor named therein and accurately evidences the transaction from which the underlying Receivable arose, and the date payment is due as stated on each Invoice or computed based on the information set forth on each such Invoice is correct; (b) all Chattel Paper, and all promissory notes, drafts, trade acceptances, and other instruments for the payment of money relating to or evidencing each Receivable, and each endorsement thereon, are true and genuine and in all respects what they purport to be, and are the valid and binding obligation of all parties thereto, and the date or dates stated on all such items as the date on which payment in whole or in part is due is correct; (c) all Inventory described in each Invoice has been delivered to the Account Debtor named in such Invoice or placed for such delivery in the possession of a carrier not owned or controlled directly or indirectly by Continental Systems; (d) all evidence of the delivery or shipment of Inventory is true and genuine; (e) all services to be performed by Continental Systems and/or the Seller, as the case may be, in connection with each Receivable have been performed by Continental

Systems and/or the Seller, as the case may be; and (f) all evidence of the performance of such services by Continental Systems and/or the Seller, as the case may be, is true and genuine.

5.4. INVENTORY. (a) All representations made by Debtor and/or Continental Systems, as the case may be, to Secured Party, and all documents and schedules given by Debtor and/or Continental Systems, as the case may be, to Secured Party, relating to the description, quantity, quality, condition, and valuation of the Inventory owned by Continental Systems are true and correct; (b) Inventory owned by Continental Systems is located only at the following address of Continental Systems: 250-H Executive Drive, Edgewood, New York 11717, or such other place or places as approved in advance by Secured Party in writing; (c) all Inventory of Continental Systems is insured as required by Section 9.11 of the Agreement, pursuant to policies in full compliance with the requirements of such Section; and (d) all manufactured or produced Inventory of Continental Systems has been produced by Continental Systems and/or Seller in accordance with the Federal Fair Labor Standards Act of 1938, as amended, and all rules, regulations and orders promulgated thereunder.

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

5.6. PLACE OF BUSINESS. (a) Continental Systems is engaged in business operations which are in whole, or in part, carried on at the following addresses: 250-H Executive Drive, Edgewood, New York 11717 and 333 Bayview Avenue, Amityville, New York 11701 and at no other address or addresses; (b) Continental Systems' chief executive office is 333 Bayview Avenue, Amityville, New York 11701; and (c) Continental's records concerning the collateral are kept at the address specified at the beginning of this Agreement.

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

condition reflected in such financial statements, except as disclosed in writing by Debtor to Secured Party.

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

5.9. LITIGATION. Except as disclosed in the Asset Purchase Agreement, there are no actions, suits, proceedings, or investigations pending or, to the knowledge of Debtor, threatened against Seller or Continental Systems or any basis therefor which, if adversely determined, would, in any case or in the aggregate, materially adversely affect the property, assets, financial condition, or business of Seller and/or Continental Systems, as the case may be, or materially impair the right or ability of Continental Systems to carry on its operations substantially as conducted on the date of this Agreement.

5.10. ERISA MATTERS. (a) No Pension Plan has been terminated, or partially terminated, or is insolvent, or in reorganization, nor have any proceedings been instituted to terminate or reorganize any Pension Plan; (b) neither Seller nor Continental Systems, as the case may be, has withdrawn from any Pension Plan in a complete or partial withdrawal, nor has a condition occurred which, if continued, would result in a complete or partial withdrawal; (c) neither Seller nor Continental Systems, as the case may be, has incurred any withdrawal liability, including, without limitation, contingent withdrawal liability, to any Pension Plan, pursuant to Title IV of ERISA; (d) neither Seller nor Continental Systems, as the case may be, has incurred any liability to the Pension Benefit Guaranty Corporation other than for required insurance premiums which have been paid when due; (e) no Reportable Event has occurred; (f) no Pension Plan or other "employee pension benefit plan" as defined in Section 3(2) of ERISA, to which Seller or Continental Systems, as the case may be, is a party has an "accumulated funding deficiency" (whether or not waived), as defined in Section 302 of ERISA or in Section 412 of the Internal Revenue Code; (g) the present value of all benefits vested under any Pension Plan of Seller and/or Continental Systems, as the case may be, does not exceed the value of the assets of such Pension Plan allocable to such vested benefits; (h) each Pension Plan and each other "employee benefit plan", as defined in Section 3(3) of ERISA, to which Seller and/or Continental Systems, as the case may be, is a party is in substantial compliance with ERISA, and no such plan or any administrator, trustee, or fiduciary thereof has engaged in a prohibited transaction described in Section 406 of ERISA or in Section 4975 of the Internal Revenue Code; (i) each Pension Plan and each other "employee benefit plan" as defined in

Section 3(2) of ERISA, to which Seller and/or Continental Systems, as the case may be, is a party has received a favorable determination by the Internal Revenue Service with respect to qualification under Section 401(a) of the Internal Revenue Code; and (j) neither Seller nor Continental Systems, as the case may be, has incurred any liability to a trustee or trust established pursuant to Section 4049 of ERISA or to a trustee appointed pursuant to Section 4042(b) or (c) of ERISA.

5.11. NO CONSENT OR FILING. No consent, license, approval, or authorization of, or registration, declaration, or filing with, any court, governmental body or authority, or other person or entity is required in connection with the valid execution, delivery, or performance of the Transaction Documents on the part of Continental Systems or for the conduct of Continental Instrument's business as now conducted or as conducted by Seller, as the case may be, other than filings and recordings to perfect security interests in or liens on all assets of Continental Systems in favor of Secured Party in connection with the Transaction Documents.

5.12. NO VIOLATIONS. Neither Seller nor Continental Systems, as the case may be, is in violation of any term of any other indenture, instrument, or agreement to which it is a party or by which it or its property may be bound, resulting, or which might reasonably be expected to result, in a material and adverse effect upon its business or assets. Neither Seller nor Continental Systems is in violation of any order, writ, judgment, injunction, or decree of any court of competent jurisdiction or of any statute, rule or regulation of any governmental authority. The execution and delivery of the Asset Purchase Agreement and consummation of the sale by the Seller, as set forth therein and the performance of all of the same, is, and will be, in compliance with the foregoing and will not result in any violation thereof, or result in the creation of any mortgage, lien, security interest, charge, or encumbrance upon, any properties or assets except in favor of Secured Party. There exists no fact or circumstance (whether or not disclosed in the Transaction Documents or the Asset Purchase Agreement) which materially adversely affects, or in the future (so far as Debtor can now foresee) may materially adversely affect, the condition, business, or operations of Continental Systems.

5.13. TRADEMARKS AND PATENTS. After the consummation of the purchase described in the Asset Purchase Agreement, Continental Systems shall possess all trademarks, trademark rights, patents, patent rights, tradenames, tradename rights and copyrights that are required to conduct its business as now conducted without conflict with the rights or claimed rights of others. A list of the foregoing is set forth in Exhibit A attached hereto.

5.14. CONTINGENT LIABILITIES. To the best of Debtor's knowledge, after due inquiry, there are no suretyship agreements, guaranties, or other contingent liabilities of

Seller which are not disclosed by the financial statements described in Section 5.7.

5.15. COMPLIANCE WITH LAWS. Seller and/or Continental Systems, as the case may be, is in compliance with all applicable laws, rules, regulations, and other legal requirements with respect to its business and the use, maintenance and operations of the real and personal property owned or leased by it in the conduct of its business.

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

5.17. LABOR CONTRACTS. Neither Seller nor Continental Systems is a party to any collective bargaining agreement or to any existing or threatened labor dispute or controversies.

5.18. LABOR MATTERS.

(a) Neither Continental Systems, nor, to the best of Debtor's knowledge, Seller is engaged in any unfair labor practice. To the best of Debtor's knowledge, after due inquiry, Continental Systems and/or Seller, as the case may be, are in compliance in all material respects with all applicable federal, state and local laws, regulations, rules, orders or other requirements respecting terms and conditions of employment, employment practices, and wages and hours,

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

(c) There is no pending, or to the knowledge of Debtor, threatened unfair labor practice complaint against Seller or Continental Systems, as the case may be, before the National Labor Relations Board.

(d) There is no strike, labor dispute, slowdown or stoppage actually pending or, to the knowledge of Debtor, threatened against Seller and/or Continental Systems, as the case may be.

(e) No union representation question exists respecting the employees, or any group of employees, of Seller and/or Continental Systems, as the case may be.

(f) No grievance which might have a material adverse effect on Seller and/or Continental Systems,

as the case may be, or the conduct of their business nor any arbitration proceeding arising out of or under collective bargaining agreements is pending, and no claims therefor exist.

(g) No collective bargaining agreement which is binding on Seller and/or Continental Systems, as the case may be, will restrict Continental Systems from relocating or closing any office, warehouse or any other facility presently being used by Seller and/or Continental Systems, as the case may be.

(h) To Debtor's knowledge, neither Seller nor Continental Systems has experienced any material work stoppage or other material labor difficulty at any office, warehouse or other facility.

(i) To Debtor's knowledge, there are no claims, complaints or charges pending before any state or federal agency concerning employment penalties with respect to Seller and/or Continental Systems, including without limitation, employment discrimination, retaliatory discharge and wage and hour claims.

5.19. MATERIALITY. Notwithstanding anything to the contrary contained in Section 5 hereof, no representation or warranty contained in Section 5 shall be deemed false or cause an Event of Default to the extent that the falsity of such representation or warranty is not material, would not have a material adverse effect on Continental Systems and/or Seller, as the case may be, would not cause an untrue statement of material fact, and/or would not result in an omission to state a material fact in order to make the statements contained herein not misleading, and/or would not materially adversely affect the financial and/or business condition of Seller and/or Continental Systems, as the case may be.

6. 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, 2000, 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 3.25 to 1 from the date hereof through the fiscal year ending June 30, 2000, and

(ii) of not less than 3.50 to 1 from July 1, 2000 through the fiscal year ending June 30, 2001, and

(iii) 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. "Debt Service Coverage Ratio" shall mean earnings before interest, taxes, depreciation and amortization, less distributions, all divided by prior period current portion of long term debt plus interest expense.

(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 Section 9.1. hereof:

from the date hereof through the fiscal year ending June 30, 2000, 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, \$1,000,000 per fiscal year (excluding the incurrence of the Continental Term Loan).

(g) At all times while any Indebtedness remains outstanding, the Debtor and its Consolidated Subsidiaries 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.

7. Section 10.16. of the Agreement is hereby amended to read in its entirety as follows:

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

8. Section 4.17 of the Agreement shall be supplemented with the following additional paragraphs:

Since May 12, 1997, Debtor and its Consolidated Subsidiaries possess the following additional trademarks, trademark rights, patents, patent rights, tradenames, tradename rights and copyrights without conflict with the rights or claimed rights of others. A list of the foregoing as set forth in Exhibit B attached hereto.

To secure the Indebtedness, Debtor hereby grants to Secured Party, and/or reaffirms its grant to Secured Party, a security interest in, and a lien on, all trademarks, trademark rights, patents, patent rights, tradenames, tradename rights and copyrights owned by Debtor, wherever located and whether now owned or hereafter acquired; all books, records, ledger cards, data processing records, computer software, and other property at any time evidencing or relating to such collateral; all parts, accessories, attachments, special tools, additions,

replacements, substitutions and accessions to or for all of the foregoing; and all proceeds and products of the all of the foregoing in any form, including, without limitation, amounts payable under any policies of insurance insuring the foregoing against loss or damage, and all increases and profits received from all of the foregoing.

9. Section 10.2. of the Agreement is hereby amended to read in its entirety as follows:

10.2. BORROWED MONEY. Create, incur, assume, or suffer to exist any liability for borrowed money, except to Secured Party, except for permitted Capital Expenditures, and except the obligations of Continental Systems in favor of Seller pursuant to the terms of a certain \$1,445,000 promissory note by Continental Systems in favor of Seller dated July 27, 2000, as adjusted pursuant thereto, an executed copy of which has been delivered to Secured Party.

10. The following paragraphs shall be added to Section 11.1. of the Agreement:

(r) Nonpayment of Continental Term Loan Note. Nonpayment when due of any principal, interest, premium, fee, cost or expense due under the Continental Term Loan Note, and such nonpayment is not cured within ten (10) days after notice thereof by Secured Party to Debtor.

(s) Mortgage Default. The occurrence of an Event of Default under that certain collateral mortgage and security agreement dated July 27, 2000, by Debtor in favor of Secured Party in the principal sum of \$3,200,000, as the same may be extended or otherwise modified from time to time (the "Collateral Mortgage"; and as used in this subparagraph (s), the term "Event of Default" shall have the meaning set forth in the Collateral Mortgage).

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

12. 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.

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

force and effect.

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

15. This Amendment No. 4 shall be governed by the laws of the State of New York.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 4 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 Buchel

Kevin Buchel
Senior Vice President

SUBSIDIARIES OF THE COMPANY

The following are the Company's subsidiaries as of the close of the fiscal year ended June 30, 2005. All beneficial interests are wholly-owned, directly or indirectly, by the Company, except for Napco Gulf security Group of which the Company owns 51%, and are included in the Company's consolidated financial statements.

Name - - - - -	State or Jurisdiction of Organization -----
Alarm Lock Systems, Inc.	Delaware
Continental Instruments, LLC	New York
Napco Security Systems International, Inc.	New York
Napco/Alarm Lock Exportadora, S.A.	Dominican Republic
Napco/Alarm Lock Grupo Internacional, S.A. (formerly known as NSS Caribe, S.A.)	Dominican Republic
Napco Group Europe, Limited	England
Napco Gulf Security Group, LLC	New York

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Form S-8 (numbers 333-104700 and 333-14743) of Napco Security Systems, Inc. of our report dated September 14, 2005, appearing in this annual report on Form 10-K of Napco Security Systems, Inc. for the year ended June 30, 2005.

Melville, New York
September 28, 2005

SECTION 302 CERTIFICATION

I, Richard Soloway, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 29, 2005

/s/ Richard Soloway

Richard Soloway
Chief Executive Officer
(Principal Executive Officer)

SECTION 302 CERTIFICATION

I, Kevin S. Buchel, certify that:

1. I have reviewed this annual report on Form 10-K of Napco Security Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date September 29, 2005

/s/ Kevin S. Buchel

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

EXHIBIT 32.1

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

In connection with the Annual Report of Napco Security Systems, Inc. (the "Company") on Form 10-K for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard Soloway, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 29, 2005

/s/ Richard Soloway

Richard Soloway
Chief Executive Officer
(Principal Executive Officer)

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

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

EXHIBIT 32.2

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

In connection with the Annual Report of Napco Security Systems, Inc. (the "Company") on Form 10-K for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Kevin S. Buchel, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: September 29, 2005

/s/ Kevin S. Buchel

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

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

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