

NAPCO SECURITY TECHNOLOGIES, INC

Form 10-Q

May 14, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File number: 0-10004

NAPCO SECURITY TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation of
organization)

11-2277818
(IRS Employer Identification
Number)

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

11701
(Zip Code)

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

(Former name, former address and former fiscal year if
changed from last report)

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 and Exchange Act of 1934 during the preceding 12 months (or shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

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Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller reporting company
			X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

Number of shares outstanding of each of the issuer's classes of common stock, as of: May 14, 2012

COMMON STOCK, \$.01 PAR VALUE PER SHARE	19,095,713
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NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31, 2012 (unaudited)		June 30, 2011 (audited)
	(In thousands except share data)		
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,997		\$ 3,077
Accounts receivable, net of reserves	13,737		17,640
Inventories	19,806		19,986
Prepaid expenses and other current assets	791		950
Income tax receivable	133		--
Deferred income taxes	543		528
 Total Current Assets	 38,007		 42,181
 Inventories - non-current, net	 4,466		 4,201
Deferred income taxes	1,853		2,083
Property, plant and equipment, net	7,373		7,741
Intangible assets, net	11,517		12,316
Other assets	277		273
 TOTAL ASSETS	 \$ 63,493		 \$ 68,795
 LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 12,172	*	\$ 3,572
Accounts payable	3,309		4,649
Accrued expenses	1,658		2,553
Income tax payable	--		437
Accrued salaries and wages	1,426		1,785
 Total Current Liabilities	 18,565		 12,996
 Long-term debt, net of current maturities	 8,926		 20,205
Accrued income taxes	120		165
 Total Liabilities	 27,611		 33,366
COMMITMENTS AND CONTINGENCIES			
STOCKHOLDERS' EQUITY			
Common Stock, par value \$0.01 per share; 40,000,000 shares authorized; 20,095,713 shares issued; 19,095,713 shares outstanding	201		201
Additional paid-in capital	14,080		14,072
Retained earnings	27,216		26,771

	41,497	41,044
Less: Treasury Stock, at cost (1,000,000 shares)	(5,615)	(5,615)
TOTAL STOCKHOLDERS' EQUITY	35,882	35,429
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 63,493	\$ 68,795

See accompanying notes to condensed consolidated financial statements.

* Our existing revolving line of credit expires in August 2012. The Company has signed a term sheet with its primary bank which provides for extending both this line and the Company's term loan through 2017. However, there is no guarantee that this agreement will close. Accordingly, we have classified its balance as a current liability as of March 31, 2012.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three months ended March 31,	
	2012	2011
	(In thousands, except share and per share data)	
Net sales	\$ 17,236	\$ 17,760
Cost of sales	12,172	12,247
Gross Profit	5,064	5,513
Selling, general, and administrative expenses	4,375	4,856
Operating Income	689	657
Other expense:		
Interest expense, net	287	328
Other, net	15	13
	302	341
Income before Provision (Benefit) for Income Taxes	387	316
Provision (Benefit) for income taxes	84	(379)
Net Income	\$ 303	\$ 695
Earnings per share:		
Basic	\$ 0.02	\$ 0.04
Diluted	\$ 0.02	\$ 0.04
Weighted average number of shares outstanding:		
Basic	19,096,000	19,096,000
Diluted	19,409,000	19,193,000

See accompanying notes to condensed consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Nine months ended March 31,	
	2012	2011
	(In thousands, except share and per share data)	
Net sales	\$ 51,056	\$ 50,695
Cost of sales	36,941	37,069
Gross Profit	14,115	13,626
Selling, general, and administrative expenses	12,673	13,155
Operating Income	1,442	471
Other expense:		
Interest expense, net	889	1,333
Other, net	42	41
	931	1,374
Income (Loss) before Provision (Benefit) for Income Taxes	511	(903)
Provision (Benefit) for income taxes	66	(621)
Net Income (Loss)	\$ 445	\$ (282)
Earnings (Loss) per share:		
Basic	\$ 0.02	\$ (0.01)
Diluted	\$ 0.02	\$ (0.01)
Weighted average number of shares outstanding:		
Basic	19,096,000	19,096,000
Diluted	19,253,000	19,096,000

See accompanying notes to condensed consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine months ended March 31,	
	2012	2011
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$445	\$(282)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,638	1,703
Provision for doubtful accounts	--	32
Charge to obsolescence reserve	--	500
Deferred income taxes	215	(134)
Stock based compensation expense	8	52
Changes in operating assets and liabilities:		
Accounts receivable	3,903	2,261
Inventories	(85)	(404)
Prepaid expenses and other current assets	159	81
Income tax receivable	(133)	(440)
Other assets	(44)	(32)
Accounts payable and accrued expenses	(3,077)	(1,086)
Net Cash Provided by Operating Activities	3,029	2,251
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(430)	(454)
Net Cash Used in Investing Activities	(430)	(454)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(2,679)	(3,679)
Net Cash Used in Financing Activities	(2,679)	(3,679)
Net Decrease in Cash and Cash Equivalents	(80)	(1,882)
CASH AND CASH EQUIVALENTS - Beginning	3,077	5,522
CASH AND CASH EQUIVALENTS - Ending	\$2,997	\$3,640
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net	\$938	\$1,247
Income taxes paid	\$467	\$5

See accompanying notes to condensed consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
MARCH 31, 2012

1.) Summary of Significant Accounting Policies and Other Disclosures

The accompanying Condensed Consolidated Financial Statements are unaudited. In management's opinion, all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation have been made. The results of operations for the periods ended March 31, 2012 are not necessarily indicative of results that may be expected for any other interim period or for the full year.

The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. The accounting policies used in preparing these unaudited Condensed Consolidated Financial Statements are consistent with those described in the June 30, 2011 Consolidated Financial Statements. In addition, the Condensed Consolidated Balance Sheet as of June 30, 2011 was derived from the audited financial statements but does not include all disclosures required by Generally Accepted Accounting Principles ("GAAP").

The Condensed Consolidated Financial Statements include the accounts of Napco Security Technologies, Inc. and all of its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

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

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, among other things, revenue recognition, reserves for sales returns and allowances, allowance for doubtful accounts, concentration of credit risk, inventories, intangible assets and income taxes. Actual results could differ from those estimates.

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) collectability 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 other allowances and the amount of reserves established for anticipated sales returns and other allowances.

Sales Returns and Other Allowances

The Company analyzes sales returns and is able to make reasonable and reliable estimates of product returns based on the Company's past history. Estimates for sales returns are based on several factors including actual returns and based

on expected return data communicated to it by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates.

Allowance for Doubtful Accounts

In the ordinary course of business, the Company has established a reserve for doubtful accounts and customer deductions in the amount of \$255,000 as of March 31, 2012 and June 30, 2011. The Company's reserve for doubtful accounts is a subjective critical estimate that has a direct impact on reported net earnings. This reserve is based upon the evaluation of accounts receivable agings, specific exposures and historical trends.

Business Concentration and Credit Risk

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

The Company had one customer with an accounts receivable balance that represents 17% of the Company's accounts receivable at March 31, 2012 and June 30, 2011. Sales to this customer did not exceed 10% of net sales in any of the past three fiscal years.

Inventories

Inventories are valued at the lower of cost or fair market value, with cost being determined on the first-in, first-out (FIFO) method. The reported net value of inventory includes finished saleable products, work-in-process and raw materials that will be sold or used in future periods. Inventory costs include raw materials, direct labor and overhead. The Company's overhead expenses are applied based, in part, upon estimates of the proportion of those expenses that are related to procuring and storing raw materials as compared to the manufacture and assembly of finished products. These proportions, the method of their application, and the resulting overhead included in ending inventory, are based in part on subjective estimates and actual results could differ from those estimates.

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

Long-Lived and Intangible 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.

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

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

	March 31, 2012			June 30, 2011		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships	\$ 9,800	\$ (4,347)	\$ 5,453	\$ 9,800	\$ (3,584)	\$ 6,216
Non-compete agreement	340	(176)	164	340	(140)	200

Trademark	5,900	--	5,900	5,900	--	5,900
	\$ 16,040	\$ (4,523)	\$ 11,517	\$ 16,040	\$ (3,724)	\$ 12,316

Amortization expense for intangible assets was approximately \$266,000 and \$288,000 for the three months ended March 31, 2012 and 2011, respectively. Amortization expense for intangible assets was approximately \$799,000 and \$865,000 for the nine months ended March 31, 2012 and 2011, respectively. Amortization expense for each of the next five years is estimated to be as follows: 2012 - \$1,065,000; 2013 - \$917,000; and 2014 - \$781,000; 2015 - \$667,000 and 2016 - \$529,000. The weighted average amortization period for intangible assets was 16.0 years and 16.7 years at March 31, 2012 and June 30, 2011, respectively.

Income Taxes

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

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the condensed consolidated statements of operations and are expensed as incurred. Advertising expense for the three months ended March 31, 2012 and 2011 was \$388,000 and \$62,000, respectively. Advertising expense for the nine months ended March 31, 2012 and 2011 was \$871,000 and \$423,000, respectively. The increase for the three months ended March 31, 2012 is due to the timing of a tradeshow that occurred in March 2012 plus increased spending on media and printed advertising. Last year, the same tradeshow occurred in the quarter ended June 30, 2011. The increase for the nine months ended March 31, 2012 is due to increased spending on tradeshow and media and printed advertising.

Research and Development Costs

Research and development costs are included in "Cost of Sales" in the condensed consolidated statements of operations and are expensed as incurred. Research and development expense for the three months ended March 31, 2012 and 2011 was \$1,094,000 and \$935,000, respectively. Research and development expense for the nine months ended March 31, 2012 and 2011 was \$3,134,000 and \$3,420,000, respectively.

Stock Options

During the three and nine months ended March 31, 2012 no stock options were granted or exercised under its 2002 Employee Incentive Stock Option Plan or under its 2000 Non-employee Incentive Stock Option Plan.

Employee Health Benefit Plan

Effective March 1, 2012, the Company converted its employee health benefit plan from a self-insured plan back to a fully-insured plan due to the significant amounts of medical claims incurred. The Company feels that the significant claim levels will continue and that the cost of a fully-insured plan will be less than that of the self-insured plan.

As of January 31, 2012 (the termination date of this insurance policy) and at June 30, 2011, the aggregate limit of claims to be self-insured was approximately \$1,372,000 and \$1,409,000, respectively. Claims submitted after January 31, 2012 for services performed prior to the commencement of the fully-insured plan on March 1, 2012 are not covered by this insurance policy and are to be paid by the Company. Since March 1, 2012, the Company has incurred approximately \$200,000 in these uninsured, run-out claims in addition to the premiums incurred for the fully-insured benefit policy. In connection with these self-insured liabilities, the Company has accrued \$296,000 and \$150,000 as of March 31, 2012 and June 30, 2011, respectively.

Recent Accounting Pronouncements

In June 2011, the FASB amended its authoritative guidance related to the presentation of comprehensive income, requiring entities to present items of net income and other comprehensive income either in one continuous statement or in two separate consecutive statements. This guidance becomes effective for the Company's fiscal 2013 first quarter. The Company is currently evaluating the impact of adopting this guidance but believes that it may result only in changes in the presentation of its financial statements and will not have a material impact on the Company's results of operations, financial position or cash flows.

In May 2011, the FASB amended its authoritative guidance related to fair value measurements to provide a consistent definition and measurement of fair value, as well as similar disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This guidance clarifies the application of existing fair value measurement and expands the existing disclosure requirements. This guidance became effective for the Company's

fiscal 2012 third quarter. This guidance did not have a material impact on the Company's results of operations, financial position or cash flows.

In December 2010, the FASB amended its authoritative guidance related to Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more-likely-than-not that goodwill impairment exists. In determining whether it is more-likely-than-not that goodwill impairment exists, consideration should be made as to whether there are any adverse qualitative factors indicating that an impairment may exist. This guidance became effective for the Company's fiscal 2012 first quarter. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

2.) Stock-based Compensation

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 1,836,000 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.

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 March 31, 2012, 1,471,480 stock options were granted, 364,520 stock options were available for grant, and 1,380,140 stock options were exercisable under this plan. As of March 31, 2012, there was no unearned stock-based compensation cost related to non-vested share-based compensation arrangements granted under the 2002 Plan. The total fair value of the options vesting during the three and nine months ended March 31, 2012 under the 2002 Plan was \$0 and \$29,000, respectively. No options were granted during the three or nine months ended March 31, 2012.

The following table reflects activity under the 2002 Plans for the nine months ended March 31, 2012:

	Options	Weighted average exercise price
Outstanding, July 1, 2011	1,380,140	\$ 2.95
Granted	--	--
Terminated	--	--
Exercised	--	--
Outstanding, March 31, 2012	1,380,140	\$ 2.95
Exercisable, March 31, 2012	1,380,140	\$ 2.95
Weighted average fair value at grant date of options granted	n/a	
Total intrinsic value of options exercised	n/a	
Total intrinsic value of options outstanding	\$ 1,259,000	
Total intrinsic value of options exercisable	\$ 1,259,000	

In September 2000, the stockholders approved a 10 year extension of the already existing 1990 non-employee stock option plan (the 2000 Plan) to encourage non-employee directors and consultants of the Company to invest in the Company's stock. This plan expired in September 2010. No further options may be granted under the 2000 Plan. The 2000 Plan provided for the granting of non-qualified stock options, the exercise of which would allow up to an aggregate of 270,000 shares of the Company's common stock to be acquired by the holders of the stock options. The 2000 Plan provided that the option price will not be less than 100% of the fair market value of the stock at the date of grant. Outstanding options are exercisable at 20% per year and expire five years after the date of grant. Compensation cost was recognized for the fair value of the options granted to non-employee directors and

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consultants as of the date of grant. As of March 31, 2012, there was no unearned stock-based compensation cost related to non-vested share-based compensation arrangements granted under the 2000 Plan. The total fair value of the options vesting during the three and nine months ended March 31, 2012 under the 2000 Plan was \$0.

The following table reflects activity under the 2000 Plan for the nine months ended March 31, 2012:

	Options	Weighted average exercise price
Outstanding, July 1, 2011	30,000	\$ 5.03
Granted	--	--
Terminated	--	--
Exercised	--	--
Outstanding, March 31, 2012	30,000	\$ 5.03
Exercisable, March 31, 2012	30,000	\$ 5.03
Weighted average fair value at grant date of options granted	n/a	
Total intrinsic value of options exercised	n/a	
Total intrinsic value of options outstanding	\$ --	
Total intrinsic value of options exercisable	\$ --	

3.) Inventories, net

Inventories, net of reserves are valued at lower of cost (first-in, first-out method) or market. The Company regularly reviews parts and finished goods inventories on hand and, when necessary, records a provision for excess or obsolete inventories. As of March 31, 2012 and June 30, 2011, the balance in this reserve amounted to \$2,534,000. The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

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

	March 31, 2012	June 30, 2011
Component parts	\$ 14,063	\$ 14,014
Work-in-process	4,468	4,452
Finished product	5,741	5,721
	\$ 24,272	\$ 24,187

4.) Earnings (Loss) Per Common Share

Earnings (loss) per common share amounts ("Basic EPS") are calculated by dividing earnings by the weighted average number of common shares outstanding for the period. Earnings (loss) per common share amounts, assuming dilution ("Diluted EPS"), were computed by reflecting the potential dilution from the exercise of stock options. Both Basic EPS and Diluted EPS are presented on the face of the condensed consolidated statements of operations.

A reconciliation between the numerators and denominators of the Basic and Diluted EPS computations for earnings is as follows (in thousands except per share data):

	Three months ended March 31, 2012		
	Net income (numerator)	Shares (denominator)	Per Share Amounts
Basic EPS			
Net income, as reported	\$ 303	19,096	\$ 0.02
Effect of dilutive securities			
Employee Stock Options	--	313	----
Diluted EPS			
Net income, as reported and assumed option exercises	\$ 303	19,409	\$ 0.02

395,750 options to purchase shares of common stock in the three months ended March 31, 2012 were excluded in the computation of Diluted EPS because their inclusion would be anti-dilutive.

Three months ended March 31, 2011

	Net income (numerator)	Shares (denominator)	Per Share Amounts
Basic EPS			
Net income, as reported	\$ 695	19,096	\$ 0.04
Effect of dilutive securities			
Employee Stock Options	--	97	--
Diluted EPS			
Net income, as reported and assumed option exercises	\$ 695	19,193	\$ 0.04

530,750 options to purchase shares of common stock in the three months ended March 31, 2011 were excluded in the computation of Diluted EPS because their inclusion would be anti-dilutive.

Nine months ended March 31, 2012

	Net income (numerator)	Shares (denominator)	Per Share Amounts
Basic EPS			
Net income, as reported	\$ 445	19,096	\$ 0.01
Effect of dilutive securities			
Employee Stock Options	--	157	--
Diluted EPS			
Net income, as reported and assumed option exercises	\$ 445	19,253	\$ 0.01

733,880 options to purchase shares of common stock in the nine months ended March 31, 2012 were excluded in the computation of Diluted EPS because their inclusion would be anti-dilutive.

Nine months ended March 31, 2011

	Net loss (numerator)	Shares (denominator)	Per Share Amounts
Basic EPS			
Net loss, as reported	\$ (282)	19,096	\$ (0.01)
Effect of dilutive securities			
Employee Stock Options	--	--	--
Diluted EPS			
Net loss, as reported and assumed option exercises	\$ (282)	19,096	\$ (0.01)

1,410,140 options to purchase shares of common stock in the nine months ended March 31, 2011 were excluded in the computation of Diluted EPS because their inclusion would be anti-dilutive.

5.) Long Term Debt

As of March 31, 2012 and June 30, 2011, long-term debt consisted of a revolving credit loan facility of \$11,100,000, of which \$8,600,000 was outstanding as of March 31, 2012 and June 30, 2011, as well as a term loan with a remaining

balance of \$12,498,000 and \$15,177,000 as of March 31, 2012 and June 30, 2011, respectively, as described further below. The term loan is being repaid in 19 quarterly installments of \$893,000 each which commenced in December 2008, and a final payment of \$8,033,000 due in August 2013. The revolving line of credit expires in August 2012 and any outstanding borrowings are to be repaid or refinanced on or before that time.

The Company intends to extend the revolving line of credit and the term loan prior to the expiration dates and has signed a term sheet relating to an extension with its primary bank in May 2012. However, because there is no guarantee that this agreement will close, the revolving credit loan has been classified as a current liability until such time that the Company consummates a renewal or extension of the facility because the expiration date currently falls within one year of the balance sheet date of March 31, 2012.

Outstanding balances and interest rates as of March 31, 2012 and June 30, 2011 are as follows:

	March 31, 2012		June 30, 2011	
	Outstanding	Interest Rate	Outstanding	Interest Rate
Revolving line of credit	\$ 8,600	4.87 %	\$ 8,600	4.82 %
Term loan	12,498	4.86 %	15,177	4.82 %
Total debt	\$ 21,098	4.86 %	\$ 23,777	4.82 %

On October 28, 2010, the Company entered into a Second Amended and Restated Credit Agreement Dated as of October 28, 2010 among the Company, as the Borrower, Capital One, N.A., as a Lender and HSBC Bank USA, National Association as Lender, Administrative Agent and Collateral Agent (the "Second Amended Agreement"). The Second Amended Agreement amended and restated the previous term loan and revolving credit facility and provides for a term loan of \$16,070,000 and a revolving credit facility of \$11,100,000. The Second Amended Agreement also provides for a LIBOR interest rate option of LIBOR plus 4.5% in addition to the existing prime option of prime plus 4.0%. The Company's obligations under the Second Amended Agreement continue to be secured by the Company's headquarters in Amityville, New York, certain other assets and the common stock of the Company's wholly-owned subsidiaries.

6.) 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 a major concentration in the United States.

The following represents selected consolidated geographical data for the three and nine months ended March 31, 2012 and 2011 (in thousands):

	Three Months ended March 31,		Nine Months ended March 31,	
	2012	2011	2012	2011
Sales to external customers(1):				
Domestic	\$ 16,423	\$ 16,688	\$ 48,330	\$ 47,550
Foreign	813	1,072	2,726	3,145
Total Net Sales	\$ 17,236	\$ 17,760	\$ 51,056	\$ 50,695
	As of			
	March 31,	June 30, 2011		
Identifiable assets:	2012			
United States	\$ 49,311	\$ 54,426		
Dominican Republic (2)	14,182	14,342		
	--	27		

Other foreign countries

Total Identifiable Assets	\$	63,493	\$	68,795
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(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. There were no sales into any one foreign country in excess of 10% of Net Sales.

(2) Consists primarily of inventories (\$10,090,000 and \$9,995,000) and fixed assets (\$3,987,000 and \$4,189,000) located at the Company's principal manufacturing facility in the Dominican Republic as of March 31, 2012 and June 30, 2011, respectively.

7.) Commitments and Contingencies

In the normal course of business, the Company is a party to claims and/or litigation. Management believes that the resolution 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.

8.) Income Taxes

The provision for income taxes represents Federal, foreign, and state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes, tax rates in foreign jurisdictions, tax benefit of R&D credits and certain nondeductible expenses. Our effective tax rate will change from quarter to quarter based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, and state and local income taxes. In addition, changes in judgment from the evaluation of new information resulting in the recognition, de-recognition or re-measurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

The Company does not expect that our unrecognized tax benefits will significantly change within the next twelve months. We file a consolidated U.S. income tax return and tax returns in certain state and local and foreign jurisdictions. As of March 31, 2012 we remain subject to examination in all tax jurisdictions for all relevant jurisdictional statutes for fiscal years 2007 and thereafter.

The Company has identified its U.S. Federal income tax return and its State return in New York as its major tax jurisdictions. During the nine months ended March 31, 2012 the Company decreased its reserve for uncertain income tax positions by \$45,000. As a result, as of March 31, 2012 and June 30, 2011 the Company has a long-term accrued income tax liability of \$120,000 and \$165,000, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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 5% and 6% of our revenues for the nine months ended March 31, 2012 and 2011, respectively.

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

The security products market is characterized by constant incremental innovation in product design and manufacturing technologies. Generally, the Company devotes 6-8% of revenues to research and development (R&D) on an annual basis. The Company does not expect products resulting from our R&D investments in fiscal 2012 to contribute materially to revenue during this fiscal year, but should benefit the Company over future years. In general, the new products introduced by the Company are initially shipped in limited quantities, and increase over time. Prices and manufacturing costs tend to decline over time as products and technologies mature.

Economic and Other Factors

Since October 2008, the U.S. and international economies have experienced a significant downturn and continue to be very volatile. In the event that the downturn in the U.S. or international financial markets continues at these levels or worsens, our revenue, profit and cash flow levels could be materially adversely affected in future periods. This could affect our ability to maintain adequate financing. If the current worldwide economic downturn continues at these levels or worsens, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us.

Seasonality

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

Critical Accounting Policies and Estimates

The Company's significant accounting policies are fully described in Note 1 to the Company's consolidated financial statements included in its June 30, 2011 Annual Report on Form 10-K. Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

Revenues from merchandise sales are recorded at the time the product is shipped or delivered to the customer pursuant to the terms of sale. 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 other 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, rebates and allowances were 6% and 7% for the nine months ended March 31, 2012 and 2011, respectively.

Inventories

Inventories are valued at the lower of cost or fair market value, with cost being determined on the first-in, first-out (FIFO) method. The reported net value of inventory includes finished saleable products, work-in-process and raw materials that will be sold or used in future periods. Inventory costs include raw materials, direct labor and overhead. The Company's overhead expenses are applied based, in part, upon estimates of the proportion of those expenses that are related to procuring and storing raw materials as compared to the manufacture and assembly of finished products. These proportions, the method of their application, and the resulting overhead included in ending inventory, are based in part on subjective estimates and actual results could differ from those estimates.

In addition, the Company records an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends, requirements to

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

Income Taxes

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

Results of Operations

	Three months ended March 31, (dollars in thousands)			Nine months ended March 31, (dollars in thousands)				
	2012	2011	% Increase/ (decrease)	2012	2011	% Increase/ (decrease)		
Net sales	\$ 17,236	\$ 17,760	(3.0)%	\$ 51,056	\$ 50,695	0.7 %		%
Gross profit	5,064	5,513	(8.1)%	14,115	13,626	3.6 %		%
Gross profit as a % of net sales	29.4 %	31.0 %	(5.2)%	27.6 %	26.9 %	2.6 %		%
Selling, general and administrative	4,375	4,856	(9.9)%	12,673	13,155	(3.7)%		%
Selling, general and administrative as a percentage of net sales	25.4 %	27.3 %	(7.0)%	24.8 %	25.9 %	(4.2)%		%
Operating income	689	657	4.9 %	1,442	471	206.2 %		%
Interest expense, net	287	328	(12.5)%	889	1,333	(33.3)%		%
Other expense	15	13	15.4 %	42	41	2.4 %		%
Provision (benefit) for income taxes	84	(379)	122.2 %	66	(621)	110.6 %		%
Net income (loss)	303	695	(56.4)%	445	(282)	257.8 %		%

Sales for the three months ended March 31, 2012 decreased by 3% to \$17,236,000 as compared to \$17,760,000 for the same period a year ago. Sales for the nine months ended March 31, 2012 increased by 1% to \$51,056,000 as compared to \$50,695,000 for the same period a year ago. The decrease in sales for the three months was primarily due to decreased sales in the Company's Marks (\$791,000) and Alarm Lock (\$336,000) door-locking products as partially offset by a increases in the Company's intrusion (\$416,000) and access control (\$187,000) products. The increase in sales for the nine months was primarily due to increased sales in the Company's intrusion products (\$965,000), access control products (\$369,000) and Alarm Lock door-locking products (\$985,000) as partially offset by a decrease in the Marks door-locking products (\$1,958,000).

Gross profit for the three months ended March 31, 2012 decreased to \$5,064,000 or 29.4% of sales as compared to \$5,513,000 or 31.0% of sales for the same period a year ago. Gross profit for the nine months ended March 31, 2012 increased to \$14,115,000 or 27.6% of sales as compared to \$13,626,000 or 26.9% of sales for the same period a year ago. The decrease in Gross profit in dollars and as a percentage of sales for the three months was primarily due to an unfavorable product mix as well as the decrease in net sales. The increase in Gross profit in dollars and as a percentage of sales for the nine months was primarily due to the increases in sales described above as well as the Company reducing its overhead expenditures.

Selling, general and administrative expenses for the three months ended March 31, 2012 decreased by \$481,000 to \$4,375,000, or 25.4% of sales, as compared to \$4,856,000, or 27.3% of sales a year ago. Selling, general and administrative expenses for the nine months ended March 31, 2012 decreased by \$482,000 to \$12,673,000, or 24.8% of sales, as compared to \$13,155,000, or 25.9% of sales a year ago. The decrease in Selling, general and administrative expenses for the three months was due primarily to reductions in legal and other professional fees as well as the consolidation of the Company's European warehouse and sales office into its corporate headquarters in New York.

Interest expense, net for the three months ended March 31, 2012 decreased by \$41,000 to \$287,000 as compared to \$328,000 for the same period a year ago. Interest expense, net for the nine months ended March 31, 2012 decreased by \$444,000 to \$889,000 as compared to \$1,333,000 for the same period a year ago. The decrease in interest expense for the three and nine months ended March 31, 2012 resulted from lower interest rates charged by the Company's banks as well as lower outstanding debt in the current period.

The Company's provision for income taxes for the three months ended March 31, 2012 increased by \$463,000 to a provision of \$84,000 as compared to a benefit of \$379,000 for the same period a year ago. The Company's provision for income taxes for the nine months ended March 31, 2012 increased by \$687,000 to \$66,000 as compared to a benefit of \$621,000 for the same period a year ago. The changes in the provision for income taxes were caused by the tax benefit recognized in the third quarter of last year as a result of R&D credits relating to prior years as well as the change in the proportion of the income before income taxes being generated by the Company's U.S. operations to the loss being generated by non-taxable foreign operations in the three and nine months ended March 31, 2012 as compared to the same periods a year ago. As a result, the Company's effective rate for income tax was 22% and (120)% for the three months ended March 31, 2012 and 2011, respectively, and 13% and 69% for the nine months ended March 31, 2012 and 2011, respectively.

Net income decreased by \$392,000 to \$303,000 or \$0.02 per diluted share for the three months ended March 31, 2012 as compared to \$695,000 or \$0.04 per diluted share for the same period a year ago. Net income increased by \$727,000 to \$445,000 or \$0.02 per diluted share for the nine months ended March 31, 2012 as compared to a net loss of \$(282,000) or \$(0.01) per diluted share for the same period a year ago. The change for the three and nine months ended March 31, 2012 was primarily due to the items as described above.

Liquidity and Capital Resources

During the nine months ended March 31, 2012 the Company utilized all of its cash from operations (\$3,029,000) and a portion of its cash on hand at June 30, 2011 (\$80,000 of \$3,077,000) to repay outstanding debt (\$2,679,000) and purchase property, plant and equipment (\$430,000). The Company believes its current working capital, cash flows from operations and its revolving credit agreement, which the Company anticipates renewing before its expiration in August 2012, will be sufficient to fund the Company's operations through the next twelve months.

Accounts Receivable at March 31, 2012 decreased \$3,903,000 to \$13,737,000 as compared to \$17,640,000 at June 30, 2011. This decrease is primarily the result of the lower sales volume during the quarter ended March 31, 2012 as compared to the quarter ended June 30, 2011, which is typically the Company's highest.

Inventories at March 31, 2012 remained relatively constant at \$24,272,000 as compared to \$24,187,000 at June 30, 2011.

As of March 31, 2012, long-term debt consisted of a revolving credit loan facility of \$11,100,000, of which \$8,600,000 was outstanding as of March 31, 2012, as well as a term loan with a remaining balance of \$12,498,000, as described further below. The term loan is being repaid in 19 quarterly installments of \$893,000 each which commenced in December 2008, and a final payment of \$8,033,000 due in August 2013. The revolving line of credit expires in August 2012 and any outstanding borrowings are to be repaid or refinanced on or before that time. The Company intends to extend the revolving line of credit and the term loan prior to the expiration dates and has signed a term sheet relating to an extension with its primary bank in May 2012. However, the revolving credit loan has been classified as a current liability until such time that the Company consummates a renewal or extension of the facility because the expiration date currently falls within one year of the balance sheet date of March 31, 2012.

On October 28, 2010, the Company entered into a Second Amended and Restated Credit Agreement Dated as of October 28, 2010 among the Company, as the Borrower, Capital One, N.A., as a Lender and HSBC Bank USA, National Association as Lender, Administrative Agent and Collateral Agent (the "Second Amended Agreement"). The Second Amended Agreement amended and restated the previous term loan and revolving credit facility and provides for a term loan of \$16,070,000 and a revolving credit facility of \$11,100,000. The Second Amended Agreement also provides for a LIBOR interest rate option of LIBOR plus 4.5% in addition to the existing prime option of prime plus 4.0%. The Company's obligations under the Second Amended Agreement continue to be secured by the Company's headquarters in Amityville, New York, certain other assets and the common stock of the Company's wholly-owned subsidiaries.

As of March 31, 2012 the Company had no material commitments for capital expenditures or inventory purchases other than purchase orders issued in the normal course of business.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

The Company's principal financial instrument is long-term debt (consisting of a revolving credit facility and term loan) that provides for interest based on the prime rate or LIBOR as described in the agreement. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under this credit facility. At March 31, 2012, an aggregate principal amount of approximately \$21,098,000 was outstanding under the Company's credit facility with a weighted average interest rate of approximately 4.86%. If principal amounts outstanding under the Company's credit facility remained at this level for an entire year and the interest rate increased or decreased, respectively, by 1% the Company would pay or save, respectively, an additional \$211,000 in interest that year.

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

ITEM 4: Controls 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 March 31, 2012, 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 at March 31, 2012.

During the third quarter of fiscal 2012, there were no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II: OTHER INFORMATION

Item Risk Factors
1A.

Information regarding the Company's Risk Factors are set forth in the Company's Annual Report on Form 10-K for the year ended June 30, 2011. There have been no material changes in the risk factors previously disclosed in the Company's Form 10-K for the year ended June 30, 2011 during the three months ended March 31, 2012.

Item Exhibits
6.

31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Richard L. Soloway, Chairman of the Board and President
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Kevin S. Buchel, Senior Vice President of Operations and Finance
32.1	Section 1350 Certifications
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*

* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for the purposes of section 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities and Exchanges Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

May 14, 2012

NAPCO SECURITY TECHNOLOGIES, INC.

(Registrant)

By: /s/ RICHARD L. SOLOWAY

Richard L. Soloway

Chairman of the Board of Directors, President and

Secretary

(Chief Executive Officer)

By: /s/ KEVIN S. BUCHEL

Kevin S. Buchel

Senior Vice President of Operations and Finance and

Treasurer

(Principal Financial and Accounting Officer)