

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

NAPCO SECURITY SYSTEMS INC

Form 8-K/A

November 12, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A-1

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

August 18, 2008

NAPCO SECURITY SYSTEMS, INC.

(Exact name of registrant as specified in charter)

Delaware

0-10004

11-2277818

(State or other
jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

333 Bayview Avenue, Amityville, New York 11701

(Address of principal executive offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 9.01 is hereby amended to read in its entirety as follows:

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED	F-1
Report of Independent Public Accountants	F-3
Balance Sheets - July 31, 2008 and 2007	F-4
Statements of Income - Years ended July 31, 2008 and 2007	F-5
Statements of Stockholder's Equity - Years ended July 31, 2008 and 2007	F-6
Statements of Cash Flows - Years ended July 31, 2008 and 2007	F-7
Notes to Financial Statements	F-8
(b) PRO-FORMA FINANCIAL INFORMATION (UNAUDITED)	F-12
Pro-forma Balance Sheet - June 30, 2008	F-13
Pro-forma Statement of Income - Year ended June 30, 2008	F-14
Notes to Unaudited Consolidated Pro-forma Financial Information	F-15
(d) EXHIBITS	

----- Exhibit No. -----	----- Title -----	----- Ref -----
Ex-2.1	Asset Purchase Agreement - A list of the Exhibits and Schedules to the Asset Purchase Agreement is filed herewith and any omitted Shedule will be filed with the Commission upon request.	Incorporated by Exhibit 2.1 to dated August 18
Ex-4.1	\$50,000,000 Amended and Restated Credit Agreement	Incorporated by Exhibit 4.1 to dated August 18
Ex-99.1	Press Release dated August 19, 2008	Incorporated by Exhibit 99.1 to dated August 18

SIGNATURES

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

NAPCO SECURITY SYSTMES, INC.

Date: November 11, 2008

By: /s/ RICHARD SOLOWAY

Chairman of the Board of Directors,

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

President and Chief Executive Officer

NAPCO SECURITY SYSTEMS, INC.

(a) FINANCIAL STATEMENTS OF BUSINESSES ACQUIRED

Financial Statements of Business Acquired

F-2

On August 18, 2008, Napco Security Systems, Inc. (the "Company") pursuant to an Asset Purchase Agreement with G. Marks Hardware, Inc. ("Marks") of Amityville, New York, acquired substantially all of the assets and business of Marks for \$25 million, the repayment of \$1 million of bank debt and the assumption of current liabilities as described more fully in the Asset Purchase Agreement.

The Marks business involves the manufacturing and distribution of door-locking devices. The Company plans to continue to use the equipment and other physical property acquired in the Company's door-locking device business.

F-1

G. MARKS HARDWARE, INC.
FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2008 AND 2007

G. MARKS HARDWARE, INC. INDEX

Report of Independent Registered Public Accounting Firm	F-3
Balance Sheets - July 31, 2008 and 2007	F-4
Statements of Income - Years ended July 31, 2008 and 2007	F-5
Statements of Stockholder's Equity - Years ended July 31, 2008 and 2007	F-6
Statements of Cash Flows - Years ended July 31, 2008 and 2007	F-7
Notes to Financial Statements	F-8

F-2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder
G. Marks Hardware, Inc.

We have audited the accompanying balance sheets of G. Marks Hardware, Inc. (an "S" Corporation) as of July 31, 2008 and 2007, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of G. Marks Hardware, Inc. as of July 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, on August 18, 2008, substantially all of the Company's assets have been acquired for an aggregate purchase price of \$25,000,000, including the repayment of \$1,000,000 of bank debt and the assumption of current liabilities.

/s/ J.H. Cohn LLP

Jericho, New York
November 11, 2008

F-3

G. MARKS HARDWARE, INC.
BALANCE SHEETS
JULY 31, 2008 and 2007

	2008	2007
ASSETS	-----	-----

Current assets:		
Cash and cash equivalents	\$ 876,435	\$ 2,000,000
Accounts receivable, net of allowance for doubtful accounts of \$10,000	1,704,162	4,000,000
Inventories, net	6,057,838	4,000,000
Prepaid expenses and other receivables	83,416	1,000,000
	-----	-----
Total current assets	8,721,851	7,000,000
	-----	-----
Equipment and leasehold improvements:		
Tools and dies	1,299,944	1,000,000

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Transportation equipment	172,096	
Machinery and equipment	687,193	
Furniture and fixtures	612,165	
Leasehold improvements	83,918	
	-----	-----
	2,855,316	2,
Less accumulated depreciation and amortization	2,702,379	2,
	-----	-----
Equipment and leasehold improvements, net	152,937	
	-----	-----
Other assets:		
Deposits	439,420	
Loan receivable - employee	--	
	-----	-----
Total other assets	439,420	
	-----	-----
Total assets	\$ 9,314,208	\$ 8,
	=====	=====
LIABILITIES AND STOCKHOLDER'S EQUITY		

Current liabilities:		
Line of credit borrowings	\$ 1,000,000	\$
Accounts payable	767,435	1,
Accrued expenses	571,407	
	-----	-----
Total liabilities	2,338,842	1,
	-----	-----
Commitments and contingencies		
Stockholder's equity:		
Common stock: \$1 par value, voting, 20,000 shares authorized, 5,100 shares issued and 3,825 shares outstanding	5,100	
Additional paid-in capital	51,198	
Retained earnings	7,126,513	6,
Less treasury stock, at cost, (1,275 shares)	(207,445)	(
	-----	-----
Total stockholder's equity	6,975,366	6,
	-----	-----
Total liabilities and stockholder's equity	\$ 9,314,208	\$ 8,
	=====	=====

See notes to financial statements.

F-4

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

YEARS ENDED JULY 31, 2008 AND 2007

	2008	2007
	-----	-----
Net sales	\$23,727,391	\$18,806,489
Cost of goods sold	15,985,425	12,583,103
	-----	-----
Gross profit	7,741,966	6,223,386
	-----	-----
Operating expenses:		
Selling	1,716,600	1,196,348
Shipping	668,459	519,348
General and administrative	1,763,389	1,537,528
	-----	-----
Total operating expenses	4,148,448	3,253,224
	-----	-----
Operating income	3,593,518	2,970,162
Other expense:		
Interest expense	43,390	20,348
	-----	-----
Net income	\$ 3,550,128	\$ 2,949,814
	=====	=====

See notes to financial statements.

F-5

G. MARKS HARDWARE, INC.
STATEMENTS OF STOCKHOLDER'S EQUITY
YEARS ENDED JULY 31, 2008 AND 2007

	Common Stock		Additional	Retained	Trea
	-----	-----	-----	-----	-----
	Shares	Amount	Paid-in Capital	Earnings	Shares
	-----	-----	-----	-----	-----
Balance, August 1, 2006	5,100	\$ 5,100	\$ 51,198	\$ 4,584,988	1,
Net income	--	--	--	2,949,814	
Less distributions to stockholder	--	--	--	(1,146,421)	
	-----	-----	-----	-----	-----
Balance, July 31, 2007	5,100	5,100	51,198	6,388,381	1,

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Net income	--	--	--	3,550,128	
Less distributions to stockholder	--	--	--	(2,811,996)	
	-----	-----	-----	-----	-----
Balance, July 31, 2008	5,100	\$ 5,100	\$ 51,198	\$ 7,126,513	1,
	=====	=====	=====	=====	=====

See notes to financial statements.

F-6

G. MARKS HARDWARE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2008 AND 2007

	2008	2007
	-----	-----
Operating activities:		
Net income	\$ 3,550,128	\$ 2,949,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	60,116	72,601
Changes in operating assets and liabilities:		
Accounts receivable	572,204	(244,510)
Inventories	(1,085,392)	(1,415,728)
Prepaid expenses and other receivables	(4,716)	(14,550)
Deposits	(136,208)	(124,091)
Accounts payable	(510,819)	485,876
Accrued expenses	(19,056)	(4,336)
	-----	-----
Net cash provided by operating activities	2,426,257	1,705,076
	-----	-----
Investing activities:		
Loan receivable - employee	10,000	--
Acquisition of equipment and leasehold improvements	(32,400)	(15,503)
	-----	-----
Net cash used in investing activities	(22,400)	(15,503)
	-----	-----
Financing activities:		
Net borrowings (repayments) under line of credit	1,000,000	(500,000)
Distributions to stockholder	(2,811,996)	(1,146,421)
	-----	-----

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Net cash used in financing activities	(1,811,996)	(1,646,421)
	-----	-----
Net increase in cash and cash equivalents	591,861	43,152
Cash and cash equivalents, beginning of year	284,574	241,422
	-----	-----
Cash and cash equivalents, end of year	\$ 876,435	\$ 284,574
	=====	=====
Supplemental disclosure of cash flow information:		
Interest paid	\$ 43,390	\$ 20,348
	=====	=====

See notes to financial statements.

F-7

G. MARKS HARDWARE, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1 - Nature of operations:

G. Marks Hardware, Inc. (the "Company") (an "S" Corporation) is engaged in the manufacturing and sale of door locks and decorative hardware to locksmiths, wholesale distributors and door manufacturers throughout the United States. The Company's manufacturing facility and principal place of business is located in Amityville, New York.

Note 2 - Summary of significant accounting policies:

Revenue recognition:

Revenue is recognized when products are shipped to customers. The Company believes that the shipment date is the most appropriate point in time indicating the completion of the earnings process because it does not have any post-shipment obligations, the product price is fixed and determinable and the collection of the resulting receivable is probable.

Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid securities with original maturities of three months or less when acquired.

Accounts receivable:

Accounts receivable from the sale of door locks and decorative hardware are based on standard prices. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Accounts receivable are due 30 days after issuance of the invoice. Accounts receivable past due more than 60 days are considered delinquent. Delinquent receivables are written-off based on individual credit evaluation and specific

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

circumstances of the customer.

Inventory:

Inventory, consisting primarily of raw materials for the production of door locks and decorative hardware, is valued at the lower of cost or market, determined on a first-in, first-out basis.

Equipment and leasehold improvements:

Equipment and leasehold improvements are stated at cost. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the lease term. Expenditures for repairs and maintenance are charged to operations in the period incurred.

Domestic purchases of tools and dies are capitalized and depreciated over their estimated useful lives. Tools and dies purchased by foreign suppliers on behalf of the Company are charged to operations in the period purchased, as their estimated useful life is not determinable due to the uncertainty of turnover of foreign suppliers. There were no significant tools and dies purchased from foreign suppliers during the year.

Advertising:

Advertising expense, which consists of trade shows, catalogs and direct mailings, is expensed as incurred. Advertising expense for the years ended July 31, 2008 and 2007 was \$310,388 and \$187,698, respectively.

Shipping expenses:

Shipping and handling expense, which consists of shipping supplies, trucking expenses and freight out, is expensed as incurred and included on the statements of income as operating expenses, under the caption, "Shipping". Shipping expense for the years ended July 31, 2008 and 2007 was \$668,459 and \$519,348, respectively.

F-8

G. MARKS HARDWARE, INC.
NOTES TO FINANCIAL STATEMENTS

Summary of significant accounting policies (continued):

Income taxes:

The Company has elected, and the stockholder has consented, under the applicable provisions of the Internal Revenue and New York State Franchise Tax Codes, to have the Company report its income for Federal Corporation and New York State Franchise tax purposes as an "S" Corporation. The stockholders report their respective shares of the net taxable income or loss on their personal tax returns. Therefore, no provision is made for Federal Corporation or New York State Franchise Taxes, except for the New York State tax imposed on "S" Corporations, when applicable.

As an "S" Corporation with a non-calendar fiscal year-end, the Company is obligated under the Internal Revenue Code, to make "required payments" to the government representing the tax that would otherwise be due from the stockholder had the Company used a calendar year end. These payments are held on deposit by the Internal Revenue Service and are adjusted annually based upon the Company's reported taxable income or loss. At July 31, 2008 and 2007, the Company had

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

tax deposits with the Internal Revenue Service in the amount of \$439,420 and \$272,768, respectively, which are included in the balance sheets under the caption "Deposits".

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The accounting estimates that require management's most difficult and subjective judgments include provisions for bad debts, inventory valuation, depreciable lives, impairment of long-lived assets and other reserves. Because of the uncertainty in such estimates, actual results may differ from these estimates.

Recent accounting pronouncements:

In September 2006, the FASB issued SFAS No. 157, Fair-Value Measurements ("SFAS No. 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value regarding fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. Management is evaluating the impact of SFAS No. 15, effective January 1, 2008, but does not currently expect the adoption of SFAS No. 157 to have a material impact on the financial condition and results of operations.

On February 15, 2007, the FASB issued SFAS NO. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to FASB No. 115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities that own trading an available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective for years beginning after November 15, 2007. Management is currently evaluating the impact of SFAS 159, if any, on the Company's financial statements.

Note 3 - Inventories:

At July 31, 2008 and 2007, inventories consisted of the following:

	2008	2007
	-----	-----
Raw materials and parts	\$5,673,200	\$4,800,000
Work - in - process	375,016	300,000
Finished goods	222,045	200,000
	-----	-----
	6,270,261	5,200,000

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Less allowances for obsolete and slow moving inventories	212,423	2
	-----	----
Totals	\$6,057,838	\$4,9
	=====	=====

F-9

G. MARKS HARDWARE, INC.
NOTES TO FINANCIAL STATEMENTS

Note 4 - Line of credit:

At July 31, 2008 and 2007, the Company has a \$3,000,000 line of credit agreement with a bank available for working capital loans, letters of credit and acceptances. At July 31, 2008 and 2007, the Company has outstanding loans payable of \$1,000,000 and \$0, respectively. The line of credit expires on January 15, 2009.

Borrowings under the line of credit bear interest at LIBOR plus 1.5%. Borrowings are collateralized by substantially all of the Company's assets and a personal guarantee by the Company's Stockholder.

In connection with the sale of substantially all of the Company's assets (see Note 10), the above loan was paid in full.

Note 5 - Concentration risks:

Credit risk:

The Company maintains its cash in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to \$100,000. From time to time, the Company's balance may exceed this limit. At July 31, 2008 and 2007, the uninsured cash balance is approximately \$879,000 and \$267,000, respectively. The Company limits its credit risk by selecting financial institutions considered to be highly creditworthy.

Customers:

Trade accounts receivable are due primarily from locksmiths, wholesale distributors and door manufacturers. The Company does not require collateral; however, it performs ongoing credit evaluations of customer accounts. At both July 31, 2008 and 2007, approximately 44% of trade accounts receivable was due from three customers.

Direct labor:

The Company's direct labor is covered by a union, which has a collective bargaining agreement due to expire in December 2008. The Company's past experience was favorable with respect to resolving conflicting demands with this union and none has had a significant effect on the Company's financial statements. Although management expects that there will initially be some differences between the Company and the union demands, management believes it is very unlikely that those differences will result in a protracted conflict.

The Company does not contribute to a union pension plan.

Note 6 - 401(k) profit-sharing plan:

The Company maintains a 401(k) profit sharing plan which covers substantially all employees. Employer contributions are

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

discretionary. Eligible employees may make pre-tax contributions to the plan. For the years ended July 31, 2008 and 2007, employer contributions in the amount of \$30,104 and \$29,958, respectively, were charged to operations.

Note 7 - Lease commitments:

As of July 31, 2008, the Company leased automobiles under noncancelable operating leases expiring through January 2011. Lease expense charged to operations for the years ended July 31, 2008 and 2007 were \$42,195 and \$35,495, respectively.

Future minimum rental payments under lease agreements are as follows:

Years ending July 31, -----	Amount -----
2009	\$ 42,687
2010	25,124
2011	3,194

Total	\$ 71,005 =====

F-10

G. MARKS HARDWARE, INC. NOTES TO FINANCIAL STATEMENTS

Note 8 - Contingencies:

Guarantees:

The Company guaranteed a mortgage obligation of its stockholder which is collateralized by the stockholder's building in which the Company operates its business (see Note 9). At July 31, 2008, \$81,530 remained outstanding to a bank under this obligation.

In addition, the Company guaranteed a second mortgage on the building payable to the New York Job Development Authority. On August 8, 2002, the Company's stockholder refinanced the remaining balance on this mortgage by obtaining a promissory note in the amount of \$600,000 payable to a bank in monthly installments commencing on October 1, 2002. The loan bears interest at LIBOR plus 1.5%. At July 31, 2008, \$112,902 remained outstanding under this second mortgage.

In connection with the sale of substantially all of the Company's assets (see Note 10), the above obligations were paid in full by the stockholder.

Letters of credit:

There were no outstanding commercial letters of credit at July 31, 2008 and 2007 (see Note 4).

Legal proceedings:

The Company is, from time to time, involved in litigation incidental to the conduct of its business. However, the company is not party to any lawsuit or proceeding which, in the opinion of management is likely to have a material adverse effect on its financial condition.

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Note 9 - Related party transactions:

Loan receivable - employee:

At July 31, 2007, the Company has a loan receivable from an employee who is a relative of the Company's stockholder in the amount of \$10,000. The loan was noninterest bearing and has no set repayment terms. The receivable was settled during the year ended July 31, 2008.

Operating lease:

The Company leases, on month to month basis, land and a building for its operations from its stockholder (see Note 8). Rent expense for the year ended July 31, 2008 amounted to \$292,800 of which approximately \$228,700 was charged to cost of goods sold and \$64,100 was charged to operations. Building expenses for the year ended July 31, 2008 (including real estate taxes) due under the lease amounted to approximately \$259,900 of which approximately \$203,000 was charged to cost of goods sold and \$56,900 was charged to operations.

Note 10 - Subsequent event:

On August 18, 2008, Napco Security Systems, Inc., a diversified manufacturer of security products, encompassing intrusion and fire alarms, building access control systems and electronic locking devices, acquired substantially all of the assets of the Company for an aggregate purchase price of \$25,000,000, including the repayment of \$1,000,000 of bank debt and the assumption of current liabilities.

At the date of acquisition, \$21,500,000 was received in cash and \$3,500,000 of the purchase price was placed in escrow. The distribution of the escrow balance is scheduled at various dates until December 31, 2009, subject to adjustment for, among other things, non-performance of certain milestones, such as turnover of accounts receivable and inventories.

F-11

NAPCO SECURITY SYSTEMS, INC.

(b) PRO-FORMA FINANCIAL INFORMATION (UNAUDITED)

Unaudited Consolidated Pro-forma Financial Information F-13

The following unaudited consolidated pro-forma financial data have been derived from the historical financial statements of Napco Security Systems, Inc. ("Napco") for the fiscal year ended June 30, 2008 G. Marks Hardware, Inc. ("Marks") as of and for the fiscal year ended July 31, 2008. The unaudited consolidated pro-forma balance sheet gives effect to the Purchase Transaction as if it had occurred on June 30, 2008. The unaudited consolidated pro-forma statements of income for the fiscal year ended June 30, 2008 give effect to the Purchase Transaction as if it had occurred at the beginning of the period presented. The pro-forma adjustments are based upon available information and certain assumptions that management believes are reasonable and are described in the notes accompanying the unaudited consolidated pro-forma financial statements. The unaudited consolidated pro-forma financial data do not purport to represent what our results of operations or financial position would have been had the Purchase Transaction occurred on the dates indicated, or to project

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

our results of operations or financial position for any future period or date, nor does it give effect to any matters other than those describe in the notes thereto. The Purchase Transaction will be accounted for as a purchase for financial accounting purposes.

Pursuant to the purchase method of accounting, the total estimated purchase price, in these unaudited pro-forma consolidated financial statements, has been allocated to assets acquired and liabilities assumed based on a preliminary determination by Napco's management. The difference between the fair value of the consideration issued and the liabilities assumed and the fair value of the identifiable tangible and intangible assets acquired has been recorded as goodwill. These allocations are subject to change pending a final valuation of certain fixed assets acquired as well as a potential purchase price adjustment related to a subsequent measurement of the collectibility of receivables and sale of inventory. As such, these allocations may differ from the information presented herein.

F-12

NAPCO SECURITY SYSTEMS, INC.
PRO-FORMA BALANCE SHEET
At June 30, 2008

ASSETS	Napco Security Systems, Inc. Historical; June 30, 2008 (Audited)	G. Marks Hardware, Inc. Historical; July 31, 2008 (Audited)	Transaction Adjustments	
CURRENT ASSETS:				
Cash and cash equivalents	\$ 2,765,000	\$ 876,000	\$ --	\$
Accounts receivable, net	25,823,000	1,704,000	--	
Inventories	19,548,000	6,058,000	900,000	(a)
Prepaid expenses and other current assets	1,121,000	83,000	--	
Deferred income taxes, net	769,000	--	--	
Total current assets	50,026,000	8,721,000	900,000	
Inventories, non-current, net	7,724,000	--	--	
Property, plant and equipment, net	8,989,000	153,000	650,000	(a)
Intangible assets, net	--	--	16,100,000	(b)
Goodwill, net	9,686,000	--	845,000	(c)
Other assets	298,000	440,000	(12,000)	(d)
TOTAL ASSETS	\$ 76,723,000	\$ 9,314,000	\$ 18,483,000	\$
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Current portion of long-term debt	\$ --	\$ 1,000,000	\$ 2,679,000	(e) \$
Accounts payable	4,857,000	768,000	--	
Accrued and other current liabilities	1,333,000	571,000	458,000	(f)
Accrued salaries and wages	2,543,000	--	--	
Accrued taxes	--	--	--	

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Total current liabilities	8,733,000	2,339,000	3,137,000	
Long-term debt	12,400,000	--	22,321,000	(e)
Accrued income taxes	294,000	--	--	
Deferred income taxes	1,607,000	--	--	
Minority interest in subsidiary	147,000	--	--	
	-----	-----	-----	
Total liabilities	23,181,000	2,339,000	25,458,000	
	-----	-----	-----	
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY:				
Common stock	201,000	5,000	(5,000)	(g)
Additional paid-in-capital	13,424,000	51,000	(51,000)	(g)
Retained earnings	45,532,000	7,126,000	(7,126,000)	(g)
	-----	-----	-----	
	59,157,000	7,182,000	(7,182,000)	
Less: Treasury stock, at cost	(5,615,000)	(207,000)	207,000	(g)
	-----	-----	-----	
Total stockholders' equity	53,542,000	6,975,000	(6,975,000)	
	-----	-----	-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 76,723,000	\$ 9,314,000	\$ 18,483,000	\$
	=====	=====	=====	=====

See notes to unaudited pro-forma consolidated financial information.

F-13

NAPCO SECURITY SYSTEMS, INC.
PRO-FORMA STATEMENT OF INCOME
For the year ended June 30, 2008

	Napco Security Systems, Inc. Historical; June 30, 2008 (Audited)	G. Marks Hardware, Inc. Historical; July 31, 2008 (Audited)	Transaction Adjustments	
	-----	-----	-----	
Net sales	\$ 68,367,000	\$ 23,727,000	\$ --	\$
Cost of sales	47,955,000	15,985,000	209,000	(1)
	-----	-----	-----	
Gross profit	20,412,000	7,742,000	(209,000)	
Selling, general and administrative expenses	17,275,000	4,149,000	1,026,000	(h)
	-----	-----	-----	
Operating income	3,137,000	3,593,000	(1,235,000)	
	-----	-----	-----	
Other income (expense):				
Interest expense, net	(819,000)	(43,000)	(1,189,000)	(i)

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

Other, net	(42,000)	--	(33,000) (j)	
	-----	-----	-----	-----
	(861,000)	(43,000)	(1,222,000)	
	-----	-----	-----	-----
Income before minority interest and (benefit)/provision for income taxes	2,276,000	3,550,000	(2,457,000)	
Minority interest in loss of subsidiary	34,000	--	--	
	-----	-----	-----	-----
Income before (benefit)/provision for income taxes	2,310,000	3,550,000	(2,457,000)	
(Benefit) provision for income taxes	(1,408,000)	--	437,000 (k)	
	-----	-----	-----	-----
Net income	\$ 3,718,000	\$ 3,550,000	\$ (2,894,000)	\$
	=====	=====	=====	=====
Earnings per share:				
Basic	\$ 0.19			\$
	=====			=====
Diluted	\$ 0.19			\$
	=====			=====
Weighted average number of shares outstanding:				
Basic	19,263,000			
	=====			=====
Diluted	19,802,000			
	=====			=====

See notes to unaudited pro-forma consolidated financial information.

F-14

NAPCO SECURITY SYSTEMS, INC.
NOTES TO UNAUDITED CONSOLIDATED PRO-FORMA FINANCIAL INFORMATION

UNAUDITED PRO-FORMA BALANCE SHEET ADJUSTMENTS

We have made the following pro-forma adjustments to arrive at our pro-forma consolidated balance sheet as of June 30, 2008:

- (a) Represents adjustment of inventories and certain fixed assets to fair value.
- (b) Represents the fair value of intangible assets acquired.
- (c) Represents the excess of the purchase price over the fair value of the net assets acquired arising as a result of the Purchase Transaction.
- (d) Represents deferred financing costs associated with the Term Loan,

Edgar Filing: NAPCO SECURITY SYSTEMS INC - Form 8-K/A

capitalized costs relating to the due diligence and legal expenses associated with the acquisition, the fair value of the Marks' executive's covenant not to compete and the elimination of an asset not acquired.

- (e) Represents the current and non-current portions of the term loan utilized to finance the asset purchase.
- (f) Represents the accrual of acquisition and financing costs and a purchase price adjustment resulting from the difference in value between working capital as defined in the asset purchase agreement and the actual working capital at the acquisition date.
- (g) Represents the elimination of Marks' Stockholder's Equity.

UNAUDITED PRO-FORMA STATEMENTS OF INCOME ADJUSTMENTS

We have made the following pro-forma adjustments to arrive at our pro-forma consolidated statements of income:

- (h) Includes additional salary expense and stock option expense for Marks' executive who will be Napco employee, not previously included in salary expense in Marks' historical financial statements, as well as amortization expense relating to intangible assets acquired and covenant not to compete.
- (i) Represents interest expense as a result of the issuance of the Term Loan, which was used to finance the Purchase Transaction at a rate of 5% per annum.
- (j) Represents amortization of deferred financing costs over the 5 year life of the Term Loan.
- (k) Represents the estimated tax provision resulting from a 40% effective tax rate applied to the Marks historical net income for fiscal 2008 as adjusted by the transaction adjustments.
- (l) Represents additional depreciation expense on fixed assets recorded at fair value on the acquisition date.