2023 ANNUAL REPORT

Threat-Level, Access Control & Security Management

Hosted Services & Rapidly Expanding Recurring Revenue

Lockdown & School Safety Solutions

Cellular and Cloud-Based Security & Communications

Commercial Fire Life Safety

Making Smarter Security Solutions for Today's World

NAPCO SECURITY TECHNOLOGIES, INC.

NASDAQ:NSSC

NAPCO Security Technologies, Inc.

Making Smarter Security Solutions for Today's World

NAPCO Security Technologies, Inc is one of the leading manufacturers and designers of high-tech electronic security devices, cellular communication services for intrusion and fire alarm systems as well as a leading provider of school safety solutions. We offer a diversified array of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. We have experienced significant growth in recent years, primarily driven by fast growing recurring service revenues generated from wireless communication services for intrusion and fire alarm systems, as well as our school security products that are designed to meet the increasing needs to enhance school security as a result of on-campus shooting and violence in the U.S.

Since 1969, NAPCO has established a heritage and proven record in the professional security community for reliably delivering both advanced technology and high-quality security solutions, building many of the industry's widely recognized brands, such as NAPCO Security Systems, Alarm Lock, Continental Access, Marks USA, and other popular product lines,, *including our StarLink, Gemini, FireLink, Napco Access, Trilogy & ArchiTech product lines.* Today, millions of businesses, institutions, homes, and people around the globe are protected by products from the NAPCO Group of Companies.

Access Control – NAPCO offers integrated and standalone ultra-scalable access control systems and top-rated Alarm Lock & Marks USA advanced, architectural locking hardware. Integrating both, AirAccess cell- & cloud-based access system, powered by StarLink cellular communications, for auto-networking, supports online locks or standard ID readers, in this ACaaS (Access Control as a Service). Gaining increasing traction, its flat rate monthly fee is very attractive to security & locking pros, as well as their accounts. It benefits the consumer with a lower upfront cost and provides the hosting dealer, and the Company, recurring revenue. NAPCO also has a growing range of access systems and controllers, from web-browser-based self-contained NAPCO E-Access Embedded Access Control Platform to comprehensive Continental Enterprise Systems with integrated threat-level management, elevator control, time & attendance, lockdown, IP video, VMS & gun shot detection options; all offered under the all-new Napco Access Pro Dealer Program umbrella.

Commercial Fire – NAPCO continues to build on its roadmap for expanding its increasingly popular commercial fire systems, fire communicators and devices. Its integrated FireLink Line of Cellular Fire Alarm Control Unit (FACUs), including Firewolf Fire Panels & Devices, Conventional & Addressable FireLink™ Integrated FACUs from 8-255 Points with built-in StarLink® Fire Communicator and LCD Touchpad onboard, made even more convenient for installation or maintenance, with cloud programming from technicians' IOS or Android smart devices. Undoubtedly, FireLink sales have benefited greatly by leveraging NAPCO's top-rated StarLInk Fire Cellular Communicators, continuing to lead the market segment, and now offered in both the US and Canada, in new StarLink Fire MAX models for 5G LTE-M fire alarm communications, incorporating both sole or dual-path options in one end-to-end UL Listed Fire Solution.

Intrusion & Video – Designed for universal support of new and existing security systems, NAPCO's original StarLink, StarLink Connect & new StarLink MAX Communicators have likewise become a dealer favorite, pairing labor-saving options and proven performance of its patent-pending antenna design. Available for new or retrofit applications, reporting to all central monitoring stations, they provide the Company the widest possible installed base of systems and recurring revenue. NAPCO's own Gemini Intrusion Alarm Systems, ranging from 8 to 255 zones, continue to offer more features, plus a growing choice of services, including Gemini-Touch Security Touchscreen, and integrated web-browser based access control and video options. Its Gemini Security/Video/Access App controls all in a single intuitive interface, and makes new and existing security system-upgrades more attractive to today's savvy, phone-centric consumers. Also for video, and supporting its HD Cameras and doorbell, NAPCO offers a standalone App plus 12-mos. cloud-based video storage & access, and local onsite storage.

Architectural Locking Hardware - Known for longevity, durability & low maintenance, sales of the Company's two award-winning locking lines have grown steadily with their adoption at more leading schools, school districts, healthcare providers, institutions and corporate offices, i.e., these looking for general security, emergency lock-down capability and/or design-integration with planned, existing and iconic building décor. Marrying the mechanical and standalone locking products with electronic security networks has enabled the Company to offer the convenience of keyfob control or keyless mobile App credentials; plus, in a crisis or active-shooter situation, networked models provide instant lock-down campus-wide for safety & security. Alarm Lock's access locks can be remotely managed by NAPCO's AirAccess®, E-Access, and Continental's CA4K platform, as well as those of other manufacturers. Likewise, Marks USA products have enjoyed considerable new sales growth and capability, having been integrated and/or incorporated into several new domestic and international OEM manufacturers' building management platforms.

NASDAQ:NSSC

CEO Letter to Shareholders

Dear Fellow Shareholders,

Fiscal 2023 was another outstanding year for NAPCO, highlighted by record revenues and profitability, largely the result of a significant rise in hardware-enabled solutions that deliver recurring service revenue ("RSR") as well as the strength of our locking businesses.

For Fiscal Year 2023 ("FY2023"), net sales increased 18% to a record $170 million. Net income for FY2023 increased 38% to a record $27.1 million. Earnings per share (diluted) increased 38% to $0.73 in FY2023 or 16% of net sales. Adjusted EBITDA* increased 52% to a record $34.3 million or $0.93 per diluted share during FY2023, which equates to an Adjusted EBITDA margin of 20%.

Record revenue and profitability were reflected in a strengthening balance sheet. Our current ratio (defined as current assets divided by current liabilities) was 6.7:1 as of June 30, 2023. Cash and cash equivalents, other investments and marketable securities rose 43% to $66.7 million at June 30, 2023. Cash Provided by Operating Activities grew by 198% to $24.7 million for the twelve months ending June 30, 2023.

On the basis of strong financial performance combined with no debt, the Company began issuing quarterly dividends this past fiscal year, rising to $0.08 per share for shareholders of record on September 1, 2023, a 28% increase from the initial dividend.

See table on inside back cover (page 67)

Recurring Service Revenue is a primary focus

NAPCO's strong financial performance was largely due to the continued expansion of our Cloud-based RSR technologies that generate steady recurring monthly revenue.

RSR for FY2023 increased 30% to $59.9 million, reaching an annual run rate of $67 million based on July 2023 revenues. The gross margin for RSR was 89% for the fiscal year ending June 30 2023.

The growth driver for RSR has been our Starlink line of cellular radios that deliver Cloud-based connectivity to commercial and residential customers. Starlink is especially crucial to commercial applications, which represent roughly 80% of our business. The commercial sector is in the midst of a multi-decade growth cycle based on mandated, non-discretionary expenditures required for the annual renewal of certificates of occupancy and fire code compliance.

RSR business expansion was further aided by the mandated replacement of legacy 3G and CDMA cellular-based communications with 4G and 5G technologies. In addition, sales of our commercial fire alarm systems benefited from Verizon and AT&T no longer supporting legacy POTS ("Plain Old Telephone Service") copper telephone landlines.

To support the continued shift towards an RSR-based business model, we employ over 50 design and electrical engineers who focus on new product innovation. Our engineering team is supported with data centers located at our headquarters in Amityville, NY and at a remote and secure location.

Richard L. Soloway
Chairman, President, and CEO

Each year, approximately 5-6% of NAPCO's annual revenue is reinvested into new product development. This ongoing investment has earned NAPCO dozens of patents for award-winning products and proprietary trade secrets that protect our intellectual property and competitive strengths.

Other areas of dynamic growth

NAPCO offers fully integrated solutions across all three verticals - alarms & connectivity; locking; and access control - and is uniquely positioned to benefit from multiple opportunities that offer significant white space for future expansion. These growth areas include: school and campus security; retail theft; and the rise of innovative IoT Cloud-based products and services.

A major focus of our business continues to be the school and campus security market, where NAPCO remains well positioned with advanced, fully integrated and interoperable technologies that are installed and maintained by leading systems integrators. These experts specialize in the education market, offering multi-tiered solutions that encompass lockdown devices, alarms, door access, enterprise access control and video. Working closely with these market-focused professionals, NAPCO has developed strong relationships with prestigious institutions such as Pepperdine University and large K-12 school districts such as the Houston Independent School District.

With 131,000 K-12 schools and 5,300 colleges and universities throughout the U.S., there is significant untapped potential within this market. In particular, school administrators are seeking solutions to combat the growing threat of active shooters. For example, the University of Arizona recently installed over 700 Trilogy electronic locks in response to the murder of a professor by a former student. NAPCO is responding with cost-effective, robust and fully integrated solutions.

At the same time, we are seeing a dramatic rise in retail looting endangering both employees and customers. As a result of this growing threat, retail businesses of all sizes are making strategic investments in professional grade equipment to enhance store security 24/7.

On a broader scale, IoT Cloud-based technologies are reshaping the future of the entire security industry. Both residential and commercial customers are demanding advanced security systems that are intelligent, intuitive, and feature-rich. As IoT Cloud-based platforms continue to evolve, NAPCO is well positioned for the future of wireless connectivity.

Cost-effective manufacturing

Gross margins on hardware sales were 18% for FY2023, largely attributable to higher costs for material and freight, driven by the effects of the supply chain crisis. By the fourth quarter of FY2023 we began to see these higher costs decrease, returning to more normalized levels. As a result of this recent development as well as the strength of the higher margin Alarm Lock and Marks locking product lines, the gross margin in Q4 of FY2023 increased to 30%. This bodes well as we enter into FY2024.

While sales of radio-based products have moderated compared to the prior year when the 3G Verizon sunset was approaching, radio-based products still represent roughly 20% of our total hardware sales. Once installed, radio-based hardware products generate consistent recurring monthly income. In FY2024, we expect radio-based products to remain a key contributor to our hardware sales and a gateway to further growing our RSR business.

Rising hardware sales also serve to increase overhead absorption rates at our ISO-9001 certified low-cost manufacturing facility located in the Dominican Republic ("DR"). This dedicated facility is 100% vertically integrated, and has the capacity to produce up to $300 million in hardware annually with faster product delivery times (6 days on the water) versus the risks and shipping delays somewhat common with Chinese-made products.

This facility was recently upgraded at the end of FY2023 with a multi-million dollar investment to install a state-of-the-art surface mount technology (SMT) process assembly line capable of producing ultra-miniaturized components at speeds up to 3X faster than ever before. In addition, while the supply chain crisis has been largely resolved, it did come with a silver lining as we were among the few security industry manufacturers who were able to supply products with minimal disruption. This advantage enabled us to gain business from some of the largest security dealers in the industry.

Looking ahead

I believe that NAPCO has a bright future in a world that is becoming increasingly insecure, threatening all aspects of society, from homeowners and renters to retail businesses, commercial buildings, large corporate campuses and facilities, as well as religious, educational, and government institutions.

NAPCO is poised to benefit from these historic opportunities with an unrivaled array of products and services spanning all three security industry verticals: alarms & connectivity; locking; and access control. We believe that there is significant opportunity for growth across all four of our product brands: NAPCO; Alarm Lock; Marks; and Continental Access. Our long-term goal is to reach $150 million in annual revenue from monthly monitoring services along with another $150 million in annual revenue from equipment sales with RSR potential.

To achieve this long-term objective, we will continue to rely upon a dedicated team of over 1,000 employees who are working in close partnership with a long-established network of 200+ distributors, 10,000+ independent dealers and locksmiths, and 2,000+ systems integrators. In fact, we just added a large security distributor with 115 locations to expand our nationwide distribution network to installing dealers. Such a loyal distribution channel provides us with the strategic advantage of having a large and immediate feedback loop for new product development. This feedback loop leads to advanced protection solutions that are faster and easier to install, user friendly and feature-rich, and which synergistically employ the full suite of NAPCO products that are compatible with legacy systems and competing brands.

Our strengthening balance sheet is advantageous as it provides us with the flexibly to operate debt-free with marginal added expense required to increase production at our low-cost, ISO-certified manufacturing facility in the Dominican Republic. This in-house manufacturing capability enables us to quickly respond to changing market conditions and remain opportunistic to quickly introduce new cutting edge solutions with RSR potential.

As always, our senior management team remains closely aligned with fellow shareholders in seeking to extend our record-breaking financial performance for the betterment of our shareholders. We will continually strive to achieve our long-term objectives through product innovation, technical superiority, cost competitiveness, outstanding customer and technical services, and enduring relationships with our distribution channel partners and over 12,000 installing dealers and integrators who buy our products from these distributors.

Taking all this into consideration, we will seek to further increase our sales and profitability in FY2024 and beyond.

Sincerely,

Richard Soloway

Richard L. Soloway
Chairman, President, and CEO

*Non-GAAP Financial Measures

Certain non-GAAP measures are included in this annual report, including non-GAAP operating income and Adjusted EBITDA. We define Adjusted EBITDA as GAAP net income plus income tax expense, net interest expense, non-cash stock-based expense and depreciation and amortization expense. Non-GAAP operating income does not include amortization of intangibles or stock-based compensation expense. These non-GAAP measures are provided to enhance the user's overall understanding of our financial performance. By excluding these charges our non-GAAP results provide information to management and investors that is useful in assessing NAPCO's core operating performance and in comparing our results of operations on a consistent basis from period to period. Our use of non-GAAP financial measures has certain limitations in that such non-GAAP financial measures may not be directly comparable to those reported by other companies. For example, the terms used in this press release, such as Adjusted EBITDA, do not have a standardized meaning. Other companies may use the same or similarly named measures, but exclude different items, which may not provide investors with a comparable view of our performance in relation to other companies. The presentation of this information is not meant to be a substitute for the corresponding financial measures prepared in accordance with generally accepted accounting principles. Investors are encouraged to review the reconciliation of GAAP to non-GAAP financial measures set forth on page 67 of this document.

This letter contains statements relating to future results of the Company (including certain projections and business trends) that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to, changes in political and economic conditions, demand for and market acceptance of new and existing products, as well as other risks and uncertainties detailed from time to time in the filings of the Company with the Securities and Exchange Commission.

Trademarks of NAPCO: NAPCO, NAPCO Access Pro, NAPCO Commercial, StarLink, StarLink Fire MAX, Starlink Connect, FireLink, FirstNet, iSecure, AirAccess, Trilogy, Trilogy Networx, ArchiTech, LocDown, CA4K, Alarm Lock, Marks USA, ContinentalAccess, Gemini, Gemini-Touch, ArchiTech, SAVI

Trademarks of their respective companies: FirstNet Ready™, AT&T, Verizon, Control4, NASDAQ, iOS, Android

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended June 30, 2023

or

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition period from _ to___

Commission File Number 0-10004

NAPCO SECURITY TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	11-2277818
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer I.D. Number)*
333 Bayview Avenue, Amityville, New York	11701
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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, 2022, 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 $837,189,247.

As of September 7, 2023, 36,734,482 shares of common stock of Registrant were outstanding.

PART I

ITEM 1: BUSINESS.

Overview

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

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

Our net sales were $170.0 million, $143.6 million and $114.0 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. The change in our net sales was driven primarily from increased sales of our recurring services ($14.0 million) and sales of equipment ($12.5 million) as compared to the same period a year ago. The increase in equipment sales was due primarily to the increased demand for the Company's door-locking products. Our net income was $27.1 million, $19.6 million and $15.4 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. The increases in net income during this period were due primarily to the growth of our cellular products and the associated recurring service revenues which generated a gross margin of 89% in fiscal 2023.

Our Products and Services

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

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

Door Security Products.

The Company manufactures a variety of door locking devices including microprocessor-based electronic door locks with push button, card reader and bio-metric operation, door alarms, mechanical door locks and simple dead bolt locks. These devices may control a single door or, in the case of some of the Company's microprocessor-based door locks, may be networked with the Company's access control systems and controlled remotely.

Intrusion and Fire Alarm Systems.

Alarm systems usually consist of various detectors, a control panel, a digital keypad and signaling equipment. When a break-in occurs, an intrusion detector senses the intrusion and activates a control panel via hard-wired or wireless transmission that sets off the signaling equipment and, in most cases, causes a bell or siren to sound. Communication equipment such as a cellular or digital communicator may be used to transmit the alarm signal to a central station or another person selected by a customer. Cellular communicators have become more popular and panels and communicators are trending towards integration so that many alarm panels will contain an integrated cellular communication device.

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

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

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

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

- *Combination Control Panels/Digital Communicators and Digital Keypad Systems.* A combination control panel, digital communicator and a digital keypad has continued to be the leading configuration in terms of dealer and consumer preference. Benefits of the combination format include the cost efficiency resulting from a single microcomputer function, as well as the reliability and ease of installation gained from the simplicity and sophistication of micro-computer technology.

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

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

Recurring Cellular Communication Services.

The Company provides cellular access for the cellular communication devices described above. These services are provided and invoiced to the Company's service customers on a month to month basis. Revenues from these services have grown significantly over the past several years, increasing 77% from fiscal 2021 to fiscal 2023. These revenues, which currently have a gross margin of approximately 89% for the fiscal year ended June 30, 2023, represent approximately 35% of our total revenue for the fiscal year ended of June 30, 2023. The Company's long-term goal is to have recurring revenues from these services represent at least 50% of total revenue.

Access Control Systems.

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

Video Surveillance Systems.

Video surveillance systems typically consist of one or more video cameras, a control panel and a video monitor or PC. More advanced systems can also include a recording device and some type of remote communication device such as an internet connection to a PC or browser-enabled cell phone. The system allows the user to monitor various locations at once while recorders save the video images for future use. Remote communication devices can allow the user to view and control the system from a remote location. The Company designs, engineers, and markets the software and control panels discussed above. It also buys and resells various video cameras, PC-based computers and peripheral equipment for video surveillance systems.

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

Peripheral Equipment

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

Our Growth Drivers

Recurring Revenue Business

In 2012, we began to generate recurring revenue by developing our cellular radio technology. Since then, we have continued to introduce additional products generating recurring revenues, primarily in the cellular communication devices such as our StarLink, iBridge, and more recently the iSecure product lines. These products are installed at the premises of end customers and we generate revenue from the installers by both the upfront purchase of our products and the monthly subscription fees for services we perform at our cloud-based operations center to communicate security breaches and fire alarms to a central station. The monthly recurring revenue allows us to generate a more consistent and predictable stream of income and mitigates the risk of fluctuation in market demand for our equipment products. In addition, these monthly services generate higher gross margin, which has the effect of improving our profitability. We believe there is a significant market opportunity for these products and services, because many commercial and residential customers prefer to purchase real-time security monitoring services to ensure continuous protection and swift responses to security breaches and fire alarms.

We also experienced accelerating growth in our recurring revenue from sales of fire radio products. In the past few years, we introduced several Starlink fire radio solutions, including a Starlink dual path radio that can utilize cellular or internet technologies for their communication function. Dual path radios are required by local fire codes in certain areas such as New York City or L.A. County. A third fire radio was introduced during fiscal 2019 in the form of a Firelink fire panel with a Starlink fire radio built into it. In general, the gross margin for fire radio products is higher than the other Starlink solutions. The sales of fire radio products have contributed positively to our gross margin during the fiscal year ended June 30, 2023. We expect that fire radio products will continue to be an increasing portion of the overall mix of our recurring revenue and positively impact our gross margin.

We intend to continue pursuing recurring revenue opportunities by developing new and innovative products and continuing our aggressive sales and marketing efforts. For the fiscal year ended June 30, 2023, our recurring revenue constituted approximately 35% of our total revenue.

School Security and Public Safety

We have developed products to help address security concerns arising from the significant need for increased security in schools and other public spaces. In the U.S., there are over 100,000 K-12 schools, over 5,000 colleges and universities and over 350,000 houses of worship. Management estimates that less than 10% of these institutions have adequate protection from an active shooter or intruder. As a result of increased “active shooter” incidents, a number of U.S. states and local governments have substantially increased school security budgets. Many colleges and universities have large endowments which are starting to be utilized to address this critical issue. Security equipment and services focused on education has reached over $3 billion in revenues and this segment is still in the early stages as many K-12 schools, colleges and universities have still not addressed this issue.

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

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

Competitive Strengths

The security products industry is highly competitive. The Company's primary competitors are comprised of approximately 12 other companies that manufacture and market security equipment to distributors, dealers, central stations and original equipment manufacturers. The Company believes that none of these competitors is dominant in the industry. Most of these companies have substantially greater financial and other resources than the Company. However, unlike the Company, we believe that none of these competitors manufactures all key building security products: Intrusion Alarms and Access Control, Connectivity, and Locking devices. As more security installations include multiple security-related systems, which can include, intrusion, fire, access control, door-locking and connectivity, there is more demand for the various systems to communicate with each other. By having everything manufactured under one roof, we can offer customers one integrated platform solution without the risk of incompatible equipment from multiple vendors to “talk” to each other.

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

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

The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into, its products. The Company also competes by offering technical support services to its customers. In addition, the Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide products to customers on a timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business.

Our Strategy

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

Research and Development

The success of the Company's business depends substantially on its ability to develop new and proprietary technology and products. The research and development ("R&D") costs incurred by the Company are charged to expense as incurred and are included in "Operating expenses" in the consolidated statements of operations. During the fiscal years ended June 30, 2023, 2022 and 2021, the Company expended approximately $9,328,000, $8,024,000 and $7,620,000, respectively, on research and development activities conducted primarily by its engineering department to develop and improve the products. The Company intends to continue to conduct a significant portion of its future research and development activities internally.

Our Human Capital Resources

As of June 30, 2023, the Company had 1,150 full-time employees. 257 of these were located in the United States ("U.S.") and 893 were located at our manufacturing facility in the Dominican Republic ("DR"). 38 of our U.S. employees are covered by a collective bargaining agreement. We also engage consultants from time to time. Management considers its relationship with its employees to be very good.

Hiring, motivating and retaining talented employees is an ongoing priority to NAPCO. Maintaining a talented workforce at all levels is critical to our ability to deliver high quality products and services to our customers as well as maintain shareholder value.

In order to maintain a high level of talent in our workforce, NAPCO offers comprehensive benefits programs, competitive wages, incentive programs, performance reviews and various employee activities and awards. We also provide training and management support for employees to enhance their success and to identify outstanding talent and development opportunities.

Government Regulation

Our business and products are subject to various federal, state, local and international regulatory authorities and the regulatory authorities in the countries in which our products are produced or sold. Compliance with these laws and regulations has not had and is not expected to have a material adverse effect on the Company, including capital expenditures for environmental compliance, or on its earnings or competitive position.

Marketing

The Company's staff of approximately 59 sales and marketing support employees located at the Company's Amityville offices sells and markets our products primarily to independent distributors, wholesalers and dealers of security alarm and security hardware equipment. The Company currently has approximately 9,000 customers made up of distributors, installing dealers and wholesalers who purchase our products from distributors or directly from the Company. The Company's sales representatives periodically contact existing and potential customers to introduce new products and create demand for those as well as other Company products. These sales representatives, together with the Company's technical personnel, provide training and other services to wholesalers and distributors so that they can better service the needs of their customers. In addition to direct sales efforts, the Company advertises in technical trade publications and participates in trade shows in major United States cities.

Seasonality

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of the Company's hardware products want to install these products prior to the summer; therefore, sales of these products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand for all of our products may be affected by the housing and construction markets. Deterioration of the current economic conditions may also affect this trend. The monthly recurring revenue, which is less susceptible to these fluctuations, allows us to generate a more consistent and predictable stream of income and mitigates the risk of fluctuation in market demand for our equipment products.

Raw Materials

The Company prepares specifications for component parts used in the products and purchases the components from outside sources or fabricates the components itself. These components, if standard, are generally readily available; if specially designed for the Company, there is usually more than one alternative source of supply available to the Company on a competitive basis. The Company generally maintains inventories of all critical components. A majority of purchased components are sourced from U.S. and Asian suppliers and are typically shipped directly to the D.R. The Company, for the most part, is not dependent on any one source for its raw materials. The Company believes that any vendor that is currently the sole source of a component can be replaced without a material impact on the Company.

Corporate Information and History

The Company was founded in 1969 and incorporated as NAPCO Security Systems, Inc. in December 1971 in the State of Delaware. NAPCO went public on NASDAQ with the ticker symbol "NSSC", in 1972. In December 2008 the Company changed its name to NAPCO Security Technologies, Inc.

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

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

Website Access to Company Reports

Copies of our filings under the Securities Exchange Act of 1934 (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports) are available free of charge on our website (www.napcosecurity.com) on the same day they are electronically filed with the Securities and Exchange Commission. The Company has one class of Common Stock which trades on the NASDAQ Global Market under the symbol "NSSC".

ITEM 1A: RISK FACTORS

The risks described below are among those that could materially and adversely affect the Company's business, financial condition or results of operations. These risks could cause actual results to differ materially from historical results and from any results predicted by any forward-looking statements related to conditions or events that may occur in the future.

Our business operation and financial performance may again be adversely affected by the COVID-19 pandemic and related events.

As a result of the COVID-19 pandemic and the related economic downturn, we had experienced a decline in the demand for our products, as our distributors and customers reduced orders and adjusted their inventory channel in response to slowdown in spending and demand for security products. While the economic recovery from this pandemic has resulted in increased demand for our products beginning in fiscal 2021, re-institution of a prolonged stay-at-home order, or any other continued decrease in economic activity as a result of COVID-19 pandemic, could have a negative adverse impact on our customers and their financial condition, which could impact their ability to meet their financial obligations and could result in elevated levels of delinquencies and bad debt losses. In addition, we rely upon our third-party vendors to provide parts and materials for us to produce our products. If any of these vendors are unable to continue to provide us with these parts and materials, it could negatively impact our ability to serve our customers. We also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of COVID-19 pandemic in areas where we operate.

Beginning in fiscal 2021, the impact of the COVID-19 pandemic on the Company's operations lessened. However, the future impact of the ongoing COVID-19 pandemic remains uncertain and subject to change. We cannot predict when the pandemic will end, or if there will be a resurgence, and when related governmental orders and restrictions will be eased or lifted, and any extension or prolonged implementation of these restrictions will further adversely affect our business, customers and financial results. Even after such orders and restrictions are eased or lifted, the severe economic harm and recession inflicted upon the jurisdictions and areas in which we operate may last for an extended period of time and continue to adversely affect our business and financial performance, and there is no guarantee that we will be able to act quickly and effectively to return to our normal operations.

Our business could be materially adversely affected as a result of general economic and market conditions.

We are subject to the effects of general economic and market conditions. In the event that any of these conditions deteriorate, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may, modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our expenses being too high in relation to our revenues and cash flows.

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

The Company faces risks related to the restatement of its previously issued condensed financial statements with respect to the first three quarters of fiscal year ended June 30, 2023 (the "Affected Periods").

We determined to restate certain information in our previously issued condensed financial statements for the Affected Periods. As a result, we have become subject to a number of additional risks and uncertainties, which may affect investor confidence in the accuracy of our financial disclosures, including the following:

- We will face litigation under the federal and state securities laws and other claims arising from the restatement. One such case has already been filed and we will likely face additional complaints. See Note 15-Subsequent Events. The cost of defending against those claims, the adequacy of our directors' and officers' liability insurance and the ultimate outcome of any such litigation cannot be predicted at this time

- The processes undertaken to effect the restatement may not be adequate to identify and correct all errors in our historical financial statements, and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement.

- The restatement has demonstrated an additional material weakness in our internal controls over financial reporting. The process of remediating that weakness and implementing new procedures and systems to correct the problems that led to the restatement will likely be time consuming and expensive and there can be no assurance how long that process will take or if the corrective measures will be successful. Furthermore, the implementation of those measures may result in an ongoing increase in administrative expenses which may adversely affect the Company's profitability.

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

We compete with approximately 12 other companies that manufacture and market security equipment to distributors, dealers, control stations and original equipment manufacturers in the U.S. Most of these companies may have substantially greater financial and other resources than the Company. The Company competes primarily on the basis of the features, quality, reliability and pricing of, and the incorporation of the latest innovative and technological advances into its products, as well as technical support services to its customers. The Company competes on the basis of its expertise, its proven products, its reputation and its ability to provide products to customers on a timely basis. The inability of the Company to compete with respect to any one or more of the aforementioned factors could have an adverse impact on the Company's business.

Our business may also be materially adversely affected by the announcement or introduction of new products and services by our competitors, and the implementation of effective marketing or sales strategies by our competitors. Our industry is characterized by constantly improved products. There can be no assurance that competitors will not develop products that are superior to the Company's products. We have historically invested approximately 5% to 8% of annual revenues on R&D to mitigate this risk. However, many of our competitors have dedicated more resources and capabilities to R&D, including committing more engineers and capital expenditures, to develop and design new product that may enter the markets sooner or with more penetration. Future success will depend, in part, on our ability to continue to develop and market products and product enhancements cost-effectively. The Company's research and development expenditures are principally targeted at enhancing existing products, and to a lesser extent at developing new ones. Further, there can be no assurance that the Company will not experience additional price competition, and that such competition may not adversely affect the Company's revenues and results of operations

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

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

Our business could be adversely affected as a result of housing and commercial building market conditions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our business could be materially adversely affected by a weakening of the U.S. dollar against the Dominican peso.

We are exposed to foreign currency risks due to our operations in the Dominican Republic. We have significant operations in the Dominican Republic, which conducts certain transactions in Dominican pesos. We are subject to the risk that currency exchange rates between the United States and the Dominican Republic will fluctuate significantly, potentially resulting in an increase in some of our expenses when US dollars are transferred to Dominican pesos to pay these expenses. For example, if the U.S. dollars weakens and the currency exchange rate is less favorable, it may be more costly for us to pay expenses for our factory in the Dominican Republic, which may adversely affect our financial conditions and results of operations.

Our business could be materially adversely affected by adverse tax consequences of offshore operations.

We have operations both within the United States and offshore, with a portion of our operating income generated outside the United States. We intend to reinvest these earnings in our foreign operations indefinitely, except where we are able to repatriate these earnings to the United States without material incremental tax expense. A significant portion of our assets that result from these earnings remain outside the United States. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional withholding taxes.

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

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

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

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

We rely on the effort and service of Richard L. Soloway (age 77), our founder, Chief Executive Officer and major stockholder.

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

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

While our business currently does not have any debt and finances operations and capital expenditures solely utilizing cash-flows from operations, we have an unused credit facility in the event that we need to supplement current cash-flows with outside financing. The credit facility provides for certain financial covenants relating to ratios affected by profit, asset and debt levels. If the Company's profits, asset or cash-flow levels decline below the minimums required to meet these covenants and we require outside financing, the Company may be materially adversely affected. Effects on the Company could include higher interest costs, reduction in borrowing availability or revocation of these credit facilities.

Our PPP Loans in the amount of $3.9 million were forgiven, but we may still be subject to audit and any resulting adverse audit outcome could result in the repayment of a portion or all of the PPP Loans and may adversely affect our future results of operations.

In the fourth fiscal quarter of 2021, the Company received $3.9 in loan proceeds (the "PPP Loan") pursuant to the Paycheck Protection Program (the "PPP") created the by the CARES Act

During the first fiscal quarter of 2021, the PPP Loans were forgiven, in their entirety, in accordance with guidelines set forth in the PPP. The Company recognized a gain on the extinguishment of debt in the first quarter of 2022 in the amount of $3,904,000. The SBA reserves the right to audit PPP forgiveness applications for a period of six years from the date of forgiveness. It has indicated that it will audit all of those that are in excess of $2 million.

If we were to be audited and receive an adverse outcome in such an audit, we could be required to return the full amount of the PPP Loans and may potentially be subject to civil and criminal fines and penalties. If it is subsequently determined that the PPP Loans must be repaid, such repayment could adversely impact our financial results for the period in which such repayment occurs.

The Company faces risks related to the restatement of its previously issued condensed financial statements with respect to the first three quarters of fiscal year ended June 30, 2023 (the "Affected Periods").

As discussed in the Explanatory Note and in Note 1A to the condensed financial statements in this Form 10-Q/A we determined to restate certain information in our previously issued condensed financial statements for the Affected Periods. As a result, we have become subject to a number of additional risks and uncertainties, which may affect investor confidence in the accuracy of our financial disclosures, including the following:

- We will face litigation under the federal and state securities laws and other claims arising from the restatement. One such case has already been filed and we will likely face additional complaints. See Note 15-Subsequent Events. The cost of defending against those claims, the adequacy of our directors' and officers' liability insurance and the ultimate outcome of any such litigation cannot be predicted at this time

- The processes undertaken to effect the restatement may not be adequate to identify and correct all errors in our historical financial statements, and, as a result, we may discover additional errors and our financial statements remain subject to the risk of future restatement.

- The restatement has demonstrated an additional material weakness in our internal controls over financial reporting. The process of remediating that weakness and implementing new procedures and systems to correct the problems that led to the restatement will likely be time consuming and expensive and there can be no assurance how long that process will take or if the corrective measures will be successful. Furthermore, the implementation of those measures may result in an ongoing increase in administrative expenses which may adversely affect the Company's profitability.

We have identified material weaknesses in our system of internal controls and are in the process of remediation. If not remediated, these material weaknesses could result in material misstatements in our financial statements. We may be unable to develop, implement and maintain appropriate controls in future periods.

As of June 30, 2023, the Company identified three material weaknesses in internal control.

One material weakness in internal controls related to ineffective information technology general controls (ITGCs) in the area of user access and lack of effective program change-management over certain information technology (IT) systems that support the Company's financial reporting processes. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. We believe that these control deficiencies were a result of: IT Control processes lacking sufficient documentation and risk-assessment procedures to assess changes in the IT environment and program change management of personnel that could impact internal controls over financial reporting.

The second material weakness in internal controls related to the reserve for excess and slow-moving inventory. This control deficiency was a result of a lack of effective review and reconciliation controls over the forecasted sales and usage data.

During the Company's closing of its books for the period ended June 30, 2023 Management identified an additional material weakness related to the Company's Cost of Goods Sold ("COGS") and Inventory during each of the first three quarters of fiscal 2023. The COGS figures reflected in the Company's original Form 10-Qs were based on inventory costing as of June 30, 2022. However, in the period following June 30, 2022, substantial fluctuations occurred in certain material costs. Our inventory costing process did not identify these fluctuations in a timely manner resulting in Inventory being overstated and COGS being understated and resulting in an overstated gross profit, operating income and net income for each of the first three quarters of fiscal 2023. While the Company has begun to take measures which it believes will remediate the underlying causes of this material weakness, there can be no assurance as to when the remediation plan will be fully developed and implemented and whether such measures will be effective. Until the Company's remediation plan is fully implemented and effective, the Company will continue to devote time, attention and financial resources to these efforts.

Based on these material weaknesses, the Company's management has concluded that at June 30, 2023 the Company's internal controls over financial reporting were not effective.

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

With the oversight of our audit committee, we are working to remedy the ineffectiveness of our internal control over financial reporting and disclosure controls and procedures, but there can be no assurance as to when the remediation plan will be fully developed and implemented. Until our remediation plan is fully implemented, we will continue to devote time, attention and financial resources to these efforts.

If we do not adequately complete our remediation in a timely fashion, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

Risks Related to Ownership of Our Common Stock

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

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

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

Richard L. Soloway, our Chief Executive Officer, members of management and our board of directors ("Board") beneficially own approximately 10% of our common stock. Their significant ownership will, for the foreseeable future, enable them to control our management and affairs, and most matters requiring stockholder approval, including the election of directors, financing activities, a merger or sale of our assets and other significant corporate transactions. They may, in their discretion, elect to exercise these or similar rights at any time. Furthermore, the Company has established a staggered Board where the election of only one class of directors can be held at each annual meeting. This concentration of ownership, as well as a staggered or classified Board, could have the effect of delaying or preventing a change in our control or otherwise discouraging a potential acquirer from attempting to obtain control of us, which in turn could materially adversely affect our stock price and may prevent attempts by our stockholders to replace or remove our Board or management.

ITEM 1B: UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 2: PROPERTIES.

The Company owns executive offices and production and warehousing facilities at 333 Bayview Avenue, Amityville, New York. This facility consists of a fully-utilized building of approximately 100,000 square foot on a six acre plot. This six-acre plot provides the Company with space for expansion of office, manufacturing and storage capacities.

The Company's foreign subsidiary located in the Dominican Republic, NAPCO DR, S.A., owns a building of approximately 180,000 square feet of production and warehousing space in the Dominican Republic. That subsidiary also leases the land associated with this building under a 99-year lease expiring in the year 2092 at an annual base rent of approximately $235,000 and $105,000 in annual service charges. The service charges increase 2% annually over the remaining life of the lease. As of June 30, 2023, a majority of the Company's products were manufactured at this facility, utilizing U.S. quality control standards.

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

ITEM 3: LEGAL PROCEEDINGS.

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

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

ITEM 4: MINE SAFETY DISCLOSURE.

Not Applicable.

PART II

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

Principal Market

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

Approximate Number of Security Holders

The number of holders of record of NAPCO's Common Stock as of September 7, 2023 was 63 (such number does not include beneficial owners of stock held in nominee name).

Dividend Information

On May 5, 2023, the Company's Board of Directors declared a cash dividend of $.0625 per share payable on June 12, 2023 to stockholders of record on May 22, 2023.

On August 18, 2023, the Company's Board of Directors declared a cash dividend of $.08 per share payable on September 22, 2023 to stockholders of record on September 1, 2023.

Equity Compensation Plan Information as of June 30, 2023

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)
Equity compensation plans approved by security holders (1):	678,880	$ 19.21	988,100
Equity compensation plans not approved by security holders:	—	—	—
Total	678,880	$ 19.21	988,100

(1) In August 2022, the stockholders approved the 2022 Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 950,000 shares of the Company's common stock to be acquired by the holders of such awards. In May 2020, the stockholders approved the 2020 Non-Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of such awards. In December 2018, the stockholders approved the 2018 Non-Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of such awards. In December 2012, the stockholders approved the 2012 Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 1,900,000 shares of the Company's common stock to be acquired by the holders of such awards. In December 2012, the stockholders also approved the 2012 Non-Employee Stock Option Plan which authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of such awards.

ITEM 6: SELECTED FINANCIAL DATA.

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

	Fiscal Year Ended and at June 30, (In thousands, except share and per share data)		
	2023	2022	2021
Statement of earnings data:			
Net Sales	$ 169,997	$ 143,593	$ 114,035
Gross Profit	73,233	59,156	50,748
Operating Income	30,325	18,225	17,932
Net Income	27,127	19,599	15,413
Cash Flow Data:			
Net cash flows provided by operating activities	24,700	8,332	22,987
Net cash flows used in investing activities	(28,262)	(1,563)	(6,429)
Net cash flows (used in) provided by financing activities	(2,213)	155	—
Per Share Data:			
Net earnings per common share:			
Basic	$ 0.74	$ 0.53	$ 0.42
Diluted	$ 0.73	$ 0.53	$ 0.42
Weighted average common shares outstanding:			
Basic	36,741,000	36,725,000	36,696,000
Diluted	37,005,000	36,867,000	36,808,000
Cash Dividends declared per common share (2)	$ 0.0625	$ —	$ —
Balance sheet data:			
Working capital (1)	$ 111,673	$ 93,142	$ 75,391
Total assets	166,654	148,576	122,551
Long-term debt	—	—	1,518
Stockholders' equity	140,169	113,791	92,388

(1) Working capital is calculated by deducting Current Liabilities from Current Assets.
(2) The Company announced the initiation of a quarterly dividend program with the first dividend of $.0625 per share to be paid on June 12, 2023, to shareholders of Record on May 22, 2023.

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

Overview

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

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

Our net sales were $170.0 million, $143.6 million and $114.0 million for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. The change in our net sales was driven primarily by increased sales of our recurring services ($14.0 million) and sales of equipment ($12.5 million) as compared to the same period a year ago. The increase in equipment sales was due primarily to the increased demand for the Company's door-locking products. Our net income was $27.1 million, $19.6 million and $15.4 million for the fiscal years ended June 30, 2022, 2021 and 2020, respectively. The increases in net income during this period were due primarily to the growth of our cellular products and the associated recurring revenue business.

Economic and Other Factors

We are subject to the effects of general economic and market conditions. If the U.S. or international economic conditions deteriorate, our revenue, profit and cash-flow levels could be materially adversely affected in future periods. In the event of such deterioration, many of our current or potential future customers may experience serious cash flow problems and as a result may modify, delay or cancel purchases of our products. Additionally, customers may not be able to pay, or may delay payment of, accounts receivable that are owed to us. If such events do occur, they may result in our fixed and semi-variable expenses becoming too high in relation to our revenues and cash flows.

Seasonality

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of the Company's hardware products want to install these products prior to the summer; therefore, sales of these products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand for all of our products may be affected by the housing and construction markets. Deterioration of the current economic conditions 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 2023 Annual Report on Form 10-K. Management believes these critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue Recognition

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

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

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

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

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

The Company analyzes equipment sales returns and is able to make reasonable and reliable estimates of product returns based on the Company's past history. Estimates for sales returns are based on several factors including actual returns and based on expected return data communicated to it by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates. As a percentage of gross sales, sales returns, rebates and allowances were 7%, 10% and 10% for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Reserve for Credit Losses

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. The Company had one customer with an accounts receivable balance that comprised 19%, 22% and 19% of the Company's accounts receivable at June 30, 2023, 2022 and 2021, respectively. Sales to this customer did not exceed 10% of net sales during fiscal years ended June 30, 2023, 2022 and 2021. The Company had another customer with an accounts receivable balance that comprised 14% and 11% of the Company's accounts receivable at June 30, 2023 and 2021, respectively. The customer accounts receivable balance did not exceed 10% at June 30, 2022. Sales to this customer did not exceed 10% of net sales in any of the fiscal years ended June 30, 2023, 2022 and 2021, respectively. The Company had a third customer with an accounts receivable balance that comprised 16% and 12% of the Company's accounts receivable at June 30, 2022 and 2021. The customer accounts receivable balance did not exceed 10% at June 30, 2023. Sales to this customer did not exceed 10% of net sales in any of the fiscal years ended June 30, 2023, 2022 and 2021.

In the ordinary course of business, we have established a reserve for credit losses and customer deductions in the amount of $131,000 and $243,000 as of June 30, 2023 and 2022, respectively. Our reserve for credit losses is a subjective critical estimate that has a direct impact on reported net earnings. This reserve is based upon the evaluation of accounts receivable agings, specific exposures and historical or anticipated events.

Inventories

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

The Company records an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends, product life cycle, 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 amortized over their useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset. Intangible assets determined to have indefinite lives were not amortized but were tested for impairment at least annually.

Income Taxes

The Company has identified the United States and New York State as its major tax jurisdictions. Fiscal year 2018 and forward years are still open for examination. In December 2022, the Company received a letter from the Internal Revenue Service ("IRS") notifying the Company that the IRS has closed its examination of the Company's income tax return for fiscal year ended June 30,

2020. There has been no changes proposed in relation to this examination. In addition, the Company has a wholly-owned subsidiary which operates in a Free Zone in the Dominican Republic ("DR") and is exempt from DR income tax.

For the year ended June 30, 2023, the Company recognized a net income tax expense of $4,101,000. During the year ending June 30, 2023, the Company increased its reserve for uncertain income tax positions by $22,000. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense and accrued income taxes. As of June 30, 2023, the Company had accrued interest totaling $139,000 and $700,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period. The Company claims research and development ("R&D") tax credits on eligible research and development expenditures. The R&D tax credits are recognized as a reduction to income tax expense.

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

Leases

The Company records lease assets and corresponding lease liabilities for the operating lease on our Consolidated Balance Sheets, excluding short-term leases (leases with terms of 12 months or less). Lease payments are discounted using a third-party secured incremental borrowing rate based on information available at lease commencement. The Company analyzes whether or not amendments to existing leases classify as a Lease Modification or a full or partial termination of the existing lease. See Note 13 – Commitments and Contingencies; Leases for additional accounting policies and disclosures.

Liquidity and Capital Resources

During the year ended June 30, 2023, the Company utilized a portion of its cash as of June 30, 2022 ($30,598,000 of $41,730,000) to purchase property, plant and equipment ($2,963,000), marketable securities ($148,000) and other investments ($25,190,000) and to pay a cash dividend ($2,298,000). The Company believes its current working capital, cash flows from operations and its revolving credit agreement will be sufficient to fund the Company's operations through the next twelve months.

As of June 30, 2023 and 2022, debt consisted of a revolving line of credit of $11,000,000 ("Revolver Agreement"), with no amounts outstanding, which expires in June 2024. As of June 30, 2021, the Company had term loans from the U.S. Small Business Administration totaling $3,904,000 through its Payroll Protection Program ("PPP"). The PPP Loans were entirely forgiven during first quarter of the fiscal year ending June 30, 2022. The revolving credit facility contains various restrictions and covenants including, among others, restrictions on borrowings and compliance with certain financial ratios, as defined in the agreement. The Company's debt is described more fully in Note 8 to the condensed consolidated financial statements.

The Company believes its current working capital, anticipated cash flows from operations and its Revolving Credit Agreement will be sufficient to fund the Company's operations through at least the next twelve months.

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

	As of June 30,		
	2023	2022	2021
Current Ratio	6.7 to 1	4.5 to 1	4.7 to 1
Sales to Receivables	6.5 to 1	4.9 to 1	4.1 to 1
Total debt to equity	0.0 to 1	0.0 to 1	0.0 to 1

As of June 30, 2022, the Company had no material commitments for capital expenditures or inventory purchases other than purchase orders issued in the normal course of business. On April 26, 1993, the Company's foreign subsidiary entered into a 99-year land lease of approximately 4 acres of land in the Dominican Republic, on which the Company's principle manufacturing facility is located, at an annual base rent of approximately $235,000 and $105,000 in annual service charges. The service charges increase 2% annually over the remaining life of the lease.

Working Capital. Working capital increased by $18,531,000 to $111,673,000 at June 30, 2023 from $93,142,000 at June 30, 2022. Working Capital increased by $17,751,000 to $93,142,000 at June 30, 2022 from $75,391,000 at June 30, 2021.Working capital is calculated by deducting Current Liabilities from Current Assets.

Accounts Receivable. Accounts Receivable decreased by $3,149,000 to $26,069,000 at June 30, 2023 as compared to $29,218,000 at June 30, 2022. The decrease in Accounts Receivable was due primarily to a decrease in net sales of hardware for the quarter ended June 30, 2023 as compared to the same period a year ago. Accounts Receivable increased by $1,137,000 to $29,218,000 at June 30, 2022 as compared to $28,081,000 at June 30, 2021. The increase in Accounts Receivable was due primarily to an increase in net sales for the quarter ended June 30, 2022 as compared to the same period a year ago.

Inventories. Inventories, which include both current and non-current portions, decreased by $1,437,000 to $48,349,000 at June 30, 2023 as compared to $49,786,000 at June 30, 2022. The decrease was due primarily to lower costs of certain component part as well as lower freight costs in fiscal 2023, both of which had increased in price due to the supply chain shortages in fiscal 2022. Inventories increased by $18,086,000 to $49,786,000 at June 30, 2022 as compared to $31,700,000 at June 30, 2021. The increase was due primarily to higher costs of component parts and freight-in. The increase was also due to the ongoing shortages of certain component parts and the Company purchasing large quantities of these hard to source component parts when they become available.

Accounts Payable and Accrued Expenses. Accounts payable and accrued expenses, not including income taxes payable, decreased by $4,939,000 to $19,686,000 as of June 30, 2023 as compared to $24,625,000 at June 30, 2022. This decrease was primarily due to decreased purchases of component parts during the quarter ended June 30, 2023 as compared to the same period a year ago. Accounts payable and accrued expenses, not including income taxes payable, increased by $8,470,000 to $24,625,000 as of June 30, 2022 as compared to $16,155,000 at June 30, 2021. This increase was primarily due to increased purchases of component parts during the quarter ended June 30, 2022 as compared to the same period a year ago as well as an increase in the Company's accrued refund liability, which is explained in Note 2 to the Notes to the Company's Consolidated Financial Statements.

Off-Balance Sheet Arrangements

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

Results of Operations
Fiscal 2023 Compared to Fiscal 2022

	Fiscal year ended June 30, (dollars in thousands)		
	2023	2022	% Increase/ (decrease)
Net sales: equipment revenues	$ 110,062	$ 97,612	12.8 %
service revenues	59,935	45,981	30.3 %
	169,997	143,593	18.4 %
Gross Profit: equipment	19,865	19,141	3.8 %
services	53,368	40,015	33.4 %
	73,233	59,156	23.8 %
Gross profit as a % of net sales	43.1 %	41.2 %	4.6 %
equipment	18.0 %	19.6 %	(8.2)%
services	89.0 %	87.0 %	2.3 %
Research and development	9,328	8,024	16.3 %
Selling, general and administrative	33,580	32,907	2.0 %
Selling, general and administrative as a % of net sales	19.8 %	22.9 %	(13.5)%
Operating Income	30,325	18,225	66.4 %
Interest Income (expense), net	822	(16)	(5,237.5)%
Other Income (expense), net	81	(266)	(130.8)%
Gain on extinguishment of debt	—	3,904	100.0 %
Provision for income taxes	4,101	2,247	82.5 %
Net income	27,127	19,599	38.4 %

Net sales in fiscal 2023 increased by $26,404,000 to $169,997,000 as compared to $143,593,000 in fiscal 2022. The increase in net sales was primarily due to increased sales of the Company's recurring alarm communication services ($13,954,000), Alarm Lock brand door-locking products ($12,067,000), Marks brand door-locking products ($2,644,000) and Continental brand access control products ($916,000) as partially offset by a decrease in sales of NAPCO brand intrusion products ($3,178,000). The Company's increase in equipment sales was primarily due to increased demand for door locking and access control products in the new construction and retrofit building markets. In addition, fiscal 2022 net sales of the Company's cellular radio products benefited from dealers needing to replace their existing 3G radios with 4G or 5G models as the major cellular providers sunset their 3G networks. Fiscal 2023 returned to more normal sales levels.

The Company's gross profit increased by $14,077,000 to $73,233,000 or 43.1% of net sales in fiscal 2023 as compared to $59,156,000 or 41.2% of net sales in fiscal 2022. Gross profit on equipment sales was $19,865,000 or 18.0% of net equipment sales in fiscal 2023 and $19,141,000 or 19.6% of net equipment sales, in fiscal 2022. Gross profit on service revenues was $53,368,000 or 89.0% of net service revenues in fiscal 2023 and $40,015,000 or 87.0% of net service revenues, in fiscal 2022. The increase in Gross profit on equipment sales was primarily the result of the higher equipment sales, which increased overhead absorption, as partially offset by increased labor costs in both the U.S. and Dominican Republic as well as higher prices of certain component parts. The Company purchased these higher-priced components at a significant premium during the supply chain interruptions during the latter part of fiscal 2022 in order to continue to supply the Company's communication devices that led to the creation of recurring service revenues for the Company. The prices of these components began decreasing during fiscal 2023.

Research and Development expenses increased by $1,304,000 to $9,328,000 in fiscal 2023 as compared to $8,024,000 in fiscal 2022. This increase was due primarily to salary increases and additional staff.

Selling, general and administrative expenses for fiscal 2023 increased by $673,000 to $33,580,000 as compared to $32,907,000 in fiscal 2022. Selling, general and administrative expenses as a percentage of net sales increased to 19.8% in fiscal 2023 from 22.9% in fiscal 2022. The increases in dollars resulted primarily from costs associated with the Company's Form S-3 filing as well as increased credit card processing fees, as partially offset by lower legal and employee compensation costs.

Interest and other income/(expense), net for fiscal 2023 increased by $1,186,000 to income of $903,000 as compared to an expense of $283,000 for the same period a year ago. This increase was due primarily to the Company investing more of its cash into short term investments as described more fully in Note 1 and Note 4 to the consolidated financial statements.

Gain on extinguishment of debt resulted from a one-time gain in fiscal 2022 which resulted from the forgiveness of the Company's PPP loans as described in the Liquidity and Capital Resources section and Note 8 to the condensed consolidated financial statements.

The Company's provision for income taxes for fiscal 2023 increased by $1,854,000 to $4,101,000 as compared to $2,247,000 for the same period a year ago. The Company's effective tax rate for fiscal 2023 increased to 13% as compared to 10% for fiscal 2022. The increase in the Company's fiscal 2023 effective tax rate is primarily due to the $3,904,000 in non-taxable income from a one-time extinguishment of debt included in fiscal 2022.

Net income for fiscal 2023 increased by $7,528,000 to $27,127,000 as compared to $19,599,000 in fiscal 2022. This resulted primarily from the items discussed above.

Results of Operations
Fiscal 2022 Compared to Fiscal 2021

	Fiscal year ended June 30, (dollars in thousands)		
	2022	2021	% Increase/ (decrease)
Net sales: equipment revenues	$ 97,612	80,131	21.8 %
service revenues	45,981	33,904	35.6 %
	143,593	$ 114,035	25.9 %
Gross Profit: equipment	19,141	21,730	(11.9)%
services	40,015	29,018	37.9 %
	59,156	50,748	16.6 %
Gross profit as a % of net sales	41.2 %	44.5 %	(7.4)%
equipment	19.6 %	27.1 %	(27.7)%
services	87.0 %	85.6 %	1.7 %
Research and development	8,024	7,620	5.3 %
Selling, general and administrative	32,907	25,196	30.6 %
Selling, general and administrative as a % of net sales	22.9 %	22.1 %	3.7 %
Operating Income	18,225	17,932	1.6 %
Interest expense, net	(16)	(18)	(11.1)%
Other Income (expense), net	(266)	13	(2,146.2)%
Gain on extinguishment of debt	3,904	—	— %
Provision for income taxes	2,247	2,514	(10.6)%
Net income	19,599	15,413	27.2 %

Net sales in fiscal 2022 increased by $29,558,000 to $143,593,000 as compared to $114,035,000 in fiscal 2021. The increase in net sales was primarily due to increased sales of the Company's recurring alarm communication services ($12,077,000), NAPCO brand intrusion products ($11,699,000), Alarm Lock brand door-locking products ($3,136,000), Marks brand door-locking products ($1,533,000) and Continental brand access control products ($1,113,000). The Company's increase in equipment sales was primarily due to customer demand returning after the decline during the COVID-19 pandemic and the related closures throughout the United States. In addition, fiscal 2022 net sales increased due, in part, to an increase in sales of the Company's cellular radio products as the major cellular providers sunset their 3G networks.

The Company's gross profit increased by $8,408,000 to $59,156,000 or 41.2% of net sales in fiscal 2022 as compared to $50,748,000 or 44.5% of net sales in fiscal 2021. Gross profit on equipment sales was $19,141,000 or 19.6% of net equipment sales in fiscal 2022 and $21,730,000 or 27.1% of net equipment sales, in fiscal 2021. Gross profit on service revenues was $40,015,000 or 87.0% of net service revenues in fiscal 2022 and $29,018,000 or 85.6% of net service revenues, in fiscal 2021. Gross profit on equipment sales was primarily affected by increased costs of component parts and freight as well as the shift in sales to the Company's Starlink radio products, which typically have lower margins but result in recurring service revenues.

Research and Development expenses increased by $404,000 to $8,024,000 in fiscal 2022 as compared to $7,620,000 in fiscal 2021. This increase was due primarily to salary increases and additional staff.

Selling, general and administrative expenses for fiscal 2022 increased by $7,711,000 to $32,907,000 as compared to $25,196,000 in fiscal 2021. Selling, general and administrative expenses as a percentage of net sales increased to 22.9% in fiscal 2022 from 22.1% in fiscal 2021. The increases in dollars and as a percentage of net sales resulted primarily from increases in sales commissions, tradeshow, stock option and legal expenses.

Interest and other expense, net for fiscal 2022 remained relatively constant at $16,000 as compared to $5,000 for the same period a year ago.

Gain on extinguishment of debt resulted from a one-time gain in fiscal 2022 which resulted from the forgiveness of the Company's PPP loans as described in the Liquidity and Capital Resources section and Note 8 to the condensed consolidated financial statements.

The Company's provision for income taxes for fiscal 2022 decreased by $267,000 to $2,247,000 as compared to $2,514,000 for the same period a year ago. The Company's effective tax rate decreased to 10% for fiscal 2022 as compared to 14% for fiscal 2021. The decrease in the Company's fiscal 2022 effective tax rate is primarily due to the $3,904,000 in non-taxable income from extinguishment of debt.

Net income for fiscal 2022 increased by $4,186,000 to $19,599,000 as compared to $15,413,000 in fiscal 2021. This resulted primarily from the items discussed above.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents we incorporate by reference contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements, other than statements of historical fact, included or incorporated in this prospectus regarding our strategy, future operations, clinical trials, collaborations, intellectual property, cash resources, financial position, future revenues, projected costs, prospects, plans, and objectives of management are forward-looking statements. The words "believes," "anticipates," "estimates," "plans," "expects," "intends," "may," "could," "should," "potential," "likely," "projects," "continue," "will," "schedule," "would," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we actually will achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may be beyond our control, and which may cause our actual results, performance, or achievements to be materially different from future results, performance, or achievements expressed or implied by such forward-looking statements. There are a number of important factors that could cause our actual results to differ materially from those indicated or implied by forward-looking statements. See "Risk Factors" in our Annual Report on Form 10-K for the year ended June 30, 2022 for more information. These factors and the other cautionary statements made in this prospectus and the documents we incorporate by reference should be read as being applicable to all related forward-looking statements whenever they appear in this prospectus and the documents we incorporate by reference. In addition, any forward-looking statements represent our estimates only as of the date that this prospectus is filed with the SEC and should not be relied upon as representing our estimates as of any subsequent date. We do not assume any obligation to update any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as may be required by law.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's principal financial instrument is long-term debt (consisting of a revolving credit facility) that provides for interest based on the prime rate or LIBOR as described in the agreement. The Company is affected by market risk exposure primarily through the effect of changes in interest rates on amounts payable by the Company under these credit facilities.

All foreign sales transactions by the Company are denominated in U.S. dollars. As such, the Company has shifted foreign currency exposure onto its foreign customers. As a result, if exchange rates move against foreign customers, the Company could experience difficulty collecting unsecured accounts receivable, the cancellation of existing orders or the loss of future orders. The foregoing could materially adversely affect the Company's business, financial condition and results of operations. We are also exposed to foreign currency risk relative to expenses incurred in Dominican Pesos ("RD$"), the local currency of the Company's production facility in the Dominican Republic. The result of a 10% strengthening or weakening in the U.S. dollar to the RD$ would result in an annual increase or decrease in income from operations of approximately $892,000.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

a. Financial Statements: Financial statements required pursuant to this Item are presented on pages FS-1 through FS-27 of this report as follows:

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES

Management Report on Internal Control

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

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

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

Management conducted an assessment of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* as issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management determined that as of June 30, 2023, the Company identified three material weaknesses in internal control.

ITEM 4: Controls and Procedures

One material weakness in internal control related to ineffective information technology general controls (ITGCs) in the area of user access and lack of effective program change-management over certain information technology (IT) systems that support the Company's financial reporting processes. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted. We believe that these control deficiencies were a result of: IT control processes lacking sufficient documentation and risk-assessment procedures to assess changes in the IT environment and program change management of personnel that could impact internal controls over financial reporting.

The second material weakness in internal control related to the reserve for excess and slow-moving inventory. This control deficiency was a result of a lack of effective review and reconciliation controls over the forecasted sales and usage data.

In addition to the foregoing, during the Company's closing of its books for the period ended June 30, 2023, management identified a third material weakness related to the Company's Cost of Goods Sold ("COGS") and Inventory during the first three quarters of fiscal 2023. COGS reflected in the Company's Original Form 10-Q was based on inventory costing as of June 30, 2022. However, in the period following June 30, 2022, substantial fluctuations occurred in certain material costs. Our inventory costing process did not identify these fluctuations in a timely manner resulting in Inventory being overstated and COGS being understated and resulting in an overstated gross profit, operating income, income before the provision for income taxes and net income for the first three quarters of fiscal 2023. While the Company has begun the process to take measures which it believes will remediate the underlying causes of this material weakness, there can be no assurance as to when the remediation plan will be fully developed and implemented and whether such measures will be effective. Until the Company's remediation plan is fully implemented and effective, the Company will continue to devote time, attention and financial resources to these efforts.

Based on these material weaknesses, the Company's management has concluded that at June 30, 2023 the Company's internal controls over financial reporting were not effective.

Management is currently designing and implementing additional controls and procedures to remediate these items and expects to complete these actions during fiscal 2024. While the Company has begun the process to take measures which it believes will remediate the underlying causes of these material weaknesses, there can be no assurance as to when the remediation plans will be fully developed and implemented and whether such measures will be effective. Until the Company's remediation plans are fully implemented and effective, the Company will continue to devote time, attention and financial resources to these efforts.

During the three months ended June 30, 2023, 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 except as described above.

The effectiveness of our internal control over financial reporting as of June 30, 2023 has been audited by Baker Tilly US, LLP, an independent registered public accounting firm, as stated in their report included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of NAPCO Security Technologies, Inc. and Subsidiaries:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NAPCO Security Technologies, Inc. and Subsidiaries (the "Company") as of June 30, 2023 and 2022, the related consolidated statements of income, stockholders' equity, and cash flows, for each of the three years in the period ended June 30, 2023, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 2023, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing on page FS-1 and under Item 9A:

There were ineffective information technology general controls (ITGCs) in the areas of user access and program change-management over certain information technology (IT) systems that support the Company's financial reporting processes. As a result, business process automated and manual controls that were dependent on the affected ITGCs were ineffective because they could have been adversely impacted. This control deficiency was a result of IT control processes that lacked sufficient documentation and risk-assessment processes inadequate to identify and assess changes in IT environments and personnel that could impact internal control over financial reporting.

There were ineffectively designed control activities over the reserve for excess and slow-moving inventory, including the lack of effective review and reconciliation controls over forecasted sales and usage data.

There were ineffectively designed control activities over the proper costing of inventory at interim dates to ensure that inventory is presented on a first-in first-out (FIFO) basis and at net realizable value.

The material weaknesses referred to above are described in Management's Report on Internal Control Over Financial Reporting. We considered the material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2023 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Basis for Opinions

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Excess and Slow-Moving Inventory Reserve

Critical Audit Matter Description

As described in Notes 1 and 5 to the consolidated financial statements, management establishes its reserve for excess and slow-moving inventory equal to the difference between the cost of the inventory and the estimated net realizable value of the inventory. The estimated reserve percentages consider future inventory requirements to support forecasted sales based on historical usage, known trends, market conditions, and the ability to find alternate applications of its raw materials into finished goods to better match customer demand.

We identified the reserve for excess and slow-moving inventory as a critical audit matter because of the significant estimates and assumptions management makes to determine the reserve, specifically the future inventory requirements and related forecasted sales and usage. Performing audit procedures to evaluate the reasonableness of these estimates, including the estimated reserve percentages, and assumptions is subjective and requires a high degree of auditor judgment.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- We tested management’s process in developing the estimate for reserve for obsolete inventory.
- We evaluated the appropriateness of management’s approach and estimates and whether the assumptions were consistent with evidence obtained in other audit areas.
- We tested the completeness and accuracy of underlying data used in the approach, including historical sales and usage of the Company’s products and age of the inventory.
- We developed an independent expectation of the excess and slow-moving inventory reserve using historic inventory activity and compared our independent expectation to the amount recorded in the financial statements.
- We evaluated the reasonableness of the estimated reserve percentages used by management to determine the obsolete inventory reserve and tested the clerical accuracy of the model.

Impact on Financial Statements of Material Weakness in Internal Control Over Financial Reporting – *Refer to Management's Report on Internal Control Over Financial Reporting* appearing on page FS-1 and under Item 9A.

Critical Audit Matter Description

As discussed above and in Management's Report on Internal Control Over Financial Reporting, the Company identified a material weakness in their internal control over financial reporting associated with user access and program change-management over certain information technology (IT) systems that support the Company's financial reporting processes, and related material weakness in the components of Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This material weakness impacts the Company's controls over IT systems and business processes and affects substantially all financial statement account balances and disclosures.

Due to the ineffective ITGCs, the information in system generated reports produced by those financial reporting systems could not be relied upon without further testing. We determined it necessary to perform incremental audit procedures over the completeness and accuracy of financial information utilizing the impacted IT systems as a critical audit matter. Significant auditor judgment was required to design and execute the incremental audit procedures and to assess the sufficiency of the procedures performed and evidence obtained due to ineffective controls and the complexity of the Company's IT environment.

How We Addressed the Matter in Our Audit

As a result of the material weakness, in performing our audit procedures we lowered the threshold for investigating differences between recorded amounts and independent expectations developed by us that we would have otherwise used, and increased the number of tested transactions we would have otherwise made if the Company's controls were designed and operating effectively. In addition, we utilized original source documents for audit evidence, rather than system reports or other information generated by the Company's IT systems. For any reports obtained from the IT system, the engagement team designed specific audit procedures to audit the completeness and accuracy of such reports.

We have served as the Company's auditor since 2008.

/s/BAKER TILLY US, LLP

Uniondale, New York
September 8, 2023

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2023	June 30, 2022
	(in thousands, except share data)	
CURRENT ASSETS		
Cash and cash equivalents	$ 35,955	$ 41,730
Investments - other	25,660	—
Marketable securities	5,136	5,068
Accounts receivable, net of allowance for credit losses of $131 and $243 as of June 30, 2023 and June 30, 2022, respectively	26,069	29,218
Inventories, net	35,062	40,781
Income tax receivable	75	—
Prepaid expenses and other current assets	3,402	2,838
Total Current Assets	131,359	119,635
Inventories - non-current, net	13,287	9,005
Property, plant and equipment, net	9,308	7,939
Intangible assets, net	3,939	4,300
Deferred income taxes	2,652	—
Operating lease asset	5,797	7,350
Other assets	312	347
TOTAL ASSETS	$ 166,654	$ 148,576
CURRENT LIABILITIES		
Accounts payable	$ 8,061	$ 11,072
Accrued expenses	8,079	9,489
Accrued salaries and wages	3,546	4,064
Accrued income taxes	—	1,868
Total Current Liabilities	19,686	26,493
Deferred income taxes	—	166
Accrued income taxes	1,110	1,058
Long term operating lease liabilities	5,689	7,068
TOTAL LIABILITIES	26,485	34,785
COMMITMENTS AND CONTINGENCIES (Note 13)		
STOCKHOLDERS' EQUITY		
Common Stock, par value $0.01 per share; 100,000,000 shares authorized as of June 30, 2023 and June 30, 2022; 39,663,812 and 39,628,197 shares issued; and 36,770,097 and 36,734,482 shares outstanding, respectively	397	396
Additional paid-in capital	21,553	20,005
Retained earnings	137,740	112,911
Less: Treasury Stock, at cost (2,893,715 shares)	(19,521)	(19,521)
TOTAL STOCKHOLDERS' EQUITY	140,169	113,791
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 166,654	$ 148,576

See accompanying notes to consolidated financial statements.

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

	Year Ended June 30,		
	2023	2022	2021
	(in thousands, except for share and per share data)		
Net sales:			
Equipment revenues	$ 110,062	$ 97,612	$ 80,131
Service revenues	59,935	45,981	33,904
	169,997	143,593	114,035
Cost of sales:			
Equipment-related expenses	90,197	78,471	58,401
Service-related expenses	6,567	5,966	4,886
	96,764	84,437	63,287
Gross Profit	73,233	59,156	50,748
Operating expenses:			
Research and development	9,328	8,024	7,620
Selling, general, and administrative expenses	33,580	32,907	25,196
Total Operating Expenses	42,908	40,931	32,816
Operating Income	30,325	18,225	17,932
Other income (expense):			
Interest and other income (expense), net	903	(283)	(5)
Gain on extinguishment of debt	—	3,904	—
Income before Provision for Income Taxes	31,228	21,846	17,927
Provision for Income Taxes	4,101	2,247	2,514
Net Income	$ 27,127	$ 19,599	$ 15,413
Income per share:			
Basic	$ 0.74	$ 0.53	$ 0.42
Diluted	$ 0.73	$ 0.53	$ 0.42
Weighted average number of shares outstanding:			
Basic	36,741,000	36,725,000	36,696,000
Diluted	37,005,000	36,867,000	36,808,000

See accompanying notes to consolidated financial statements.

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

	Fiscal Years ended June 30, 2023, 2022 and 2021 (in thousands except for share data)						
	Common Stock			Treasury Stock			
	Number of Shares Issued	Amount	Additional Paid-in Capital	Number of Shares	Amount	Retained Earnings	Total
Balance at June 30, 2020	39,588,417	$ 396	$ 17,766	(2,893,715)	$ (19,521)	$ 77,899	$ 76,540
Stock options exercised	7,466	—	—	—	—	—	—
Stock-based compensation expense	—	—	435	—	—	—	435
Net income	—	—	—	—	—	15,413	15,413
Balances at June 30, 2021	39,595,883	$ 396	$ 18,201	(2,893,715)	$ (19,521)	$ 93,312	$ 92,388
Stock options exercised	32,314	—	155	—	—	—	155
Stock-based compensation expense	—	—	1,649	—	—	—	1,649
Net income	—	—	—	—	—	19,599	19,599
Balances at June 30, 2022	39,628,197	$ 396	$ 20,005	(2,893,715)	$ (19,521)	$ 112,911	$ 113,791
Stock options exercised	35,615	1	84	—	—	—	85
Stock-based compensation expense	—	—	1,464	—	—	—	1,464
Cash dividend	—	—	—	—	—	(2,298)	(2,298)
Net income	—	—	—	—	—	27,127	27,127
Balances at June 30, 2023	39,663,812	$ 397	$ 21,553	(2,893,715)	$ (19,521)	$ 137,740	$ 140,169

See accompanying notes to consolidated financial statements.

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

	Fiscal Year ended June 30,		
	2023	2022	2021
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 27,127	$ 19,599	$ 15,413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,930	1,771	1,697
Gain on disposal of fixed asset	(15)	—	—
Interest income on other investments	(470)	—	—
Unrealized loss (gain) on marketable securities	80	426	9
(Recovery) reserve of credit losses	(112)	17	(100)
Change to inventory reserve	(445)	1,187	(79)
Deferred income taxes	(2,818)	(214)	337
Stock based compensation expense	1,464	1,649	435
Gain on extinguishment of debt	—	(3,904)	—
Changes in operating assets and liabilities:			
Accounts receivable	3,261	(1,154)	(5,049)
Inventories	1,883	(19,274)	8,794
Prepaid expenses and other current assets	(564)	(430)	(359)
Income tax receivable	(75)	—	—
Other assets	35	(103)	—
Accounts payable, accrued expenses, accrued salaries and wages, accrued income taxes	(6,581)	8,762	1,889
Net Cash Provided by Operating Activities	24,700	8,332	22,987
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant, and equipment	(2,962)	(1,482)	(1,007)
Proceeds from disposal of fixed asset	38	—	—
Purchases of marketable securities	(148)	(81)	(5,422)
Purchases of other investments	(35,281)	—	—
Redemption of other investments	10,091	—	—
Net Cash Used in Investing Activities	(28,262)	(1,563)	(6,429)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from stock option exercises	85	155	—
Cash paid for dividend	(2,298)	—	—
Net Cash (Used in) Provided by Financing Activities	(2,213)	155	—
Net (decrease) increase in Cash and Cash Equivalents	(5,775)	6,924	16,558
CASH AND CASH EQUIVALENTS - Beginning	41,730	34,806	18,248
CASH AND CASH EQUIVALENTS - Ending	$ 35,955	$ 41,730	$ 34,806
SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$ 16	$ 16	$ 18
Income taxes paid	$ 8,811	$ 2,168	$ 1,970

See accompanying notes to consolidated financial statements.

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

Nature of Business:

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

The Company's fiscal year begins on July 1 and ends on June 30. Historically, the end users of the Company’s hardware products want to install these products prior to the summer; therefore, sales of these products historically peak in the period April 1 through June 30, the Company's fiscal fourth quarter, and are reduced in the period July 1 through September 30, the Company's fiscal first quarter. In addition, demand for all of our products may be affected by the housing and construction markets. Significant future deterioration of the current economic conditions may also affect this trend. The monthly recurring revenue, which is less susceptible to these fluctuations, allows us to generate a more consistent and predictable stream of income and mitigates the risk of fluctuation in market demand for our equipment products.

Significant Accounting Policies:

Principles of Consolidation

The consolidated financial statements include the accounts of NAPCO Security Technologies, Inc. and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Accounting Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Critical estimates include management’s judgments associated with reserves for sales returns and allowances, allowance for credit losses, overhead expenses applied to inventory, inventory reserves, valuation of intangible assets, share based compensation and income taxes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The methods and assumptions used to estimate the fair value of the following classes of financial instruments were: Current Assets and Current Liabilities - The carrying amount of cash and cash equivalents, certificates of deposits, current receivables and payables and certain other short-term financial instruments approximate their fair value as of June 30, 2022 and 2021 due to their short-term maturities. Long-term debt and lease liabilities reflect fair value based on prevailing market rates.

Cash and Cash Equivalents

Cash and cash equivalents include approximately $15,242,000 of short-term time deposits, consisting of several certificates of deposit totaling $15,179,000 and $63,000 in a money market fund as of June 30, 2023. Cash and cash equivalents include approximately $63,000 of short-term time deposits, consisting of $63,000 in a money market fund as of June 30, 2022. The Company classifies these highly liquid investments with original maturities of three months or less as cash equivalents. Certificates of deposit with an original maturity greater than three months are classified as Investments – other.

Cash and cash equivalents consists of the following as of (in thousands):

	June 30, 2023	June 30, 2022
Cash	$ 20,713	$ 41,667
Money Market Fund	63	63
Certificates of Deposit	15,179	—
	$ 35,955	$ 41,730

Investments-other consists of the following as of (in thousands):

	June 30, 2023	June 30, 2022
Certificates of Deposit	$ 25,660	$ —
	$ 25,660	$ —

Certificates of deposit are recorded at the original cost plus accrued interest. The Company's Certificates of Deposit consist of the following as of (in thousands):

June 30, 2023				
Balance Sheet Classification	Interest Rate	Maturity Date	Cost	Carrying Value
Cash and Cash Equivalents	4.59% - 5.00%	7/30/2023 - 8/29/2023	$ 15,112	$ 15,179
Investments - other	4.80% - 5.15%	7/24/2023 - 10/24/2023	25,359	25,660

The Company has cash balances in banks in excess of the maximum amount insured by the FDIC and other international agencies as of June 30, 2023 and 2022. The Company has not historically experienced any credit losses with balances in excess of FDIC limits.

Marketable Securities

The Company's marketable securities include investments in mutual funds, which invest primarily in various government and corporate obligations, stocks and money market funds. The Company's marketable securities are reported at fair value with the related unrealized and realized gains and losses included in other expense (income). Realized gains or losses on mutual funds are determined on a specific identification basis. The Company evaluates its investments periodically for possible other-than-temporary impairment by reviewing factors such as the length of time and extent to which fair value had been below cost basis, the financial condition of the issuer and the Company's ability and intent to hold the investment for a period of time, which may be sufficient for anticipated recovery of market value. The Company records an impairment charge to the extent that the cost of the available-for-sale securities exceeds the estimated fair value of the securities and the decline in value is determined to be other-than-temporary. During the years ended June 30, 2023 and 2022, the Company did not record an impairment charge regarding its investment in marketable securities because management believes, based on its evaluation of the circumstances, that the decline in fair value below the cost of certain of the Company's marketable securities is temporary.

Accounts Receivable

Accounts receivable is stated net of the reserves for credit losses of $131,000 and $243,000 as of June 30, 2023 and 2022, respectively. Our reserves for credit losses are subjective critical estimates that have a direct impact on reported net earnings. These reserves are based upon the evaluation of our accounts receivable aging, specific exposures, sales levels and historical trends.

Inventories

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

The Company records an inventory obsolescence reserve, which represents any excess of the cost of the inventory over its estimated realizable value. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends, product life cycle, requirements to support forecasted sales, and the ability to find alternate applications of its raw materials and to convert finished product into alternate versions of the same product to better match customer demand. In addition, and as necessary, the Company may establish specific reserves for future known or anticipated events. There is inherent professional judgment and subjectivity made by both production and engineering members of management in determining the estimated obsolescence percentage.

The Company also regularly reviews the period over which its inventories will be converted to sales. Any inventories expected to convert to sales beyond 12 months from the balance sheet date are classified as non-current.

Property, Plant, and Equipment

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

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

Long-Lived and Intangible Assets

Long-lived assets are amortized over their useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. Impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset. Intangible assets determined to have indefinite lives were not amortized but were tested for impairment at least annually.

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

	June 30, 2023			June 30, 2022			June 30, 2021		
	Carrying value	Accumulated amortization	Net book value	Carrying value	Accumulated amortization	Net book value	Carrying value	Accumulated amortization	Net book value
Customer relationships	$ 9,800	(9,302)	$ 498	$ 9,800	(9,143)	$ 657	$ 9,800	$ (8,955)	$ 845
Trade name	4,048	(607)	3,441	4,048	(405)	3,643	4,048	(202)	3,846
	$ 13,848	$ (9,909)	$ 3,939	$ 13,848	$ (9,548)	$ 4,300	$ 13,848	$ (9,157)	$ 4,691

Amortization expense for intangible assets subject to amortization was approximately $361,000, $391,000 and $425,000 for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2024 - $336,000; 2025 - $315,000; 2026 - $297,000; 2027 - $283,000; and 2028 - $269,000. The weighted average remaining amortization period for intangible assets was 15.5 years and 16.2 years at June 30, 2023 and 2022, respectively.

Revenue Recognition

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

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

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

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

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

The Company analyzes product 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.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for fiscal years ended June 30, 2023, 2022 and 2021 was $2,931,000, $2,889,000 and $1,306,000, respectively.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense as incurred and are included in operating expenses in the consolidated statements of income. Company-sponsored research and development expense for the fiscal years ended June 30, 2023, 2022 and 2021 was $9,328,000, $8,024,000 and $7,620,000, respectively.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company measures and recognizes the tax implications of positions taken or expected to be taken in its tax returns on an ongoing basis. The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Net Income per Share

Basic net income per common share (Basic EPS) is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per common share (Diluted EPS) is computed by dividing net income by the weighted average number of common shares and dilutive common share equivalents and convertible securities then outstanding.

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

	Net Income			Weighted Average Shares			Net Income per Share		
	2023	2022	2021	2023	2022	2021	2023	2022	2021
Basic EPS	$ 27,127	$ 19,599	$ 15,413	36,741	36,725	36,696	$ 0.74	$ 0.53	$ 0.42
Effect of Dilutive Securities:									
Stock Options	—	—	—	264	142	112	(0.01)	—	—
Diluted EPS	$ 27,127	$ 19,599	$ 15,413	37,005	36,867	36,808	$ 0.73	$ 0.53	$ 0.42

Options to purchase 7,534, 214,109 and 40,000 shares of common stock for the fiscal years ended June 30, 2023, 2022 and 2021, respectively, were not included in the computation of Diluted EPS because their inclusion would be anti-dilutive. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

The Company has established five share incentive programs as discussed in Note 9.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the vesting period. Determining the fair value of share-based awards at the grant date requires assumptions and judgments about expected volatility and forfeiture rates, among other factors.

Stock-based compensation costs of $1,464,000, $1,649,000 and $435,000 were recognized for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Foreign Currency

The Company has determined the functional currency of all foreign subsidiaries is the U.S. Dollar. All foreign operations are considered a direct and integral part or extension of the Company's operations. The day-to-day operations of all foreign subsidiaries are dependent on the economic environment of the U.S. Dollar. Therefore, no realized and unrealized gains and losses associated with foreign currency translation are recorded for the fiscal years ended June 30, 2023, 2022 or 2021.

Comprehensive Income

For the fiscal years ended June 30, 2023, 2022 and 2021, the Company's operations did not give rise to material items includable in comprehensive income, which were not already included in net income. Accordingly, the Company's comprehensive income approximates its net income for all periods presented.

Segment Reporting

The Company's reportable operating segments are determined based on the Company's management approach. The management approach is based on the way that the chief operating decision maker organizes the segments within an enterprise for making operating decisions and assessing performance. The Company's results of operations are reviewed by the chief operating decision maker on a consolidated basis and the Company operates in only one segment. The Company has presented required geographical data in Note 14.

Shipping and Handling Sales and Costs

The Company records the amount billed to customers for shipping and handling in net sales ($450,000, $428,000 and $395,000 in the fiscal years ended June 30, 2023, 2022 and 2021, respectively) and classifies the costs associated with these sales in cost of sales ($1,697,000, $1,425,000 and $1,058,000 in the fiscal years ended June 30, 2023, 2022 and 2021, respectively).

Leases

The Company records lease assets and corresponding lease liabilities for the operating lease on our Consolidated Balance Sheets, excluding short-term leases (leases with terms of 12 months or less) as described under ASU No. 2016-02, *Leases (Topic 842)*. Lease payments are discounted using a third-party secured incremental borrowing rate based on information available at lease commencement. The Company analyzes whether or not amendments to existing leases classify as a Lease Modification or a full or partial termination of the existing lease. See Note 13 – Commitments and Contingencies; Leases for additional accounting policies and disclosures. Recently

Recently Issued Accounting Standards

Reference Rate Reform (ASC Topic 848)

In March 2020, the FASB issued authoritative guidance to provide optional relief for companies preparing for the discontinuation of interest rates such as the London Interbank Offered Rate ("LIBOR"), which was expected to be phased out at the end of calendar 2021, and applies to lease contracts, hedging instruments, held-to-maturity debt securities and debt arrangements that have LIBOR as the benchmark rate.

The Company's bank has notified the Company that its LIBOR option will continue to be available to it through June 30, 2023, at which time the option will shift to the Benchmark Replacement as defined in the agreement with the bank (see Note 8). The Company does not believe that this transition will have a material impact on its financial condition.

NOTE 2 – Revenue Recognition and Contracts with Customers

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door security products, intrusion and fire alarm systems, alarm communication services, and video surveillance products for commercial and residential use. The Company also provides wireless communication service for intrusion and fire alarm systems on a monthly basis. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. Sales to unaffiliated customers are primarily shipped from the United States.

As of June 30, 2023 and 2022, the Company included refund liabilities of approximately $5,521,000 and $5,863,000, respectively, in current liabilities. As of June 30, 2023 and 2022, the Company included return-related assets of approximately $1,338,000 and $974,000, respectively, in other current assets.

As a percentage of gross sales, sales returns, rebates and allowances were 7%, 10% and 10% for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

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

	Fiscal year ended June 30,		
	2023	2022	2021
Major Product Lines:			
Intrusion and access alarm products	$ 47,344	$ 49,606	$ 36,794
Door locking devices	62,718	48,006	43,337
Services	59,935	45,981	33,904
Total Revenues	$ 169,997	$ 143,593	$ 114,035

The following table represents the allowance for credit losses accounts as of the respective years ending June 30 (in thousands):

	Balance at beginning of period	Charged to costs and expenses	Deductions/ (recoveries)	Balance at end of period
For the Year Ended June 30, 2021:				
Allowance for credit losses	$ 326	$ 30	$ (130)	$ 226
For the Year Ended June 30, 2022:				
Allowance for credit losses	$ 226	$ 17	$ —	$ 243
For the Year Ended June 30, 2023:				
Allowance for credit losses	$ 243	$ 6	$ (118)	$ 131

NOTE 3 – Business and Credit Concentrations

An entity is more vulnerable to concentrations of credit risk if it is exposed to risk of loss greater than it would have had if it mitigated its risk through diversification of customers. The Company had one customer with an accounts receivable balance that comprised 19%, 22% and 19% of the Company's overall accounts receivable at June 30, 2023, 2022 and 2021, respectively. Sales to this customer did not exceed 10% of the Company's net sales during fiscal years ended June 30, 2023, 2022 and 2021. The Company had another customer with an accounts receivable balance that comprised 14% and 11% of the Company's overall accounts receivable at June 30, 2023 and 2021, respectively. This customers' accounts receivable balance did not exceed 10% of the Company's overall accounts receivable at June 30, 2022. Sales to this customer did not exceed 10% of the Company's net sales in any of the fiscal years ended June 30, 2023, 2022 and 2021. The Company had a third customer with an accounts receivable balance that comprised 16% and 12% of the Company's overall accounts receivable at June 30, 2022 and 2021, respectively. This customers' accounts receivable balance did not exceed 10% of the Company's overall accounts receivable at June 30, 2023. Sales to this customer did not exceed 10% of the Company's net sales in any of the fiscal years ended June 30, 2023, 2022 and 2021.

NOTE 4 – Marketable Securities

Marketable securities include investments in fixed income mutual funds, which are reported at their fair values. The disaggregated net gains and losses on the marketable securities recognize in the income statement for the years ended June 30, 2023, 2022 and 2021 are as follows (in thousands):

	Year ended June 30,		
	2023	2022	2021
Net gains recognized during the period on marketable securities	$ 147	$ 81	$ —
Less: Net gains recognized during the period on marketable securities sold during the period	—	—	—
Unrealized gains (losses) recognized during the reporting period on marketable securities still held at the reporting date	(79)	(426)	(9)
	$ 68	$ (345)	$ (9)

The fair values of the Company's marketable securities are determined as being the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Company utilizes the three-tier value hierarchy, as prescribed by US GAAP, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's marketable securities, which are considered available-for-sale securities, are re-measured to fair value on a recurring basis and are valued using Level 1 inputs using quoted prices (unadjusted) for identical assets in active markets.

The following tables summarize the Company's investments (in thousands):

	June 30, 2023			June 30, 2022		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain (Loss)
Mutual Funds - Level 1	$ 5,651	5,136	$ (515)	$ 5,504	$ 5,068	$ (436)

Investment income is recognized when earned and consists principally of interest income from fixed income mutual funds. Realized gains and losses on sales of investments are determined on a specific identification basis.

For the years ended June 30, 2023 and 2022, there were no transfers between Levels 1 and 2 investments and no transfers in or out of Level 3.

NOTE 5 - Inventories

Inventories, net of reserves are valued at lower of cost (first-in, first-out method) or net realizable value. Inventories, net of reserves consist of the following (in thousands):

	June 30, 2023	June 30, 2022
Component parts	$ 29,939	$ 32,656
Work-in-process	7,726	10,085
Finished product	10,684	7,045
	$ 48,349	$ 49,786
Classification of inventories, net of reserves:		
Current	$ 35,062	$ 40,781
Non-current	13,287	9,005
	$ 48,349	$ 49,786

The following table represents the inventory obsolescence and net realizable value inventory reserves as of the respective years ending June 30 (in thousands):

	Balance at beginning of period	Charged to costs and expenses	Deductions/ (recoveries)	Balance at end of period
For the Year Ended June 30, 2021:				
Inventory obsolescence and net realizable value reserve	$ 2,913	$ —	$ (79)	$ 2,834
For the Year Ended June 30, 2022:				
Inventory obsolescence and net realizable value reserve	$ 2,834	$ 1,187	$ —	$ 4,021
For the Year Ended June 30, 2023:				
Inventory obsolescence and net realizable value reserve	$ 4,021	$ 460	$ (905)	$ 3,576

NOTE 6 - Property, Plant, and Equipment

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

	June 30, 2023	June 30, 2022	Useful Life in Years
Land	$ 904	$ 904	N/A
Buildings	8,911	8,911	30 to 40
Molds and dies	7,517	7,480	3 to 5
Furniture and fixtures	3,387	3,030	5 to 10
Machinery and equipment	28,574	26,696	3 to 10
Building improvements	3,078	2,464	Shorter of the lease term or life of asset
	52,371	49,485	
Less: accumulated depreciation and amortization	(43,063)	(41,546)	
	$ 9,308	$ 7,939	

Depreciation and amortization expense on property, plant, and equipment was approximately $1,569,000, $1,380,000 and $1,260,000 in fiscal 2023, 2022 and 2021, respectively.

NOTE 7 - Income Taxes

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

	For the Year ended June 30, 2023	2022	2021
Current income taxes:			
Federal	$ 5,899	$ 2,161	$ 1,912
State	1,020	300	265
	6,919	2,461	2,177
Deferred income taxes:			
Federal	(2,334)	(214)	337
State	(484)	—	—
	(2,818)	(214)	337
Provision for income taxes	$ 4,101	$ 2,247	$ 2,514

A reconciliation of the U.S. Federal statutory income tax rate to our actual effective tax rate on earnings before income taxes is as follows for the years ended June 30, (dollars in thousands):

	2023		2022		2021	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Tax at Federal statutory rate	$ 6,558	21.0 %	$ 4,588	21.0 %	$ 3,765	21.0 %
Increases (decreases) in taxes resulting from:						
Meals and entertainment	48	0.2 %	29	0.1 %	29	0.2 %
State income taxes, net of Federal income tax benefit	436	1.4 %	238	1.1 %	135	0.8 %
Global intangible low-taxed income	2,739	8.8 %	1,697	7.8 %	1,706	9.5 %
R&D Credit	(661)	(2.1)%	(554)	(2.5)%	(523)	(2.9)%
Foreign withholding tax	—	— %	—	— %	205	1 %
Foreign Source income not subject to Tax	(5,524)	(17.7)%	(3,231)	(14.8)%	(3,353)	(19)%
Non-taxable debt extinguishment	—	— %	(820)	(3.8)%	—	— %
Uncertain Tax Positions	63	0.2 %	20	0.1 %	312	1.7 %
IRS examination settlements	—	— %	—	— %	—	— %
Other, net	442	1.4 %	280	1.3 %	238	1.3 %
Effective tax rate	$ 4,101	13.1 %	$ 2,247	10.3 %	$ 2,514	14.0 %

Deferred tax assets and deferred tax liabilities at June 30, 2023 and 2022 are as follows (in thousands):

	Deferred Tax Assets (Liabilities) 2023	2022
Accounts receivable	$ 22	$ 42
Inventories	397	413
Accrued liabilities	857	454
Stock based compensation expense	250	179
Revenue reserves	333	466
Unrealized loss (gain) on marketable securities	124	90
Capitalized research and development cost	2,923	—
Other	4	—
Total Deferred Tax Assets	$ 4,910	$ 1,644
Valuation allowance	—	—
Deferred income tax assets, net of valuation allowance	$ 4,910	$ 1,644
Intangibles	(916)	(615)
Property, plant and equipment	(729)	(582)
Other deferred tax liabilities	(613)	(613)
Total Deferred Tax Liability	$ (2,258)	$ (1,810)
Net Deferred Tax Asset/(Liability)	$ 2,652	$ (166)

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

The Company was audited by the IRS for the fiscal year 2017. The Company received Form 4549-A, Income Tax Examination Changes from the IRS proposing an adjustment to income for the fiscal 2017 tax year regarding deemed dividends based on its interpretation under IRC Section 956 arising from the intercompany balances on the books of the Company. During the third quarter of fiscal 2021, the Company settled the issue and paid the IRS $399,000. The Company reported the results of the IRS exam to all the jurisdictions in which it files and paid taxes and interest totaling $97,000. Subsequent to the quarter end, the Company paid the IRS $68,000 for interest. None of the payments were recorded to expense in 2021, since liabilities had previously been established.

In December 2022, the Company received a letter from the IRS ("IRS") notifying it that the IRS has closed its examination of the Company's income tax return for fiscal year ended June 30, 2020. There have been no changes proposed in relation to this examination.

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

During the year ending June 30, 2023, the Company increased its reserve for uncertain income tax positions by $22,000. The Company's practice is to recognize interest and penalties related to income tax matters in income tax expense and accrued income taxes. As of June 30, 2023, the Company had accrued interest totaling $139,000, penalties totaling $5,000, and $700,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period. The Company does not expect that its unrecognized tax benefits will significantly change within the next twelve months. The Company claims R&D tax credits on eligible research and development expenditures. The R&D tax credits are recognized as a reduction to income tax expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2023	2022	2021
Balance of gross unrecognized tax benefits as of Beginning of Year	$ 678	$ 678	$ 866
Increase (Decrease) to unrecognized tax benefits from deemed dividends for investments in US property	—	—	(3)
Increase (Decrease) to unrecognized tax benefits resulting from the release of R&D credits due to the settled IRS audit	—	—	(185)
Increase (Decrease) to unrecognized tax benefits resulting from a state filing tax position	22	—	—
Balance of gross unrecognized tax benefits as of End of Year	$ 700	$ 678	$ 678

NOTE 8 - Debt

As of June 30, 2023 and 2022, debt consisted of a revolving line of credit of $11,000,000 (“Revolver Agreement”), with no amounts outstanding, which expires in June 2024.

The Revolver Agreement also provides for a LIBOR-based interest rate option of LIBOR plus 1.15% to 2.00%, depending on the ratio of outstanding debt to EBITDA, which is to be measured and adjusted quarterly, a prime rate-based option of the prime rate plus 0.25% and other terms and conditions as more fully described in the Revolver Agreement. The Company’s obligations under the Revolver Agreement continue to be secured by substantially all of its domestic assets, including but not limited to deposit accounts, accounts receivable, inventory, equipment and fixtures and intangible assets. In addition, the Company’s wholly owned subsidiaries, with the exception of the Company’s foreign subsidiaries, have issued guarantees and pledges of all of their assets to secure the Company’s obligations under the Revolver Agreement. All of the outstanding common stock of the Company’s domestic subsidiaries and 65% of the common stock of the Company’s foreign subsidiaries has been pledged to secure the Company’s obligations under the Revolver Agreement. The Revolver Agreement contains various restrictions and covenants including, among others, restrictions on payment of dividends, restrictions on borrowings and compliance with certain financial ratios, as defined in the Revolver Agreement. In September 2020, the Company and its lender amended the Revolver Agreement, which had an expiration date of June 2021, to expire in June 2024. The amended Revolver Agreement also removed certain requirements and restrictions on the Company as well as removing the mortgage on the Company’s Amityville facility.

During the fourth quarter of fiscal 2020, the Company received the proceeds of promissory notes dated between April 17, 2020 and May 7, 2020 (the "PPP Loan Agreement"), entered into between the Company and HSBC Bank USA N.A., as lender (the "Lender”). The Lender made the loans pursuant to the Paycheck Protection Program (the "PPP"), created by Section 1102 of the CARES Act and governed by the CARES Act, Section 7(a)(36) of the Small Business Act, any rules or guidance that has been issued by the Small Business Association (“SBA”) implementing the PPP and acting as guarantor, or any other applicable loan program requirements, as defined in 13 CFR § 120.10, as amended from time to time. Pursuant to the PPP Loan Agreement, the Lender made loans to the Company with an aggregate principal amount of $3,904,000 (the "PPP Loan"). The PPP Loan and related extinguishment was accounted for in accordance with ASC 470 “Debt”.

Pursuant to the CARES Act, the loans may be forgiven by the SBA. During the year ended June 30, 2022, the PPP Loans were forgiven, in their entirety, in accordance with guidelines set forth in the PPP loan documents. The Company recognized a gain on the extinguishment of debt during the fiscal year ended June 30, 2022 in the amount of $3,904,000 within the other (expense) income section in the accompanying condensed consolidated statements of income. The SBA reserves the right to audit PPP forgiveness applications for a period of six years from the date of forgiveness. It has indicated that it will audit all of those that are in excess of $2 million.

NOTE 9 - Stock Options

The Company follows ASC 718 (“Share-Based Payment”), which requires that all share-based payments to employees, including stock options, be recognized as compensation expense in the consolidated financial statements based on their fair values and over the requisite service period. For the fiscal years ended June 30, 2023, 2022 and 2021, the Company recorded non-cash compensation expense of $1,464,000 ($.04 per basic and diluted share), $1,649,000 ($.04 per basic and diluted share) and $435,000 ($.01 per basic and diluted share), respectively, relating to stock-based compensation.

2012 Employee Stock Option Plan

In December 2012, the stockholders approved the 2012 Employee Stock Option Plan (the "2012 Employee Plan"). The 2012 Employee Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 1,900,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options, which are intended to qualify as incentive stock options (ISOs), to valued employees. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant.

Under the 2012 Employee Plan, stock options may be granted to valued employees with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable, in whole or in part, at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a "change in control" as defined in the plan. At June 30, 2023, 521,580 stock options were outstanding, 247,628 stock options were exercisable and no further stock options were available for grant under this plan. 37,500 options were granted under this plan during the year ended June 30, 2023.

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

	2023	2022	2021
Risk-free interest rates	3.03 %	1.64 %	n/a
Expected lives	7.27 Years	6.18 Years	n/a
Expected volatility	43 %	43 %	n/a
Expected dividend yields	0 %	0 %	n/a

The Company uses a weighted-average expected stock-price volatility assumption that is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior of past grants. The average risk-free interest rate is based on the U.S. Treasury Bond rate for the expected term of the options and the average dividend yield is based on historical experience.

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

	2023		2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	523,080	$ 18.59	214,080	$ 9.59	235,680	$ 9.42
Granted	37,500	$ 26.94	338,000	$ 23.17	—	—
Forfeited/Lapsed	—	—	—	—	(13,000)	6.91
Exercised	(39,000)	$ 10.44	(29,000)	$ 5.45	(8,600)	9.04
Outstanding, end of period	521,580	$ 19.37	523,080	$ 18.59	214,080	$ 9.59
Exercisable, end of period	247,628	$ 17.16	176,752	$ 14.68	98,176	$ 8.07
Weighted average fair value at grant date of options granted	$ 13.36		$ 12.16		$ n/a	
Total intrinsic value of options exercised	$ 822,000		$ 502,000		$ 65,000	
Total intrinsic value of options outstanding	$ 7,968,000		$ 1,916,000		$ 1,840,000	
Total intrinsic value of options exercisable	$ 4,330,000		$ 1,218,000		$ 993,000	

37,500, 338,000 and 0 options were granted during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 39,000, 29,000 and 8,600 options were exercised during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 29,600 of the 39,000 stock options exercised during the fiscal year ended June 30, 2023, were settled by exchanging 10,150 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 1,000 of the 29,000 stock options exercised during the fiscal year ended June 30, 2022, were settled by exchanging 153 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 8,600 stock options exercised during the fiscal year ended June 30, 2021 were settled by exchanging 4,604 shares of the Company's common stock which were retired and returned to unissued status upon receipt. $84,000, $155,000 and $0 was received from the remaining option exercises for the fiscal years ended June 30, 2023, 2022 and 2021, respectively, and the actual tax benefit realized for the tax deductions from option exercises was $0 for each of these periods.

The following table summarizes information about stock options outstanding under the 2012 Employee Plan at June 30, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$3.15 - $26.94	521,580	7.67	$ 19.37	247,628	$ 17.16
	521,580	7.67	$ 19.37	247,628	$ 17.16

As of June 30, 2023 and 2022, there was $1,971,000 and $2,489,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Employee Plan, respectively. 109,876, 107,576 and 44,776 options vested during the years June 30, 2023, 2022 and 2021, respectively. The total grant date fair value of the options vesting during the fiscal years ended June 30, 2022, 2021 and 2020 under this plan was $981,000, $1,040,000 and $244,000, respectively.

2012 Non-Employee Stock Option Plan

In December 2012, the stockholders approved the 2012 Non-Employee Stock Option Plan (the “2012 Non-Employee Plan”). This plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company’s common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options to non-employee directors and consultants to the Company and its subsidiaries.

Under the 2012 Non-Employee Plan, stock options may be granted with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable in whole or in part at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a “change in control” as defined in the plan. At June 30, 2023, 20,400 stock options were outstanding, 13,920 stock options were exercisable and 0 stock options were available for grant under this plan. No stock options were granted under this plan during the year ended June 30, 2023.

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

	2023	2022	2021
Risk-free interest rates	n/a	1.68 %	n/a
Expected lives	n/a	6.18 Years	n/a
Expected volatility	n/a	43 %	n/a
Expected dividend yields	n/a	0 %	n/a

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

	2023		2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	20,400	$ 14.39	12,000	$ 6.55	24,000	$ 5.15
Granted	—	—	9,600	$ 22.93	—	—
Forfeited/Lapsed	—	—	—	—	(9,600)	$ 3.59
Exercised	—	—	(1,200)	$ 4.35	(2,400)	$ 4.35
Outstanding, end of period	20,400	$ 14.39	20,400	$ 14.39	12,000	$ 6.55
Exercisable, end of period	13,920	$ 10.99	11,280	$ 8.92	6,240	$ 6.04
Weighted average fair value at grant date of options granted	n/a		$ 12.58		n/a	
Total intrinsic value of options exercised	n/a		$ 19,000		$ 31,000	
Total intrinsic value of options outstanding	$ 413,000		$ 149,000		$ 140,000	
Total intrinsic value of options exercisable	$ 329,000		$ 136,000		$ 76,000	

0, 9,600 and 0 options were granted during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 0, 1,200 and 2,400 options were exercised during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 1,200 stock options exercised during the fiscal year ended June 30, 2022 were settled by exchanging 258 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 2,400 options exercised during the fiscal year ended June 30, 2021 were settled by exchanging 612 shares of the Company common stock which were retired and returned to unissued status upon receipt. $0 was received from the remaining option exercises for each of the fiscal years ended June 30, 2023, 2022 and 2021, and the actual tax benefit realized for the tax deductions from option exercises was $0, $4,000 and $6,000 in fiscal 2023, 2022 and 2021 respectively.

The following table summarizes information about stock options outstanding under the 2012 Non-Employee Plan at June 30, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$4.35 - $22.93	20,400	6.65	$ 14.39	13,920	$ 10.99
	20,400	6.65	$ 14.39	13,920	$ 10.99

As of June 30, 2023 and 2022, there was $46,000 and $70,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Non-Employee Plan, respectively. 2,640, 6,240 and 5,520 options vested during the years June 30, 2023, 2022 and 2021, respectively. The total grant date fair value of the options vesting during each of the fiscal years ended June 30, 2022, 2021 and 2020 under this plan was $24,000, $39,000 and $18,000, respectively.

2018 Non-Employee Stock Option Plan

In December 2018, the stockholders approved the 2018 Non-Employee Stock Option Plan (the "2018 Non-Employee Plan"). This plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options to non-employee directors and consultants to the Company and its subsidiaries.

Under the 2018 Non-Employee Plan, stock options may be granted with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable in whole or in part at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a "change in control" as defined in the plan. At June 30, 2023, 75,000 stock options were outstanding, 50,720 stock options were exercisable and 0 stock options were available for grant under this plan. No stock options were granted under this plan during the year ended June 30, 2023.

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

	2023	2022	2021
Risk-free interest rates	n/a	1.68 %	n/a
Expected lives	n/a	6.18 Years	n/a
Expected volatility	n/a	43 %	n/a
Expected dividend yields	n/a	0 %	n/a

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

	2023		2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	89,000	$ 14.91	70,100	$ 11.93	96,800	$ 11.74
Granted	—	—	23,500	$ 22.93	—	—
Forfeited/Lapsed	—	—	—	—	(23,500)	11.68
Exercised	(14,000)	$ 15.32	(4,600)	$ 10.43	(3,200)	8.10
Outstanding, end of period	75,000	$ 14.83	89,000	$ 14.91	70,100	$ 11.93
Exercisable, end of period	50,720	$ 12.87	45,040	$ 12.98	29,960	$ 11.68
Weighted average fair value at grant date of options granted	n/a		$ 12.58		n/a	
Total intrinsic value of options exercised	$ 209,000		$ 58,000		$ 29,000	
Total intrinsic value of options outstanding	$ 1,486,000		$ 561,000		$ 439,000	
Total intrinsic value of options exercisable	$ 1,104,000		$ 354,000		$ 195,000	

0, 23,500 and 0 options were granted during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 14,000, 4,600 and 3,200 options were exercised during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. 14,000 stock options exercised during the fiscal year ended June 30, 2023 were settled by exchanging 7,235 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 4,600 stock options exercised during the fiscal year ended June 30, 2022 were settled by exchanging 2,075 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 3,200 stock options exercised during the fiscal year ended June 30, 2021 were settled by exchanging 1,518 shares of the Company's common stock which were retired and returned to unissued status upon receipt. $0 was received from the remaining option exercises for each of the fiscal years ended June 30, 2023, 2022 and 2021, and the actual tax benefit realized for the tax deductions from option exercises was $44,000, $12,000 and $6,000 in fiscal 2023, 2022 and 2021, respectively.

The following table summarizes information about stock options outstanding under the 2018 Non- Employee Plan at June 30, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$8.10 - $22.93	75,000	6.76	$ 14.83	50,720	$ 12.87
	75,000	6.76	$ 14.83	50,720	$ 12.87

As of June 30, 2023 and 2022, there was $135,000 and $265,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2018 Non-Employee Plan, respectively. 19,680 options vested during each of the years June 30, 2023, 2022 and 2021, respectively. The total grant date fair value of the options vesting during the fiscal year ended June 30, 2023, 2022 and 2021 under this plan was $149,000, $160,000 and $133,000, respectively.

2020 Non-Employee Stock Option Plan

In May 2020, the stockholders approved the 2020 Non-Employee Stock Option Plan (the "2020 Non-Employee Plan"). This plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 100,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options to non-employee directors and consultants to the Company and its subsidiaries.

Under the 2020 Non-Employee Plan, stock options may be granted with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable in whole or in part at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a "change in control" as defined in the plan. At June 30, 2023, 56,900 stock options were outstanding, 18,760 stock options were exercisable and 43,100 stock options were available for grant under this plan. 30,000 options were granted under this plan during the year ended June 30, 2023.

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

	2023	2022	2021
Risk-free interest rates	3.03 - 3.40 %	1.68 %	0.62 %
Expected lives	7.23 - 7.27 Years	6.18 Years	10 Years
Expected volatility	43 %	43 %	45 %
Expected dividend yields	0 %	0 %	0 %

The following table reflects activity under the 2020 Non-Employee plan for the fiscal year ended June 30,:

	2023		2022		2021	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	26,900	$ 18.64	10,000	$ 11.40	—	—
Granted	30,000	$ 27.57	16,900	$ 22.93	10,000	$ 11.40
Forfeited/Lapsed	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Outstanding, end of period	56,900	$ 23.35	26,900	$ 18.64	10,000	$ 11.40
Exercisable, end of period	18,760	$ 20.73	7,380	$ 16.68	2,000	$ 11.40
Weighted average fair value at grant date of options granted	$ 13.74		$ 12.58		$ 6.10	
Total intrinsic value of options exercised	n/a		n/a		n/a	
Total intrinsic value of options outstanding	$ 643,000		$ 92,000		$ 68,000	
Total intrinsic value of options exercisable	$ 261,000		$ 37,000		$ 14,000	

30,000, 16,900 and 10,000 options were granted during the fiscal years ended June 30, 2023, 2022 and 2021, respectively. No options were exercised during the fiscal years ended June 30, 2023, 2022 and 2021.

The following table summarizes information about stock options outstanding under the 2020 Non- Employee Plan at June 30, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$11.40 - $30.71	56,900	8.59	$ 23.35	18,760	$ 20.73
	56,900	8.59	$ 23.35	18,760	$ 20.73

As of June 30, 2023 and 2022, there was $344,000 and $135,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2020 Non-Employee Plan, respectively. 11,380, 5,380 and 2,000 options vested during the years June 30, 2023, 2022 and 2021, respectively. The total grant date fair value of the options vesting during the fiscal year ended June 30, 2023, 2022 and 2021 under this plan was $129,000, $55,000 and $12,000, respectively.

2022 Employee Stock Option Plan

In December 2022, the stockholders approved the 2022 Employee Stock Option Plan (the "2022 Employee Plan"). The plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 950,000 shares of the Company's common stock to be acquired by the holders of such awards. Under this plan, the Company may grant stock options, which are intended to qualify as incentive stock options ("ISOs") or non-incentive stock options, to valued employees. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant.

Under the 2022 Employee Plan, stock options may be granted to valued employees with a term of up to 10 years at an exercise price equal to or greater than the fair market value on the date of grant and are exercisable, in whole or in part, at 20% per year beginning on the date of grant. An option granted under this plan shall vest in full upon a "change in control" as defined in the plan. At June 30, 2023, 5,000 stock options were outstanding, 1,000 stock options were exercisable and 945,000 stock options were available for grant under this plan. 5,000 options were granted under this plan during the year ended June 30, 2023.

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

	2023
Risk-free interest rates	3.84 %
Expected lives	7.28 Years
Expected volatility	45 %
Expected dividend yields	0.62 %

The following table reflects activity under the 2022 Employee plan for the fiscal year ended June 30,:

	2023	
	Options	Weighted average exercise price
Outstanding, beginning of year	—	—
Granted	5,000	$ 40.01
Forfeited/Lapsed	—	—
Exercised	—	—
Outstanding, end of period	5,000	$ 40.01
Exercisable, end of period	1,000	$ 40.01
Weighted average fair value at grant date of options granted	$ 19.77	
Total intrinsic value of options exercised	n/a	
Total intrinsic value of options outstanding	$ —	
Total intrinsic value of options exercisable	$ —	

5,000 options were granted during the fiscal year ended June 30, 2023. No options were exercised during the fiscal year ended June 30, 2023.

The following table summarizes information about stock options outstanding under the 2022 Employee Plan at June 30, 2023:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$40.01	5,000	9.95	$ 40.01	1,000	$ 40.01
	5,000	9.95	$ 40.01	1,000	$ 40.01

As of June 30, 2023, there was $74,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2020 Non-Employee Plan. 1,000 options vested during the year ended June 30, 2023. The total grant date fair value of the options vesting during the fiscal year ended June 30, 2023 under this plan was $20,000.

NOTE 10 – Stockholders' Equity Transactions

On September 16, 2014 the Company's board of directors authorized the repurchase of up to 2 million of the approximately 38.8 million shares of the Company's common stock then outstanding. Such repurchases may be made from time to time in the open market or in privately negotiated transactions subject to market conditions and the market price of the common stock. Relative to the Revolver Agreement described in Note 8, the Company's lender gave its consent to this stock repurchase plan. During the fiscal year ended June 30, 2023, 2022 and 2021, the Company did not repurchase any shares of its outstanding common stock. Shares repurchased through June 30, 2023 are included in the Company's Treasury Stock as of June 30, 2023, 2022 and 2021.

On December 6, 2021, the stockholders of the Company approved an amendment of the Company's Certificate of Incorporation increasing the number of authorized shares the Company may issue to 100,000,000 shares of common stock at a $.01 par value per share.

In December 2021, the Company's Board of Directors approved a two-for-one stock split in the form of a 100% dividend of the Company's common stock, payable to stockholder of record on December 20, 2021. The additional shares were distributed on January 4, 2022. 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.

On May 5, 2023, the Company's Board of Directors declared a cash dividend of $.0625 per share payable on June 12, 2023 to stockholders of record on May 22, 2023. The cash dividend resulted in approximately $2,298,000 of cash paid to stockholders.

During fiscal 2023, certain employees and directors exercised stock options under the Company's 2012 Employee and 2018 Non-Employee Stock Option Plans totaling 53,000 shares. 43,600 of these exercises were completed as cashless exercises as allowed for under the plans, where the exercise shares are issued by the Company in exchange for shares of the Company's common stock that are owned by the optionees. The number of shares surrendered by the optionees was 17,385 and was based upon the per share price on the effective date of the option exercise.

During fiscal 2022, certain employees and directors exercised stock options under the Company's 2012 Employee and Non-Employee and 2018 Non-Employee Stock Option Plans totaling 34,800 shares. 6,800 of these exercises were completed as cashless exercises as allowed for under the plans, where the exercise shares are issued by the Company in exchange for shares of the Company's common stock that are owned by the optionees. The number of shares surrendered by the optionees was 2,486 and was based upon the per share price on the effective date of the option exercise.

During fiscal 2021, certain employees and directors exercised stock options under the Company's 2012 Employee and Non-Employee and 2018 Non-Employee Stock Option Plans totaling 14,200 shares. All of these exercises were completed as cashless exercises as allowed for under the plans, where the exercise shares are issued by the Company in exchange for shares of the Company's common stock that are owned by the optionees. The number of shares surrendered by the optionees was 6,734 and was based upon the per share price on the effective date of the option exercise.

NOTE 11 – Related Party Transaction

On February 13, 2023, the Company's President and Chairman and the Company's Executive Vice President and Chief Financial Officer sold 2,012,500 and 87,500 shares of our common stock, respectively, as selling stockholders in an underwritten secondary public offering at a public offering price of $31.50 per share. In connection with such offering, the selling stockholders granted the underwriters an option to purchase additional shares (the "Greenshoe Option"). On February 15, 2023, the underwriters exercised in full the Greenshoe Option, pursuant to which the selling stockholders sold a total of 300,000 additional shares of common stock at the same public offering price. The Company did not sell any shares in the offering and received no proceeds from the offerings, but the Company incurred $509,000 in offering expenses, which are recorded in selling, general, and administrative expenses in the accompanying condensed consolidated statements of income.

NOTE 12 - 401(k) Plan

The Company maintains a 401(k) plan ("the Plan") that is available to all U.S. non-union employees and is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Company contributions to this plan are discretionary and totaled $251,000, $191,000 and $138,000 for the years ended June 30, 2023, 2022 and 2021, respectively.

NOTE 13 - Commitments and Contingencies

Leases

Our lease obligation consists of a 99-year lease, entered into by one of the Company's foreign subsidiaries, for approximately four acres of land in the Dominican Republic on which the Company's principal production facility is located. The lease, which commenced on April 26, 1993 and expires in 2092, initially had an annual base rent of approximately $235,000 plus $53,000 in annual service charges. On September 14, 2022, a lease modification was executed which provides for an annual base rent of $235,000 plus $105,000 in annual service charges. The service charges increase 2% annually over the remaining life of the lease. The modification resulted in a remeasurement of the operating lease asset and liability, and the effect was a reduction to the asset and liability of $1.3 million.

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

For the fiscal year ended June 30, 2023 and 2022, cash payments against operating lease liabilities totaled $335,000 and $288,000, respectively.

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

Weighted-average remaining lease term	69 Years
Weighted-average discount rate	6.25 %

The following is a schedule, by years, of maturities of lease liabilities as of June 30, 2023 (in thousands):

Year Ending June 30,	Amount
2024	$ 316
2025	299
2026	282
2027	267
2028	253
Thereafter	4,380
Total	$ 5,797

Operating lease expense totaled approximately $458,000, $319,000 and $316,000, for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Litigation

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

Employment Agreements

As of September 30, 2022, the Company was obligated under two employment agreements and one severance agreement. The employment agreements are with the Company's CEO and the Senior Vice President of Engineering ("the SVP of Engineering"). The severance agreement is with the Company's CFO.

The employment agreement with the CEO provides for an annual salary of $872,000, as adjusted for inflation; incentive compensation as may be approved by the Board of Directors from time to time; and a termination payment in an amount up to 299% of the average of the prior five calendar years' compensation, subject to certain limitations, as defined in the agreement. The employment agreement renews annually in August unless either party gives the other notice of non-renewal at least six months prior to the end of the applicable term.

The employment agreement with the SVP of Engineering expires in August 2024 and provides for an annual salary of $361,000, and, if terminated by the Company without cause, severance of nine months' salary and continued company-sponsored health insurance for six months from the date of termination.

The severance agreement is with the Executive Vice President of Operations and Chief Financial Officer and provides for, if terminated by the Company without cause or within three months of a change in corporate control of the Company, severance of nine months' salary, continued company-sponsored health insurance for six months from the date of termination and certain non-compete and other restrictive provisions.

NOTE 14 - Geographical Data

The Company is engaged in one major line of business: the development, manufacture, and distribution of security products, encompassing access control systems, door-locking products, intrusion and fire alarm systems and video surveillance products for commercial and residential use. The Company also provides wireless communication service for intrusion and fire alarm systems. These products are used for commercial, residential, institutional, industrial and governmental applications, and are sold worldwide principally to independent distributors, dealers and installers of security equipment. Sales to unaffiliated customers are primarily shipped from the United States. The Company has customers worldwide with major concentrations in North America.

Financial Information Relating to Domestic and Foreign Operations (in thousands)

	Fiscal Year ended June 30,		
	2023	2022	2021
Sales to external customers (1):			
Domestic	$ 168,619	$ 142,059	$ 112,618
Foreign	1,378	1,534	1,417
Total Net Sales	$ 169,997	$ 143,593	$ 114,035

	2023	2022
Identifiable assets:		
United States	$ 122,995	$ 98,791
Dominican Republic (2)	43,659	49,785
Total Identifiable Assets	$ 166,654	$ 148,576

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

(2) Consists primarily of inventories (2023 = $33,477; 2022 = $38,755), operating lease assets (2023 = $5,797; 2022 = $7,350) and fixed assets (2023 = $3,958; 2022 = $3,253) located at the Company's principal manufacturing facility in the Dominican Republic.

NOTE 15 – Subsequent Events

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

On August 18, 2023, the Company's Board of Directors declared a cash dividend of $.08 per share payable on September 22, 2023 to stockholders of record on September 1, 2023.

On August 29, 2023, a purported class action was filed in the United States District Court for the Eastern District of New York against the Company, its Chairman and Chief Executive Officer, and its Chief Financial Officer, alleging violations of the Securities Exchange Act of 1934 in connection with statements made in the Company's quarterly reports on Form 10-Q for the quarters ended September 30, 2022, December 31, 2022 and March 31, 2023 (the "10-Q's"). The Company previously announced that it was going to restate the financial statements contained in the 10-Qs. The Company intends to vigorously defend against the action.

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

None

ITEM 9A: CONTROL AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. At the conclusion of the period ended June 30, 2023, 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 not effective as of June 30, 2023.

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

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

Limitations on Internal Control. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Board of Directors of the Company has an Audit Committee comprised of three non-management directors. The Committee meets periodically with financial management and the independent auditors to review accounting, control, audit and financial reporting matters. Baker Tilly US, LLP has full and free access to the Audit Committee, with and without the presence of management.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2023 that have materially affected or is likely to materially affect our internal controls over financial reporting.

ITEM 9B: OTHER INFORMATION

None

PART III

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information about our directors appearing in the Company's Definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K ("Proxy Statement") under the heading "Election of Directors", is incorporated herein by reference.

We have adopted a Code of Ethics which applies to our senior executive and financial officers, among others. The Code is posted on our website, www.napcosecurity.com, under the "Investors – Other" caption. We intend to make all required disclosures regarding any amendment to, or waiver of, a provision of the Code of Ethics for senior executive and financial officers by posting such information on our website.

The information appearing in the Proxy Statement relating to the members of the Audit Committee and the Audit Committee financial expert under the headings "Corporate Governance and Board Matters – Board Structure and Committee Composition" and "Corporate Governance and Board Matters – Board Structure and Committee Composition – Audit Committee" and the information appearing in the Proxy Statement under the heading “Delinquent Section 16(c) Beneficial Ownership Reporting Compliance” is incorporated herein by this reference.

The information set forth in the Proxy Statement under the heading “Information Concerning Executive Officers” is incorporated herein by reference.

ITEM 11: EXECUTIVE COMPENSATION

The information appearing in the Proxy Statement under the heading “Executive Compensation” and the information appearing in the Proxy Statement relating to the compensation of directors under the caption “Compensation of Directors” are incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information appearing in the Proxy Statement under the heading “Beneficial Ownership of Common Stock” is incorporated herein by this reference.

Information regarding Equity Compensation Plan Information as of June 30, 2023 is included in Item 5.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information appearing in the Proxy Statement under the headings “Corporate Governance and Board Matters – Independence of Directors,” “Corporate Governance and Board Matters – Board Structure and Committee Composition,” “Corporate Governance – Policy with Respect to Related Person Transactions,” and “Executive Compensation – Certain Transactions” is incorporated herein by this reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information appearing in the Proxy Statement under the headings “Principal Accountant Fees” and “Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors” is incorporated herein by this reference.

PART IV

Omitted.

Upon any request of any shareholder of the Company, the Company will provide such shareholder a copy of the Company’s Annual Report Form 10-K for 2023, including the financial statements and schedules thereto, filed with the Security and Exchange Commission. Any such request should be directed to Secretary, NAPCO Security Technologies, Inc., 333 Bayview Avenue, Amityville, New York, 11701. There will be no charge for such reports unless one or more exhibits thereto are requested, in which case the Company’s reasonable expenses of furnishing such exhibits requested may be charged.

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 8, 2023

NAPCO SECURITY TECHNOLOGIES, INC.
(Registrant)

By: /s/ RICHARD SOLOWAY
Richard Soloway
Chairman of the Board of
Directors, President and Secretary
(Principal Executive Officer)

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

Signature	Title	Date
/s/ RICHARD SOLOWAY Richard Soloway	Chairman of the Board of Directors, President and Secretary and Director (Principal Executive Officer)	September 8, 2023
/s/ KEVIN S. BUCHEL Kevin S. Buchel	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	September 8, 2023
/s/ PAUL STEPHEN BEEBER Paul Stephen Beeber	Director	September 8, 2023
/s/ RICK LAZIO Rick Lazio	Director	September 8, 2023
/s/ DONNA SOLOWAY Donna Soloway	Director	September 8, 2023
/s/ ROBERT UNGAR Robert Ungar	Director	September 8, 2023
/s/ ANDREW J. WILDER Andrew J. Wilder	Director	September 8, 2023
/s/ DAVID A. PATERSON David A. Paterson	Director	September 8, 2023

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NAPCO SECURITY TECHNOLOGIES, INC.

NON-GAAP MEASURES OF PERFORMANCE* (Unaudited)

(In thousands, except share and per share data)

	Three months ended June 30,		Twelve months ended June 30,	
	2023	2022	2023	2022
Net income (GAAP)	$10,565	$7,537	$27,127	$19,599
Add back provision for income taxes	1,626	476	4,101	2,247
Interest and other (income) expense, net	(382)	181	(903)	(3,621)
Operating income (GAAP)	11,809	8,194	30,325	18,225
Adjustments for non-GAAP measures of performance:				
Add back amortization of acquisition-related intangibles	90	98	361	391
Add back stock-based compensation expense	330	270	1,464	1,649
Add back non-recurring legal expenses	373	340	576	981
Adjusted non-GAAP operating income	12,602	8,902	32,726	21,246
Add back depreciation and other amortization	442	353	1,569	1,380
Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization)	$13,044	$9,255	$34,295	$22,626
Adjusted EBITDA* per Diluted Share	$0.35	$0.25	$0.93	$0.61
Weighted average number of Diluted Shares outstanding	37,137,000	36,840,000	36,989,000	36,867,000

*** Non-GAAP Information**

Certain non-GAAP measures are included above, including non-GAAP operating income and Adjusted EBITDA. We define Adjusted EBITDA as GAAP net income plus income tax expense, net interest expense, non-cash stock-based expense and depreciation and amortization expense. Non-GAAP operating income does not include amortization of intangibles or stock-based compensation expense. These non-GAAP measures are provided to enhance the user's overall understanding of our financial performance. By excluding these charges our non-GAAP results provide information to management and investors that is useful in assessing NAPCO's core operating performance and in comparing our results of operations on a consistent basis from period to period. Our use of non-GAAP financial measures has certain limitations in that such non-GAAP financial measures may not be directly comparable to those reported by other companies. For example, the terms used in this press release, such as Adjusted EBITDA, do not have a standardized meaning. Other companies may use the same or similarly named measures, but exclude different items, which may not provide investors with a comparable view of our performance in relation to other companies. The presentation of this information is not meant to be a substitute for the corresponding financial measures prepared in accordance with generally accepted accounting principles. Investors are encouraged to review the reconciliation of GAAP to non-GAAP financial measures set forth above..

2023 NAPCO SECURITY TECHNOLOGIES, INC. ANNUAL REPORT

Officers

Richard L. Soloway
Chairman, President
and CEO

Kevin S. Buchel
Executive Vice President of
Operations and CFO
and Treasurer

Michael Carrieri
Senior Vice President
of Engineering Development

Stephen Spinelli
Senior Vice President
of Sales

Alfred DePierro
Vice President
of Platform Development

Common Stock Listing

Nasdaq Global
Market System®
(Symbol–"NSSC")

Directors

Richard L. Soloway
Chairman, President and CEO

Paul Stephen Beeber
Attorney

Kevin S. Buchel
Executive Vice President of
Operations and CFO
and Treasurer

Rick A. Lazio, Esq
Jones Walker LLP
of Counsel

Governor David A. Paterson
Distinguished Professor of Health Care
& Public Policy-Touro University/College
of Osteopathic Medicine

Donna A. Soloway
Security Industry Publicist

Robert A. Ungar, Esq.
President of
Robert A. Ungar Associates, Inc.
Lobbying, Media and
Fire Service Industry

Andrew J. Wilder
Partner of
GR Reid Associates LLP
(Certified Public Accountants)

Primary Bank

HSBC Bank USA, National Association
626 RexCorp Plaza, 6th Floor West Tower
Uniondale, NY 11556

Investor Relations

Copies of the Company's Annual Report, Forms 10-K and 10-Q and other information filed with the Securities and Exchange Commission may be obtained directly from the Corporation by contacting:

NAPCO
Security Technologies, Inc.
333 Bayview Avenue
Amityville, NY 11701
Attention: Corporate Secretary

Independent Accountants

Baker Tilly US, LLP
1500 RXR Plaza, West Tower
Uniondale, NY 11556

Legal Counsel

Forman & Shapiro LLP
1345 Avenue of the Americas
New York, NY 10105

Transfer Agent

Continental Stock
Transfer & Trust Co.
1 State Street
New York, NY 10004

NASDAQ:NSSC

www.napcosecurity.com