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DELTA REPORT

10-Q

NSSC - NAPCO SECURITY TECHNOLOGI

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 993

CHANGES	226
DELETIONS	400
ADDITIONS	367

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

FORM 10-Q

☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED:
March 31, September 30, 2023

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM
_____ TO _____

Commission File number: 0-10004

NAPCO SECURITY TECHNOLOGIES, INC.

(Exact name of Registrant as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation of organization)	<u>11-2277818</u> (IRS Employer Identification Number)
<u>333 Bayview Avenue</u> <u>Amityville, New York</u> (Address of principal executive offices)	<u>11701</u> (Zip Code)

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

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

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	Nasdaq Stock Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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 ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares outstanding of each of the issuer's classes of common stock, as of: May 5, 2023 November 8, 2023

COMMON STOCK, \$.01 PAR VALUE PER SHARE 36,767,780 36,770,097

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2023 (unaudited)		June 30, 2022 (unaudited)		September 30, 2023 (unaudited)		June 30, 2023 (unaudited)	
	(in thousands, except share data)		(in thousands, except share data)		(in thousands, except share data)		(in thousands, except share data)	
CURRENT ASSETS								
Cash and cash equivalents	\$	31,515	\$	41,730	\$	43,577	\$	35,955
Investments - other		20,271		—		25,931		25,660
Marketable securities		5,155		5,068		5,121		5,136
Accounts receivable, net of allowance for credit losses of \$125 and \$243 as of March 31, 2023 and June 30, 2022, respectively		24,170		29,218				
Accounts receivable, net of allowance for credit losses of \$107 and \$131 as of September 30, 2023 and June 30, 2023, respectively						22,921		26,069
Inventories, net		46,921		40,781		36,946		35,062
Income tax receivable						205		75
Prepaid expenses and other current assets		2,610		2,838		3,072		3,402
Total Current Assets		130,642		119,635		137,773		131,359
Inventories - non-current, net		13,865		9,005		17,201		13,287
Property, plant and equipment, net		9,335		7,939		9,112		9,308
Intangible assets, net		4,029		4,300		3,855		3,939
Deferred income taxes		1,234		—		2,732		2,652
Operating lease asset		5,878		7,350		5,722		5,797
Other assets		299		347		294		312
TOTAL ASSETS	\$	165,282	\$	148,576	\$	176,689	\$	166,654
CURRENT LIABILITIES								
Accounts payable	\$	7,005	\$	11,072	\$	11,084	\$	8,061
Accrued expenses		7,648		9,489		7,636		8,079
Accrued salaries and wages		2,843		4,064		3,176		3,546
Accrued income taxes		287		1,868				
Total Current Liabilities		17,783		26,493		21,896		19,686
Deferred income taxes		—		166				
Accrued income taxes		1,067		1,058		1,133		1,110
Long term operating lease liabilities		5,737		7,068		5,648		5,689
TOTAL LIABILITIES		24,587		34,785		28,677		26,485
COMMITMENTS AND CONTINGENCIES (Note 13)								
STOCKHOLDERS' EQUITY								
Common Stock, par value \$0.01 per share; 100,000,000 shares authorized as of March 31, 2023 and June 30, 2022; 39,661,495 and 39,628,197 shares issued; and 36,767,780 and 36,734,482 shares outstanding, respectively		397		396				
Common Stock, par value \$0.01 per share; 100,000,000 shares authorized as of September 30, 2023 and June 30, 2023; 39,663,812 shares issued; and 36,770,097 shares outstanding as of each date.						397		397
Additional paid-in capital		21,220		20,005		21,860		21,553
Retained earnings		138,599		112,911		145,276		137,740
Less: Treasury Stock, at cost (2,893,715 shares)		(19,521)		(19,521)		(19,521)		(19,521)
TOTAL STOCKHOLDERS' EQUITY		140,695		113,791		148,012		140,169
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	165,282	\$	148,576	\$	176,689	\$	166,654

See accompanying notes to condensed consolidated financial statements.

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

	Three Months ended March 31,		Three Months ended September 30,	
	2023	2022	2023	2022
	(in thousands, except for share and per share data)		(in thousands, except for share and per share data)	
Net sales:				
Equipment revenues	\$ 28,390	\$ 23,873	\$ 24,391	\$ 25,687
Service revenues	15,142	12,032	17,285	13,806
	<u>43,532</u>	<u>35,905</u>	<u>41,676</u>	<u>39,493</u>
Cost of sales:				
Equipment related expenses	19,388	19,334	17,497	23,266
Service-related expenses	1,473	1,538	1,766	1,661
	<u>20,861</u>	<u>20,872</u>	<u>19,263</u>	<u>24,927</u>
Gross Profit	22,671	15,033	22,413	14,566
Operating expenses:				
Research and development	2,314	2,009	2,437	2,428
Selling, general, and administrative expenses	8,425	8,442	8,421	8,490
Total Operating Expenses	<u>10,739</u>	<u>10,451</u>	<u>10,858</u>	<u>10,918</u>
Operating Income	11,932	4,582	11,555	3,648
Other income (expense):				
Interest and other income (expense), net	437	(177)	440	(103)
Income before Provision for Income Taxes	12,369	4,405	11,995	3,545
Provision for Income Taxes	1,529	1,132	1,517	461
Net Income	<u>\$ 10,840</u>	<u>\$ 3,273</u>	<u>\$ 10,478</u>	<u>\$ 3,084</u>
Income per share:				
Basic	\$ 0.29	\$ 0.09	\$ 0.28	\$ 0.08
Diluted	<u>\$ 0.29</u>	<u>\$ 0.09</u>	<u>\$ 0.28</u>	<u>\$ 0.08</u>
Weighted average number of shares outstanding:				
Basic	36,793,000	36,743,000	36,827,000	36,762,000
Diluted	<u>37,082,000</u>	<u>36,879,000</u>	<u>37,076,000</u>	<u>36,990,000</u>

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended March 31,	
	2023	2022
	(in thousands, except for share and per share data)	
Net sales:		
Equipment revenues	\$ 81,511	\$ 67,080
Service revenues	43,828	33,284
	<u>125,339</u>	<u>100,364</u>
Cost of sales:		
Equipment related expenses	60,240	56,077
Service-related expenses	4,799	4,355
	<u>65,039</u>	<u>60,432</u>
Gross Profit	60,300	39,932
Operating expenses:		
Research and development	6,964	5,918
Selling, general, and administrative expenses	24,719	23,983
Total Operating Expenses	<u>31,683</u>	<u>29,901</u>
Operating Income	28,617	10,031
Other income (expense):		
Interest and other income (expense), net	521	(102)
Gain on extinguishment of debt	—	3,904
Income before Provision for Income Taxes	<u>29,138</u>	<u>13,833</u>
Provision for Income Taxes	3,450	1,771
Net Income	<u>\$ 25,688</u>	<u>\$ 12,062</u>
Income per share:		
Basic	<u>\$ 0.70</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.69</u>	<u>\$ 0.33</u>
Weighted average number of shares outstanding:		
Basic	<u>36,736,000</u>	<u>36,723,000</u>
Diluted	<u>36,983,000</u>	<u>36,873,000</u>

See accompanying notes to condensed consolidated financial statements.

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NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)

	Nine months ended March 31, 2023 (in thousands, except for share data)							Three months ended September 30, 2023 (in thousands, except for share data)					
	Common Stock			Treasury Stock				Common Stock			Treasury Stock		
	Number of		Additional	Number of		Retained	Total	Number of		Additional	Number of		Retained
	Shares	Amount		Shares	Amount			Shares	Amount		Shares	Amount	Earnings
	Issued	Amount	Capital	Shares	Amount	Earnings	Total	Issued	Amount	Capital	Shares	Amount	Earnings
Balances at June 30, 2022	39,628,197	\$ 396	\$ 20,005	(2,893,715)	\$(19,521)	\$112,911	\$113,791						
Balances at June 30, 2023								39,663,812	\$ 397	\$ 21,553	(2,893,715)	\$(19,521)	\$137,911
Net income	—	—	—	—	—	6,402	6,402	—	—	—	—	—	10,840
Stock-based compensation expense	—	—	477	—	—	—	477	—	—	307	—	—	—
Stock options exercised	8,480	—	45	—	—	—	45						
Balances at September 30, 2022	39,636,677	\$ 396	\$ 20,527	(2,893,715)	\$(19,521)	\$119,313	\$120,715						
Net income	—	—	—	—	—	8,446	8,446						
Stock-based compensation expense	—	—	335	—	—	—	335						
Stock options exercised	2,756	—	—	—	—	—	—						
Balances at December 31, 2022	39,639,433	\$ 396	\$ 20,862	(2,893,715)	\$(19,521)	\$127,759	\$129,496						
Net income	—	—	—	—	—	10,840	10,840						
Stock-based compensation expense	—	—	322	—	—	—	322						
Stock options exercised	22,062	1	36	—	—	—	37						
Balances at March 31, 2023	39,661,495	\$ 397	\$ 21,220	(2,893,715)	\$(19,521)	\$138,599	\$140,695						
Cash dividend								—	—	—	—	—	(2,000)
Balances at September 30, 2023								39,663,812	\$ 397	\$ 21,860	(2,893,715)	\$(19,521)	\$145,911

Nine months ended March 31, 2022 (in thousands, except share data)							Three months ended September 30, 2022 (in thousands, except share data)					
Common Stock			Treasury Stock				Common Stock			Treasury Stock		

Net income	\$ 25,688	\$ 12,062	\$ 10,478	\$ 3,084
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,398	1,320	537	457
Gain on disposal of fixed asset	(15)	—	—	(15)
Interest income on other investments	(177)	—	76	(8)
Unrealized loss (gain) on marketable securities	23	226		
Recovery of credit losses	(118)	—		
Unrealized loss on marketable securities			57	153
(Recovery) of credit losses			(24)	(27)
Change to inventory reserve	960	331	822	(252)
Deferred income taxes	(1,400)	(11)	(80)	(417)
Stock based compensation expense	1,134	1,379	307	477
Gain on extinguishment of debt	—	(3,904)		
Changes in operating assets and liabilities:				
Accounts receivable	5,166	3,872	3,172	7,903
Inventories	(11,959)	(11,309)	(6,620)	(10,197)
Prepaid expenses and other current assets	228	(318)	330	(2)
Income tax receivable			(130)	(662)
Other assets	48	(127)	17	(27)
Accounts payable, accrued expenses, accrued salaries and wages, accrued income taxes	(8,560)	4,892	2,267	(2,432)
Net Cash Provided by (Used in) Operating Activities	12,416	8,413	11,209	(1,965)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant, and equipment	(2,547)	(1,189)	(256)	(372)
Proceeds from disposal of fixed asset	38	—	—	38
Purchases of marketable securities	(110)	(58)	(42)	(10,028)
Purchases of other investments	(30,185)	—	(347)	—
Redemption of other investments	10,091	—		
Net Cash Used in Investing Activities	(22,713)	(1,247)	(645)	(10,362)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from stock option exercises	82	155	—	45
Net Cash Provided by Financing Activities	82	155		
Cash paid for dividend			(2,942)	—
Net Cash (Used in) Provided by Financing Activities			(2,942)	45
Net (decrease) increase in Cash and Cash Equivalents	(10,215)	7,321		
Net increase (decrease) in Cash and Cash Equivalents			7,622	(12,282)
CASH AND CASH EQUIVALENTS - Beginning	41,730	34,806	35,955	41,730
CASH AND CASH EQUIVALENTS - Ending	\$ 31,515	\$ 42,127	\$ 43,577	\$ 29,448
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	\$ 12	\$ 12	\$ —	\$ 4
Income taxes paid	\$ 6,421	\$ 2,154	\$ 1,703	\$ 3,398

See accompanying notes to condensed consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
March 31, September 30, 2023

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. Our wireless communication services have led to the substantial growth in our monthly recurring revenues.

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 service 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.

Stock Split

In December 2021, the Company's Board of Directors approved a two-for-one stock split in the form of a 100% stock dividend of the Company's common stock, payable to stockholders of record on 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 stockholders' equity as a result of the stock split. Upon distribution of the dividend, the total number of shares outstanding increased from 18,365,878 to 36,731,756.

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 September 30, 2023 and June 30, 2023 due to their short-term maturities. Long-term debt and lease liabilities reflect fair value based on prevailing market rates.

Cash and Cash Equivalents and Investments - other

Cash and cash equivalents include approximately \$15,630,000 of short-term time deposits, consisting of several certificates of deposit totaling \$15,366,000 and \$264,000 in money market funds as of September 30, 2023. 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

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certain other short-term financial instruments approximate their fair value as of March 31, 2023 and June 30, 2022 due to their short-term maturities. Long-term debt and lease liabilities reflect fair value based on prevailing market rates.

Cash and Cash Equivalents and Investments – other

Cash and cash equivalents include approximately \$10,225,000 of short-term time deposits, consisting of several certificates of deposit totaling \$10,162,000 and \$63,000 in a money market fund as of March 31, 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):

	March 31, 2023	June 30, 2022	September 30, 2023	June 30, 2023
Cash	\$ 21,290	\$ 41,667	\$ 27,947	\$ 20,713
Money Market Fund	63	63	264	63
Certificates of Deposit	10,162	—	15,366	15,179
	<u>\$ 31,515</u>	<u>\$ 41,730</u>	<u>\$ 43,577</u>	<u>\$ 35,955</u>

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

	March 31, 2023	June 30, 2022	September 30, 2023	June 30, 2023
Certificates of Deposit	\$ 20,271	\$ —	\$ 25,931	\$ 25,660
	<u>\$ 20,271</u>	<u>\$ —</u>	<u>\$ 25,931</u>	<u>\$ 25,660</u>

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):

March 31, 2023				
Balance Sheet Classification	Interest Rate	Maturity Date	Cost	Carrying Value
Cash and Cash Equivalents	4.55% - 4.70%	4/24/2023 - 5/22/2023	\$ 10,000	\$ 10,162
Investments - other	4.75% - 4.90%	6/23/2023 - 9/21/2023	20,185	20,271

September 30, 2023				
Balance Sheet Classification	Interest Rate	Maturity Date	Cost	Carrying Value
Cash and Cash Equivalents	4.77% - 5.25%	11/22/2023 - 11/27/2023	\$ 15,312	\$ 15,366
Investments - other	5.00% - 5.40%	10/23/2023 - 3/21/2024	25,706	25,931

The Company has cash balances in banks in excess of the maximum amount insured by the FDIC and other international agencies as of March 31, 2023, September 30, 2023 and June 30, 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 would record an impairment charge if 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 **nine** months ended **March 31, 2023** **September 30, 2023**, the Company did not record an impairment charge regarding its investment in marketable securities because

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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 **\$125,000** **\$107,000** and **\$243,000** **\$131,000** as of **March 31, 2023** **September 30, 2023** and **June 30, 2022** **June 30, 2023**, 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.

In addition, 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

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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.

Intangible assets consisted of the follows (in thousands):

	March 31, 2023			June 30, 2022			September 30, 2023			June 30, 2023		
	Carrying value	Accumulated amortization	Net book value	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	(9,262)	\$ 538	\$ 9,800	(9,143)	\$ 657	\$ 9,800	(9,335)	\$ 465	\$ 9,800	(9,302)	\$ 498
Trade name	4,048	(557)	3,491	4,048	(405)	3,643	4,048	(658)	3,390	4,048	(607)	3,441
	<u>\$ 13,848</u>	<u>\$ (9,819)</u>	<u>\$ 4,029</u>	<u>\$ 13,848</u>	<u>\$ (9,548)</u>	<u>\$ 4,300</u>	<u>\$13,848</u>	<u>\$ (9,993)</u>	<u>\$ 3,855</u>	<u>\$13,848</u>	<u>\$ (9,909)</u>	<u>\$ 3,939</u>

Amortization expense for intangible assets subject to amortization was approximately \$90,000, \$84,000 and \$98,000, \$90,000 for the three months ended March 31, 2023 and 2022, respectively. Amortization expense for intangible assets subject to amortization was approximately \$271,000 and \$293,000 for the nine months ended March 31, 2023, September 30, 2023 and 2022, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2023 - \$361,000; 2024 - \$336,000; 2025 - \$315,000; 2026 - \$297,000; and 2027 - \$283,000, \$283,000; and 2028 - \$269,000. The weighted average remaining amortization period for intangible assets was 15.7, 15.3 years and 16.2, 15.5 years at March 31, 2023, September 30, 2023 and June 30, 2022, June 30, 2023, 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 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 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 the three months ended March 31, 2023 and 2022 was \$926,000 and

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\$655,000, respectively. Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of income and are expensed as incurred. Advertising expense for the three months ended March 31, 2023 September 30, 2023 and 2022 was \$2,185,000 \$761,000 and \$2,253,000, \$754,000, respectively.

Research and Development Costs

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 income. Company-sponsored R&D expense for the three months ended March 31, 2023 September 30, 2023 and 2022 was \$2,314,000 \$2,437,000 and \$2,009,000, respectively. Company-sponsored R&D expense for the nine months ended March 31, 2023 and 2022 was \$6,964,000 and \$5,918,000, \$2,428,000, 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 three months ended March 31, 2023 September 30, 2023 and 2022 (in thousands, except share and per share data):

	Net Income		Weighted Average Shares		Net Income per Share		Net Income		Weighted Average Shares		Net Income per Share	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Basic EPS	\$ 10,840	\$ 3,273	36,793	36,743	\$ 0.29	\$ 0.09	\$10,478	\$3,084	36,827	36,762	\$ 0.28	\$ 0.08
Effect of Dilutive Securities:												
Stock Options	—	—	289	136	—	—	—	—	249	228	—	—
Diluted EPS	\$ 10,840	\$ 3,273	37,082	36,879	\$ 0.29	\$ 0.09	\$10,478	\$3,084	37,076	36,990	\$ 0.28	\$ 0.08

Options to purchase 5,000 and 388,000 62,500 shares of common stock were excluded for the three months ended March 31, 2023 September 30, 2023 and 2022, respectively, and 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 period.

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The following provides a reconciliation of information used in calculating the per share amounts for the nine months ended March 31, 2023 and 2022 (in thousands, except share and per share data):

	Net Income		Weighted Average Shares		Net Income per Share	
	2023	2022	2023	2022	2023	2022
Basic EPS	\$ 25,688	\$ 12,062	36,736	36,723	\$ 0.70	\$ 0.33
Effect of Dilutive Securities:						
Stock Options	—	—	247	150	\$ (0.01)	—
Diluted EPS	\$ 25,688	\$ 12,062	36,983	36,873	\$ 0.69	\$ 0.33

Options to purchase 8,379 and 156,145 shares of common stock were excluded for the nine months ended March 31, 2023 and 2022, respectively, and 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 period.

Stock-Based Compensation

The Company has established four 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 \$322,000 \$307,000 and \$35,000 \$477,000 were recognized for the three months ended March 31, 2023 and 2022, respectively. Stock-based compensation costs of \$1,134,000 and \$1,379,000 were recognized for the nine months ended March 31, 2023 September 30, 2023 and 2022, 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 three or nine months ended March 31, 2023 September 30, 2023 or 2022.

Comprehensive Income

For the three and nine months ended March 31, 2023 September 30, 2023 and 2022, 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 (\$106,000 \$83,000 and \$106,000 \$112,000 in the three months ended March 31, 2023 and 2022, respectively, and \$346,000 and \$318,000 in the nine months ended March 31, 2023 September 30, 2023 and 2022, respectively); and classifies the costs associated with these sales in cost of sales (\$437,000 \$371,000 and \$339,000 \$394,000 in the three months ended March 31, 2023 and 2022, respectively, and \$1,285,000 and \$1,033,000 in the nine months ended March 31, 2023 September 30, 2023 and 2022, 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 **borring 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 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 is expected to be phased out for new arrangements at the

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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 which was** available to it through June 30, 2023, **at which time the option will shift has shifted** to the Benchmark Replacement as defined in the agreement with the **bank bank**. **The new benchmark rate is the Secured Overnight Financing Rate (SOFR)** (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. All of these products and services are used for commercial, residential, institutional, industrial and governmental applications, and are sold primarily to independent distributors, dealers and installers of security equipment. Sales to unaffiliated customers are primarily shipped from the United States.

As of **March 31, 2023** **September 30, 2023** and **June 30, 2022** **June 30, 2023**, the Company included refund liabilities of approximately **\$4,841,000** **\$3,833,000** and **\$5,863,000** **\$5,521,000**, respectively, in current liabilities. As of **March 31, 2023** **September 30, 2023** and **June 30, 2022** **June 30, 2023**, the Company included return-related assets of approximately **\$1,132,000** **\$1,201,000** and **\$974,000** **\$1,338,000**, respectively, in other current assets.

As a percentage of gross sales, returns, rebates and allowances were **8%** **4%** and **10%** **5%** for the three months ended **March 31, 2023** and **2022**, respectively. As a percentage of gross sales, returns, rebates and allowances were 6% and 11% for the nine months ended **March 31, 2023** **September 30, 2023** and **2022**, 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):

	Three months ended March 31,		Nine months ended March 31,		Three months ended September 30,	
	2023	2022	2023	2022	2023	2022
Major Product Lines:						
Intrusion and access alarm products	\$ 11,530	\$ 12,667	\$ 36,405	\$ 33,230	\$ 9,297	\$ 13,532
Door locking devices	16,860	11,206	45,106	33,850	15,094	12,155
Services	15,142	12,032	43,828	33,284	17,285	13,806
Total Revenues	\$ 43,532	\$ 35,905	\$ 125,339	\$ 100,364	\$ 41,676	\$ 39,493

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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. Such risks of loss manifest themselves differently, depending on the nature of the concentration, and vary in significance. The Company had one customer two customers with an accounts receivable balance that comprised of 12% 13% and 10% as of March 31, 2023 September 30, 2023. As of June 30, 2022 June 30, 2023, the accounts receivable balance with this these respective customer did not exceed 10% customers were 19% and 14%. Sales to this customer either of these customers did not exceed 10% of net sales during the three or nine months ended March 31, 2023 and 2022. The Company had another customer which the accounts receivable balance with this respective customer did not exceed 10% as of March 31, 2023 September 30, 2023, however sales to one of these two customers were 12% for the accounts receivable balance three months ended September 30, 2022. There were no other customers who had sales that comprised of 16% as of June 30, 2022. Sales to this customer did not exceed 10% or more of net sales during for the three or nine 3 months ended March 31, 2023 September 30, 2023 and 2022. The Company had another customer with an accounts receivable balance that comprised of 19% and 22% as of March 31, 2023 and June 30, 2022. Sales for the three and nine months ended March 31, 2023 was 12% and 10%, respectively. Sales to this customer did not exceed 10% of net sales during the three or nine months ended March 31, 2022.

NOTE 4 – Marketable Securities

The Company's marketable securities include investments in fixed income mutual funds, which invest primarily in various government and corporate obligations, stocks and money market funds, and are reported at their fair values. The disaggregated net gains and losses

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on the marketable securities recognized within the accompanying condensed consolidated statements of income for the three and nine months ended March 31, 2023 September 30, 2023 and 2022, are as follows (in thousands):

	Three months ended March 31,		Nine months ended March 31,	
	2023	2022	2023	2022
Net gains recognized during the period on marketable securities	\$ 32	\$ 19	\$ 110	\$ 58
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	95	(191)	(23)	(226)
	<u>\$ 127</u>	<u>\$ (172)</u>	<u>\$ 87</u>	<u>\$ (168)</u>

	Three months ended September 30,	
	2023	2022
Net gains recognized during the period on marketable securities	\$ 42	\$ —
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	(57)	(153)
	<u>\$ (15)</u>	<u>\$ (153)</u>

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.

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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 at **March 31, 2023**, **September 30, 2023** and **June 30, 2022**, **June 30, 2023**, respectively (in thousands):

		March 31, 2023			June 30, 2022			September 30, 2023			June 30, 2023		
				Unrealized			Unrealized			Unrealized			Unrealized
		Cost	Fair Value	Gain (Loss)	Cost	Fair Value	Gain (Loss)	Cost	Fair Value	Gain (Loss)	Cost	Fair Value	Gain (Loss)
Mutual Funds													
Level 1		\$ 5,613	5,155	\$ (458)	\$ 5,504	\$ 5,068	\$ (436)	\$5,693	5,121	\$ (572)	\$5,651	\$ 5,136	\$ (515)

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.

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):

	March 31, 2023	June 30, 2022
Component parts	\$ 39,562	\$ 32,656
Work-in-process	10,460	10,085
Finished product	10,764	7,045
	<u>\$ 60,786</u>	<u>\$ 49,786</u>
Classification of inventories, net of reserves:		
Current	\$ 46,921	\$ 40,781
Non-current	<u>13,865</u>	<u>9,005</u>

	<u>\$ 60,786</u>	<u>\$ 49,786</u>
	September 30,	June 30,
	2023	2023
Component parts	\$ 33,566	\$ 29,939
Work-in-process	8,089	7,726
Finished product	12,492	10,684
	<u>\$ 54,147</u>	<u>\$ 48,349</u>
Classification of inventories, net of reserves:		
Current	\$ 36,946	\$ 35,062
Non-current	17,201	13,287
	<u>\$ 54,147</u>	<u>\$ 48,349</u>

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NOTE 6 – Property, Plant, and Equipment

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

	March 31, 2023	June 30, 2022	Useful Life in Years	September 30, 2023	June 30, 2023	Useful Life in Years
Land	\$ 904	\$ 904	N/A	\$ 904	\$ 904	N/A
Buildings	8,911	8,911	30 to 40	8,911	8,911	30 to 40
Molds and dies	7,507	7,480	3 to 5	7,517	7,517	3 to 5
Furniture and fixtures	3,350	3,030	5 to 10	3,447	3,387	5 to 10
Machinery and equipment	28,275	26,696	3 to 10	28,739	28,574	3 to 10
Building improvements						Shorter of the lease term or life of asset
	3,009	2,464	Shorter of the lease term or life of asset	3,110	3,078	Shorter of the lease term or life of asset
	<u>51,956</u>	<u>49,485</u>		<u>52,628</u>	<u>52,371</u>	
Less: accumulated depreciation and amortization	(42,621)	(41,546)		(43,516)	(43,063)	
	<u>\$ 9,335</u>	<u>\$ 7,939</u>		<u>\$ 9,112</u>	<u>\$ 9,308</u>	

Depreciation and amortization expense on property, plant, and equipment was approximately \$380,000 \$453,000 and \$338,000 \$367,000 for the three months ended March 31, 2023 and 2022, respectively. Depreciation and amortization expense on property, plant, and equipment was approximately \$1,127,000 and \$1,028,000 for the nine months ended March 31, 2023 September 30, 2023 and 2022, respectively.

NOTE 7 - Income Taxes

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

For the nine months ended March 31, 2023 September 30, 2023 and March 31, 2022 September 30, 2022, the Company recognized net income tax expense of \$3,450,000 \$1,517,000 and \$1,771,000, \$461,000, respectively. During the nine months ended March 31, 2023, the Company's reserve for uncertain income tax positions increased by \$36,000. 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 March 31, 2023 September 30, 2023, the Company had accrued interest totaling \$124,000, \$162,000, as well as \$678,000 \$700,000 of unrecognized net tax benefits that, if recognized, would favorably affect the Company's effective income tax rate in any future period. For the nine months ended March 31, 2023 September 30, 2023, additional interest expense was accrued for in the amount of \$36,000. \$23,000.

The Company does not expect that our unrecognized tax benefits will change within the next twelve months due to statute of limitation lapses. We file a consolidated U.S. income tax return and tax returns in certain state and local and foreign jurisdictions. As of March 31, 2023 September 30, 2023, we remain subject to examination in all tax jurisdictions for all relevant jurisdictional statutes for fiscal years 2018 and thereafter.

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 has been no changes proposed in relation to this examination.

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NOTE 8 - Long-Term Debt

As of December 31, 2022 September 30, 2023 and June 30, 2022 June 30, 2023, the Company had a revolving line of credit of \$11,000,000 ("Revolver Agreement") which expires in June 2024.

Outstanding balances and interest rates as of March 31, 2023 and June 30, 2022 are as follows (dollars in thousands):

	March 31, 2023		June 30, 2022	
	Outstanding	Interest Rate	Outstanding	Interest Rate
Revolving line of credit:				
Current maturities	\$ —	n/a	\$ —	n/a
Long-term debt	—	n/a	—	n/a
	<u>\$ —</u>		<u>\$ —</u>	

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

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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"). 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 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 quarter ended September 30, 2021 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 Option

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 three months ended March 31, 2023 September 30, 2023 and 2022, the Company recorded non-cash compensation expense of \$322,000 \$307,000 (\$0.01 per basic and diluted share) and \$35,000 \$477,000 (\$0.00 0.01 per basic and diluted share), respectively, relating to stock-based compensation. For the nine months ended March 31, 2023 and 2022, the Company recorded non-cash compensation expense of

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\$1,134,000 (\$0.03 per basic and diluted share) and \$1,379,000 (\$0.04 per basic and diluted share), respectively, relating to stock-based compensation.

2022 Employee Stock Option Plan

The Company's Board of Directors approved a new Employee Stock Option Plan (the 2022 Employee Plan) in August 2022. The 2022 Employee Plan was approved by the Company's shareholders at the Company's annual shareholder's meeting in December 2022. 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. The terms of the 2022 Plan are substantially the same as those of the 2012 Employee Stock Option Plan. The 2022 Plan is intended to replace the 2012 Employee Stock Option Plan, which expired in 2022. As of March 31, 2023, no options have been granted under the 2022 Employee Plan.

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") 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 and a term of 10 years.

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 March 31, 2023 September 30, 2023, 522,580 521,580 stock options were outstanding, 236,652 258,328 stock options were exercisable and no further stock options were available for grant under this plan.

0 and 37,500 Options were granted during the three and nine months ended March 31, 2023. 0 and 338,000 Options were granted during the three and nine months ended March 31, 2022. No options may be granted under this plan after December 2022. 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
Risk-free interest rates	3.03 %	1.64 %
Expected lives	7.27 Years	6.18 Years
Expected volatility	43 %	43 %
Expected dividend yields	0 %	0 %

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

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	2023		2022	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	523,080	\$ 18.59	214,080	\$ 9.59
Granted	37,500	\$ 26.94	338,000	\$ 23.17
Forfeited/Lapsed	—	—	—	—
Exercised	(38,000)	\$ 10.63	(29,000)	\$ 5.45
Outstanding, end of period	522,580	\$ 19.34	523,080	\$ 18.59
Exercisable, end of period	236,652	\$ 17.47	164,776	\$ 15.01
Weighted average fair value at grant date of options granted	\$ 13.36		\$ 12.16	
Total intrinsic value of options exercised	\$ 787,000		\$ 502,000	
Total intrinsic value of options outstanding	\$ 9,531,000		\$ 1,903,000	
Total intrinsic value of options exercisable	\$ 4,760,000		\$ 1,085,000	

0 and 37,500 options were granted during the three months ended September 30, 2023 and 2022, respectively. No options may be granted under this plan after December 2022. 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
Risk-free interest rates	n/a	3.03 %
Expected lives	n/a	7.27 Years
Expected volatility	n/a	43 %
Expected dividend yields	n/a	0 %

30,800 The following table reflects activity under the 2012 Employee Plan for the three months ended September 30:

	2023		2022	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	521,580	\$ 19.37	523,080	\$ 18.59
Granted	—	—	37,500	\$ 26.94
Forfeited/Lapsed	—	—	—	—

Exercised	—	—	(5,200)	\$ 8.64
Outstanding, end of period	521,580	\$ 19.37	555,380	\$ 19.25
Exercisable, end of period	258,328	\$ 17.40	183,852	\$ 15.26
Weighted average fair value at grant date of options granted	n/a		\$ 13.36	
Total intrinsic value of options exercised	n/a		\$ 107,000	
Total intrinsic value of options outstanding	\$ 1,763,000		\$ 5,684,000	
Total intrinsic value of options exercisable	\$ 1,358,000		\$ 2,586,000	

0 and 38,000 5,200 stock options were exercised during the three and nine months ended March 31, 2023, September 30, 2023 and 2022, respectively. 27,600 of the 30,800 options that were exercised during the three months ended March 31, 2023, were settled by exchanging 9,943 shares of the Company's common stock which were retired and returned to unissued status upon receipt. 29,600 of the 38,000 options that were exercised during the nine months ended March 31, 2023, were settled by exchanging 10,150 shares of the Company's common stock which were retired and returned to unissued status upon receipt. \$36,000 and \$81,000 \$45,000 cash was received from the option exercises during the three and nine months ended March 31, 2023, respectively. September 30, 2022. The actual tax benefit realized for the tax deductions from option exercises during the three and nine months ended March 31, 2023 September 30, 2022 was \$0 and \$0, respectively. 1,000 and 29,000 stock options were exercised during the three and nine months ended March 31, 2022, respectively. 1,000 options that were exercised during the three and nine months ended March 31, 2023, were settled by exchanging 153 shares of the Company's common stock which were retired and returned to unissued status upon receipt. \$0 and \$155,000 cash was received from the option exercises during the three and nine months ended March 31, 2022, respectively. The actual tax benefit realized for the tax deductions from option exercises during the three and nine months ended March 31, 2022 was \$3,000 for both periods, \$0.

The following table summarizes information about stock options outstanding under the 2012 Employee Plan at March 31, 2023 September 30, 2023:

Range of exercise prices	Options outstanding			Options exercisable		Options outstanding			Options exercisable	
	Weighted average		Number	Weighted average		Weighted average		Number	Weighted average	
	remaining	Weighted average		Number	Weighted average	remaining	Weighted average		Number	Weighted average
	outstanding	contractual life	exercise price	exercisable	exercise price	outstanding	contractual life	exercise price	exercisable	exercise price
\$3.15										
□										
\$26.94	522,580	7.90	\$ 19.34	236,652	\$ 17.47	521,580	7.42	\$ 19.37	258,328	\$ 17.40
	522,580	7.90	\$ 19.34	236,652	\$ 17.47	521,580	7.42	\$ 19.37	258,328	\$ 17.40

As of March 31, 2023 September 30, 2023, there was \$2,208,000 \$1,738,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Employee Plan. 0 and 37,500 Options options were granted during the three and nine months ended March 31, 2023, 5,200 September 30, 2023 and 97,900 2022, respectively. 10,700 and 12,300 options vested during the three and nine months ended March 31, 2023, September 30, 2023 and 2022, respectively. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2023 September 30, 2023 and 2022 under this plan was \$33,000 \$124,000 and \$916,000, respectively. 0 and 338,000 Options were granted during the three and nine months ended March 31, 2022. 5,200 and 95,600 options vested during the three and nine months ended March 31, 2022, respectively. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2022 under this plan was \$36,000 and \$975,000, \$129,000, 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

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option granted under this plan shall vest in full upon a “change in control” as defined in the plan. At **March 31, 2023** **September 30, 2023**, 20,400 stock options were outstanding, 13,920 stock options were exercisable and no further stock options were available for grant under this plan.

There were no options granted during the three **and nine** months ended **March 31, 2023**. 0 **and 9,600** Options were granted during the three **and nine** months ended **March 31, 2022**, **September 30, 2023 or 2022**. No options may be granted under this plan after December 2022. 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	2023	2022
Risk-free interest rates	n/a	1.68 %	n/a	n/a
Expected lives	n/a	6.18 Years	n/a	n/a
Expected volatility	n/a	43 %	n/a	n/a
Expected dividend yields	n/a	0 %	n/a	n/a

The following table reflects activity under the 2012 Non-Employee Plan for the **nine** **three** months ended **March 31**, **September 30**:

	2023				2022			
	Weighted average		Weighted average		Weighted average		Weighted average	
	Options	exercise price	Options	exercise price	Options	exercise price	Options	exercise price
Outstanding, beginning of year	20,400	\$ 14.39	12,000	\$ 6.55	20,400	\$ 14.39	20,400	\$ 14.39
Granted	—	—	9,600	\$ 22.93	—	—	—	—
Forfeited/Lapsed	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—
Outstanding, end of period	20,400	\$ 14.39	21,600	\$ 13.83	20,400	\$ 14.39	20,400	\$ 14.39
Exercisable, end of period	13,920	\$ 10.99	12,480	\$ 8.48	13,920	\$ 10.99	11,280	\$ 8.92
Weighted average fair value at grant date of options granted	n/a		\$ 12.58		n/a		n/a	
Total intrinsic value of options exercised	n/a		\$ n/a		n/a		n/a	
Total intrinsic value of options outstanding	\$ 473,000		\$ 168,000		\$167,000		\$300,000	
Total intrinsic value of options exercisable	\$ 370,000		\$ 155,000		\$159,000		\$227,000	

No stock options were exercised during the three **and nine** months ended **March 31, 2023 and September 30, 2023** or 2022, respectively. No cash was received from option exercises during the three **and nine** months ended **March 31, 2023 and September 30, 2023** or 2022, respectively, and the actual tax benefit realized for the tax deductions from option exercises was \$0 for both periods.

The following table summarizes information about stock options outstanding under the 2012 Non-Employee Plan at **March 31, 2023** **September 30, 2023**:

Options outstanding			Options exercisable		Options outstanding			Options exercisable	
Number	Weighted average remaining	Weighted average exercise	Number	Weighted average exercise	Number	Weighted average remaining	Weighted average exercise	Number	Weighted average exercise

Range of exercise prices	outstanding	contractual life	price	exercisable	price	outstanding	contractual life	price	exercisable	price
\$4.35 - \$22.93	20,400	6.90	\$ 14.39	13,920	\$ 10.99	20,400	6.40	\$ 14.39	13,920	\$ 10.99
	20,400	6.90	\$ 14.39	13,920	\$ 10.99	20,400	6.40	\$ 14.39	13,920	\$ 10.99

As of March 31, 2022 September 30, 2023, there was \$52,000 \$40,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2012 Non-Employee Plan. No options were granted during the three and nine months ended March 31, 2023, September 30, 2023 and 2022, respectively. 720 and 2,640 No options vested during the three and nine months ended March 31, 2023, respectively. The total grant date fair value September 30, 2023 and 2022.

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 options vesting during the three and nine months ended March 31, 2023 under this plan was \$5,000 and \$24,000, respectively. 0 and 9,600 Options were granted during the three and nine months ended March 31, 2022. 720 and 6,240 options vested during the three and nine months ended March 31, 2022, respectively. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2022 under this plan was \$5,000 and \$39,000, respectively. Company's common

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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 March 31, 2023 September 30, 2023, 77,500 75,000 stock options were outstanding. 53,220 50,720 stock options were exercisable and no further stock options were available for grant under this plan.

There were no options granted during the three and nine months ended March 31, 2023. 0 September 30, 2023 and 23,500 Options were granted during the three and nine months ended March 31, 2022. 2022. No options may be granted under this plan after December 2028. 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	2023	2022
Risk-free interest rates	n/a	1.68 %	n/a	n/a
Expected lives	n/a	6.18 Years	n/a	n/a
Expected volatility	n/a	43 %	n/a	n/a
Expected dividend yields	n/a	0 %	n/a	n/a

The following table reflects activity under the 2018 Non-Employee Plan for the nine months ended March 31: September 30:

	2023		2022		2023		2022	
	Weighted average		Weighted average		Weighted average		Weighted average	
	Options	exercise price	Options	exercise price	Options	exercise price	Options	exercise price
Outstanding, beginning of year	89,000	\$ 14.91	70,100	\$ 11.93	75,000	\$ 14.83	89,000	\$ 14.91

Granted	—	—	23,500	\$ 22.93	—	—	—	—
Forfeited/Lapsed	—	—	—	—	—	—	—	—
Exercised	(11,500)	\$ 15.14	(4,600)	\$ 10.43	—	—	(6,300)	\$ 14.41
Outstanding, end of period	77,500	\$ 14.88	89,000	\$ 14.91	75,000	\$ 14.83	82,700	\$ 14.95
Exercisable, end of period	53,220	\$ 13.03	45,040	\$ 12.98	50,720	\$ 12.87	38,740	\$ 12.75
Weighted average fair value at grant date of options granted	n/a		\$ 12.58		n/a		n/a	
Total intrinsic value of options exercised	\$ 164,000		\$ 58,000		n/a		\$ 99,000	
Total intrinsic value of options outstanding	\$ 1,760,000		\$ 556,000		\$570,000		\$1,169,000	
Total intrinsic value of options exercisable	\$ 1,307,000		\$ 351,000		\$480,000		\$ 633,000	

1,600 and 11,500 6,300 options were exercised during the three and nine months ended March 31, 2023, September 30, 2023 and 2022, respectively. The 1,600 6,300 options that were exercised during the three months ended March 31, 2023 September 30, 2022, were settled by exchanging 395 shares of the Company's common stock which were retired and returned to unissued status upon receipt. The 11,500 options that were exercised during the nine months ended March 31, 2023 were settled by exchanging 6,052 3,020 shares of the Company's common stock which were retired and returned to unissued status upon receipt. No cash was received from option exercises during the three and nine months ended March 31, 2023, September 30, 2022, and the actual tax benefit realized for the tax deductions from option exercises was \$8,000 and \$34,000, respectively. 1,600 and 4,600 \$21,000.

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

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$8.10 - \$22.93	75,000	6.51	\$ 14.83	50,720	\$ 12.87
	75,000	6.51	\$ 14.83	50,720	\$ 12.87

As of September 30, 2023, there was \$104,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2018 Non-Employee Plan. No options were exercised during the three and nine months ended March 31, 2022, respectively. The 1,600 options that were exercised granted during the three months ended March 31, 2022, were settled by exchanging 663 shares of the Company's common stock which were retired September 30, 2023 and returned to unissued status upon receipt. The 4,600 2022, respectively. No options that were exercised vested during the nine three months ended March 31, 2022, were settled by exchanging 2,075 shares of the Company's common stock which were retired September 30, 2023 and returned to unissued status upon receipt. No cash was received from option exercises during either of the three of nine months ended March 31, 2022. For the three and nine months ended March 31, 2022 the actual tax benefit realized for the tax deductions from option exercises was \$4,000 and \$12,000, respectively, 2022.

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The following table summarizes information about stock options outstanding under the 2018 Non-Employee Plan at March 31, 2023:

	Options outstanding		Options exercisable	
	Weighted average	Weighted	Weighted	

Range of exercise prices	Number outstanding	remaining contractual life	average exercise price	Number exercisable	average exercise price
\$8.10 - \$22.93	77,500	7.03	\$ 14.88	53,220	\$ 13.03
	77,500	7.03	\$ 14.88	53,220	\$ 13.03

As of March 31, 2023, there was \$166,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2018 Non-Employee Plan. No options were granted during the three and nine months ended March 31, 2023, respectively. 5,380 and 19,680 options vested during the three and nine months ended March 31, 2023, respectively. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2023 under this plan was \$35,000 and \$149,000, respectively. 0 and 23,500 options were granted during the three and nine months ended March 31, 2022. 5,380 and 19,680 options vested during the three and nine months ended March 31, 2022. The total grant date fair value of the options vesting during the three and nine months ended December 31, 2021 under this plan was \$35,000 and \$160,000, 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 March 31, 2023 September 30, 2023, 56,900 stock options were outstanding, 18,760 25,760 stock options were exercisable and 43,100 stock options were available for grant under this plan.

5,000 0 and 30,000 Options 25,000 options were granted during the three and nine months ended March 31, 2023. 0 September 30, 2023 and 16,900 Options were granted during the three and nine months ended March 31, 2022, respectively. No options may be granted under this plan after May 2030. 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	2023	2022
Risk-free interest rates	3.03 - 3.40 %	1.68 %	n/a	3.03 %
Expected lives	7.23 - 7.27 Years	6.18 Years	n/a	7.27 Years
Expected volatility	43 %	43 %	n/a	43 %
Expected dividend yields	0 %	0 %	n/a	0 %

The following table reflects activity under the 2020 Non-Employee Plan for the nine three months ended March 31; September 30:

	2023				2022			
	Weighted average		Weighted average		Weighted average		Weighted average	
	Options	exercise price	Options	exercise price	Options	exercise price	Options	exercise price
Outstanding, beginning of year	26,900	\$ 18.64	10,000	\$ 11.40	56,900	\$ 23.35	26,900	\$ 18.64
Granted	30,000	\$ 27.57	16,900	\$ 22.93	—	—	25,000	\$ 26.94
Forfeited/Lapsed	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—
Outstanding, end of period	56,900	\$ 23.35	26,900	\$ 18.64	56,900	\$ 23.35	51,900	\$ 22.64
Exercisable, end of period	18,760	\$ 20.73	7,380	\$ 16.68	25,760	\$ 21.21	14,380	\$ 19.51
Weighted average fair value at grant date of options granted	\$ 13.74		\$ 12.58		n/a		\$ 13.36	
Total intrinsic value of options exercised	n/a		n/a		n/a		n/a	
Total intrinsic value of options outstanding	\$ 810,000		\$ 91,000		\$109,000		\$334,000	

Total intrinsic value of options exercisable	\$ 316,000	\$ 36,000	\$ 87,000	\$138,000
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No stock options were exercised during the three and nine months ended March 31, 2023 and September 30, 2023 or 2022. No cash was received from option exercises during either of the three and nine months ended March 31, 2023 September 30, 2023 or 2022 and the actual tax benefit realized for the tax deductions from option exercises was \$0 for both periods.

The following table summarizes information about stock options outstanding under the 2020 Non-Employee Plan at March 31, 2023 September 30, 2023:

Range of exercise prices	Options outstanding					Options exercisable				
	Weighted average					Weighted average				
	Number	remaining	Weighted average	Number	Weighted average	Number	remaining	Weighted average	Number	Weighted average
	outstanding	contractual life	exercise price	exercisable	exercise price	outstanding	contractual life	exercise price	exercisable	exercise price
\$11.40 - \$30.71	56,900	8.84	\$ 23.35	18,760	\$ 20.73	56,900	8.34	\$ 23.35	25,760	\$ 21.21
	56,900	8.84	\$ 23.35	18,760	\$ 20.73	56,900	8.34	\$ 23.35	25,760	\$ 21.21

As of March 31, 2023 September 30, 2023, there was \$376,000 \$312,000 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2020 Non-Employee Plan. 5,000 0 and 30,000 25,000 options were granted during the three and nine months ended March 31, 2023 September 30, 2023

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30, 2023 and 2022, respectively. 1,000 and 11,380 7,000 options vested during both the three and nine months ended March 31, 2023 September 30, 2023 and 2022. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2023 September 30, 2023 and 2022, under this plan was \$16,000 \$79,000 each period.

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 \$129,000. 0 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 5,380 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 September 30, 2023, there were no stock options outstanding or exercisable and 950,000 stock options were available for grant under this plan.

There were no options granted during the three months ended September 30, 2023. No options may be granted under this plan after December 2032. 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	n/a
Expected lives	n/a
Expected volatility	n/a
Expected dividend yields	n/a

The following table reflects activity under the 2022 Employee Plan for the three months ended September 30:

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

No options were exercised during the three months ended September 30, 2023. No cash was received from option exercises during the three months ended September 30, 2023 and the actual tax benefit realized for the tax deductions from option exercises was \$0.

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

	Options outstanding			Options exercisable	
	Number	Weighted average remaining contractual life	Weighted average exercise price	Number	Weighted average exercise price
Range of exercise prices	outstanding			exercisable	
n/a	—	—	\$ —	—	\$ —
	—	—	\$ —	—	\$ —

As of September 30, 2023, there was \$0 of unearned stock-based compensation cost related to share-based compensation arrangements granted under the 2022 Employee Plan. No options were granted during the three months ended September 30, 2023. No options vested during the three and nine months ended March 31, 2022 September 30, 2023. The total grant date fair value of the options vesting during the three and nine months ended March 31, 2022 under this plan was \$0 and \$55,000.

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 loan agreement described in Note 8, the Company's lender gave its consent to this stock repurchase plan. During the three and nine months ended March 31, 2023 September 30, 2023 and the fiscal year ended June 30, 2022 June 30, 2023, the Company did not repurchase any shares of its outstanding common stock. Pursuant to the PPP described in Note 8, the Company may not repurchase any of its shares of common stock until 12 months after the termination of the term loans described therein which occurred between August, 2021 and September, 2021.

On December 6, 2021 August 18, 2023, 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 \$.01 par value per share.

In December 2021, the Company's Board of Directors approved declared a two-for-one stock split in the form of a 100% stock cash dividend of the Company's common stock \$.08 per share payable on September 22, 2023 to stockholders of record on December 20, 2021 September 1, 2023. The additional shares

There were distributed on January 4, 2022. All share no options exercised by certain employees 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.

During directors during the three months ended March 31, 2023, September 30, 2023. During fiscal 2023, certain employees and Directors directors exercised stock options under the Company's 2012 Employee and 2018 Non-Employee Stock Option Plan Plans totaling 32,400 53,000 shares. 29,200 of the 32,400 43,600 of these exercises were completed as cashless exercises as allowed for under the Plan, plans, where the exercise shares are issued by the Company in exchange for shares of the Company's Company's common stock that are owned by the optionees. The number of shares surrendered by the optionees was 10,338 and was based upon the per share price on the effective date of the option exercise. \$36,000 cash was received from the other 3,200 options exercised.

During the nine months ended March 31, 2023, certain employees and Directors exercised stock options under the Company's 2012 Employee and 2018 Non-Employee Stock Option Plan totaling 49,500 shares. 41,100 of these exercises were completed as cashless exercises as allowed for under the Plan, 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 16,202 and was based upon the per share price on the effective date of the option exercise. \$81,000 cash was received from the other 8,400 shares exercised.

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

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stock that are owned by the optionees. The number of shares surrendered by the optionees was 2,486 17,385 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, In February 2023, the Company's President and Chairman and the Company's Executive Vice President and Chief Financial Officer sold 2,012,500 2,300,000 and 87,500 100,000 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 \$496,000 in offering expenses, which are recorded in selling, general, and administrative expenses in the accompanying condensed consolidated statements of income. offerings.

NOTE 12 - 401(k) Plan

The Company maintains a 401(k) plan ("the Plan") that covers all U.S. non-union employees with and is qualified under Sections 401(a) and 401(k) of the Internal Revenue Code. Company contributions to this plan are discretionary and totaled \$64,000 \$62,000 and \$187,000 \$63,000 for the three and nine months ended March 31, 2023. Company contributions to this plan are discretionary September 30, 2023 and totaled \$59,000 and \$132,000 for the three and nine months ended March 31, 2022, 2022, 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.

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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 three months March 31, 2023 ended September 30, 2023 and 2022 cash payments against operating lease liabilities totaled \$85,000 \$86,000 and \$72,000, respectively. For the nine months March 31, 2023 and 2022, cash payments against operating lease liabilities totaled \$249,000 and \$216,000, 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 %

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The following is a schedule, by years, of maturities of lease liabilities as of March 31, 2023 September 30, 2023 (in thousands):

Year Ending June 30,	Amount	Amount
2023	\$ 81	
2024	316	\$ 235
2025	299	299
2026	282	282
2027	267	267

2028		253
Thereafter	4,633	4,386
Total	\$ 5,878	\$5,722

Operating lease expense totaled approximately \$123,000 \$124,000 and \$80,000 for the three months ended March 31, 2023 and 2022, respectively. Operating lease expense totaled approximately \$334,000 and \$239,000 for the nine months ended March 31, 2023 September 30, 2023 and 2022, 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.

On August 18, 2023, the Company announced that it would be restating its financial statements for the quarters ending September 30, 2022, December 31, 2022 and March 31, 2023. Following this announcement, on August 29, 2023, a purported class action, brought on behalf of a putative class who acquired publicly traded NAPCO securities between November 7, 2022 and August 18, 2023, 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. The action, captioned *Zornberg v. Napco Security Technologies, Inc. et al.*, asserts securities fraud claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 in connection with statements made in the Company's quarterly reports and earnings releases during the period of November 7, 2022 through May 8, 2023. On October 30, 2023, five plaintiffs filed applications to be lead plaintiff in the action. The Company intends to vigorously defend against the action.

Employment Agreements

As of March 31, 2023 September 30, 2023, the Company was obligated under two employment agreements and one severance agreement. The employment agreements are with the Company's CEO, CFO and Cand the Senior Vice President of Engineering ("the SVP of Engineering") and the severance agreement is with the Company's Executive Vice President of Operations and Chief Financial Officer ("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 year's 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 month's salary and continued company-sponsored health insurance for six months from the date of termination.

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The severance agreement is with the Executive Vice President of Operations and Chief Financial Officer CFO 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 month's 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 primarily 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.

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

	Three months ended March 31,		Nine months ended March 31,		Three months ended September 30,	
	2023	2022	2023	2022	2023	2022
Sales to external customers (1):						
Sales to external customers (1):						
Domestic	\$ 43,228	\$ 35,522	\$ 124,373	\$ 99,327	\$ 41,371	\$ 39,259
Foreign	304	383	966	1,037	305	234
Total Net Sales	\$ 43,532	\$ 35,905	\$ 125,339	\$ 100,364	\$ 41,676	\$ 39,493

	March 31, 2023		June 30, 2022		September 30, 2023		June 30, 2023	
Identifiable assets:								
United States	\$	109,525	\$	98,791	\$	129,254	\$	122,995
Dominican Republic (2)		55,757		49,785		47,435		43,659
Total Identifiable Assets	\$	165,282	\$	148,576	\$	176,689	\$	166,654

- (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 (March 31, (September 30, 2023 = \$45,332; June 30, 2022 \$37,385; June 30, 2023 = \$38,755) \$33,477), operating lease assets (March 31, (September 30, 2023 = \$5,878; June 30, 2022 \$5,722; June 30, 2023 = \$7,350) \$5,797) and fixed assets (March 31, (September 30, 2023 = \$4,083; June 30, 2022 \$3,851; June 30, 2023 = \$3,253) \$3,958) 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 condensed consolidated financial statements for events requiring recording or disclosure in the condensed consolidated financial statements.

On May 5, 2023 November 2, 2023, the Company's Board of Directors declared a cash dividend of \$0.0625 \$0.08 per share payable on June 12, 2023 December 22, 2023 to stockholders of record on May 22, 2023 December 1, 2023.

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

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

This Quarterly Report on Form 10-Q and the 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 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** **June 30, 2023** 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.

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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. Our wireless communication services have led to the substantial growth in our monthly recurring revenues.

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.

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.

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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. Our monthly recurring service revenue, which is less susceptible to these fluctuations, allows us to generate a more consistent and predictable income stream.

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 2022 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.

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Results of Operations

	Three months ended March 31, (dollars in thousands)			Nine months ended March 31, (dollars in thousands)			Three months ended September 30, (dollars in thousands)		
	2023	2022	% Increase/ (decrease)	2023	2022	% Increase/ (decrease)	2023	2022	% Increase/ (decrease)
Net sales: equipment revenues	\$ 28,390	\$ 23,873	18.9 %	\$ 81,511	\$ 67,080	21.5 %	\$24,391	\$25,687	(5.0)%
service revenues	15,142	12,032	25.8 %	43,828	33,284	31.7 %	17,285	13,806	25.2 %
Total net sales	43,532	35,905	21.2 %	125,339	100,364	24.9 %	41,676	39,493	5.5 %
Gross Profit: equipment	9,002	4,539	98.3 %	21,271	11,003	93.3 %	6,894	2,421	184.8 %
services	13,669	10,494	30.3 %	39,029	28,929	34.9 %	15,519	12,145	27.8 %
Total gross profit	22,671	15,033	50.8 %	60,300	39,932	51.0 %	22,413	14,566	53.9 %
Gross profit as a % of net sales:	52.1 %	41.9 %	24.4 %	48.1 %	39.8 %	20.9 %	53.8 %	36.9 %	45.8 %
equipment	31.7 %	19.0 %	66.8 %	26.1 %	16.4 %	59.1 %	28.3 %	9.4 %	199.9 %
services	90.3 %	87.2 %	3.5 %	89.1 %	86.9 %	2.5 %	89.8 %	88.0 %	2.1 %
Research and development	2,314	2,009	15.2 %	6,964	5,918	17.7 %	2,437	2,428	0.4 %
Selling, general and administrative	8,425	8,442	(0.2)%	24,719	23,983	3.1 %	8,421	8,490	(0.8)%
Selling, general and administrative as a percentage of net sales	19.4 %	23.5 %	(17.4)%	19.7 %	23.9 %	(17.5)%	20.2 %	21.5 %	(6.0)%
Operating income	11,932	4,582	160.4 %	28,617	10,031	185.3 %	11,555	3,648	216.7 %
Interest and other income (expense), net	437	(177)	(346.9)%	521	(102)	(610.8)%	440	(103)	(527.2)%
Gain on extinguishment of debt	—	—	—	—	3,904	(100.0)%	—	—	—
Provision for income taxes	1,529	1,132	35.1 %	3,450	1,771	94.8 %	1,517	461	229.1 %
Net income	10,840	3,273	231.2 %	25,688	12,062	113.0 %	10,478	3,084	239.8 %

Net Sales for the three months ended March 31, 2023 September 30, 2023 increased by \$7,627,000, \$2,183,000, or 21.2% 5.5%, to \$43,352,000 \$41,676,000 as compared to \$35,905,000 \$39,493,000 for the same period a year ago. The increase in sales for the three months ended March 31, 2023 September 30, 2023 was due primarily to revenue increases in recurring communication services (\$3,110,000 \$3,479,000), Alarm Lock brand door-locking products

(\$4,278,000, 2,111,000), Marks brand door-locking products (\$927,000, 828,000), and Continental brand access control products (\$113,000, 79,000) as partially partially offset by a decrease in Napco brand intrusion products (\$1,250,000, 4,314,000). Net Sales for the nine months ended March 31, 2023 increased by \$24,975,000, or 24.9%, to \$125,339,000 as compared to \$100,364,000 for the same period a year ago. The increase in sales for the nine months ended March 31, 2023 was due primarily to revenue increases in recurring communication services (\$10,544,000), Napco brand intrusion products, which include the Company's cellular radio products (\$1,993,000), Alarm Lock brand door-locking products (\$9,045,000), Marks brand door-locking products (\$2,212,000), and Continental brand access control products (\$1,182,000). The Company's increase in equipment sales was primarily due to a general increase in demand for the Company's hardware products.

The Company's gross profit increased by \$7,638,000, \$7,847,000 to \$22,671,000, \$22,413,000, or 52.1%, 53.8% of net sales, for the three months ended March 31, 2023 September 30, 2023 as compared to \$15,033,000, \$14,566,000, or 41.9%, 36.9% of net sales, for the same period a year ago. Gross profit on equipment sales was \$9,002,000, \$6,894,000, or 31.7%, 28.3% of net equipment sales, for the three months ended March 31, 2023 September 30, 2023 and \$4,539,000, \$2,421,000, or 19.0%, 9.4% of net equipment sales, for the same period a year ago. Gross profit on service revenues was \$13,669,000, \$15,519,000, or 90.3%, 89.8% of net service revenues, for the three months ended March 31, 2023 September 30, 2023 and \$10,494,000, \$12,145,000, or 87.2%, 88.0% of net service revenues, for the same period a year ago. The increase in gross profit in dollars and as a percentage of net sales on equipment revenues during the three months ended September 30, 2023 primarily resulted from a favorable shift in the proportion of sales and service revenues was primarily to the result of the increase in revenues of each as described above Company's door-locking products, which typically have higher margins than intrusion products, as well as increased availability and from lower costs of certain components and transportation as compared to the same period last a year which resulted from improvements within ago when the Company's Company was still feeling the effects of the global supply chain chain shortages. The increases in revenues resulted in improved overhead absorption rates. In addition, price of these components had increased during the increase in gross margin on service revenues was due, in part, to increased service revenues relating to supply chain disruptions that occurred during the Company's fire radios, which have higher monthly selling prices than the Company's intrusion radios.

The Company's gross profit increased by \$20,368,000 to \$60,300,000, or 48.1% of net sales, for the nine three months ended March 31, 2023 as compared to \$39,932,000, or 39.8% of net sales, for the same period a year ago. Gross profit on equipment sales was \$21,271,000, or 26.1% of net equipment sales, for the nine months ended March 31, 2023 and \$11,003,000, or 16.4% of net equipment sales, for the same period a year ago. Gross profit on service revenues was \$39,029,000, or 89.1% of net service revenues, for the nine months ended March 31, 2023 and \$28,929,000, or 86.9% of net service revenues, for the same period a year ago. September 30, 2022. The increase in gross profit in dollars and as a percentage of net sales on equipment sales was primarily service revenues during the result of the increase in three months ended September 30,

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2023 was primarily the result of the increase in revenues as described above which improved overhead absorption rates, increased availability and lower costs of components and transportation as compared to the same period last year as well as a favorable shift in product mix the the Company's Alarm Lock brand door locking products, which typically have higher margins. The increase in gross margin on service greater proportion of those revenues was due primarily to increased service revenues relating to being generated by the Company's fire radios, which have generate higher monthly selling prices service charges than those of the Company's intrusion radios. The increases in total Gross Profit and total Gross Profit as a Percentage of Net Sales resulted from the increases described above.

Research and development expenses for the three months ended March 31, 2023 increased \$305,000 to \$2,314,000, September 30, 2023 remained relatively consistent at \$2,437,000, or 5.3%, 5.8% of net sales, as compared to \$2,009,000, \$2,428,000, or 5.6%, 6.1% of net sales, for the same period a year ago. Research and development expenses for the nine months ended March 31, 2023 increased \$1,046,000 to \$6,964,000, or 5.6% of net sales, as compared to \$5,918,000, or 5.9% of net sales, for the same period a year ago. The increase in dollars was due primarily to salary increases and additional staff.

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2023 September 30, 2023 remained relatively consistent at \$8,425,000 \$8,421,000 as compared to \$8,442,000 \$8,490,000 for the same period a year ago. SG&A expenses as a percentage of net sales decreased to 19.4%, 20.2% for the three months ended March 31, 2023 September 30, 2023 as compared to 23.5%, 21.5% for the same period a year ago. The decrease as a percentage of net sales was due primarily to the increase in net sales without the need to increase to increase SG&A expenses. SG&A expenses for the nine months ended March 31, 2023 increased by \$736,000, or 3.1%, to \$24,719,000 from \$23,983,000 for the same period a year ago. SG&A expenses as a percentage of net sales decreased to 19.7% for the nine months ended March 31, 2023 as compared to 23.9% for the same period a year ago. The increase in dollars resulted primarily from increases in expenses relating to the Company's President and Chairman and the Company's Executive Vice President and Chief Financial Officer selling shares of our Common stock in an underwritten secondary public offering, which is discussed more fully in Note 11 to the Condensed

Consolidated financial statements, and credit card processing fees related to our monthly recurring service revenues. The decrease as a percentage of net sales was due primarily to the increase in net sales as partially offset by the aforementioned increase in expense dollars.

Interest and other income (expense), net for the three months ended **March 31, 2023** **September 30, 2023** increased by **\$614,000** **\$543,000** to income of **\$437,000** **\$440,000** as compared to expense of \$177,000 for the same period a year ago. Interest and other income (expense), net for the nine months ended **March 31, 2023** increased by \$623,000 to income of \$521,000 as compared to expense of \$102,000 **\$103,000** for the same period a year ago. The **increases** **increase** in income for the three **and nine** months was primarily due to **an increase in** interest income on certificates of **deposits** **purchased during** the nine months ended **March 31, 2023**.

Gain on extinguishment of debt resulted from a one-time gain in the nine months ended **March 31, 2022** which resulted from the forgiveness of the Company's PPP loans as described in Note 8 to the condensed consolidated financial statements: **deposits**.

The Company's provision for income taxes for the three months ended **March 31, 2023** **September 30, 2023** increased by **\$397,000** **\$1,056,000** to **\$1,529,000** **\$1,517,000** as compared to **\$1,132,000** **\$461,000** for the same period a year ago. The increase in the provision for income taxes for the three months was primarily due to higher taxable income in the U.S. The Company's effective rate for income tax was **12.4%** **12.6%** and **25.7%** **13.0%** for the three months ended **March 31, 2023** and **2022** respectively. The Company's provision for income taxes for the nine months ended **March 31, 2023** increased by \$1,679,000 to **\$3,450,000** as compared to \$1,771,000 for the same period a year ago. The increase in the provision for income taxes for the nine months was primarily due to higher taxable income in the U.S. The Company's effective rate for income tax was 11.8% and 12.8% for the nine months ended **March 31, 2023** **September 30, 2023** and **2022** respectively.

Net income for the three months ended **March 31, 2023** **September 30, 2023** increased by **\$7,567,000** **\$7,394,000** to **\$10,840,000** **\$10,478,000** or **\$0.29** **\$0.28** per diluted share as compared to **\$3,273,000** **\$3,084,000** or \$0.09 per diluted share for the same period a year ago. Net income for the nine months ended **March 31, 2023** increased by \$13,626,000 to \$25,688,000 or \$0.69 per diluted share as compared to \$12,062,000 or **\$0.33** **\$0.08** per diluted share for the same period a year ago. The increase in net income for the three **and nine** months ended **March 31, 2023** **September 30, 2023** was primarily due to the items described above. Without the inclusion of \$3.9 million of income from the forgiveness of debt net income and diluted earnings per share for the nine months ended **March 31, 2022** would have been \$8.2 million and \$0.22, respectively.

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[Liquidity and Capital Resources](#)

The Company has cash, certificates of deposit ("CD") which mature within 12 months, and marketable securities which aggregate to \$74 million. During the **nine** **three** months ended **March 31, 2023** **September 30, 2023**, the Company utilized a portion of its cash balance at **June 30, 2022** **June 30, 2023** (**\$32,732,000** **646,000** of **\$41,730,000** **\$35,955,000**) to purchase marketable securities and other investments (**\$30,185,000** **389,000**) and property, plant and equipment (**\$2,547,000** **257,000**). The securities and investments consist of money market accounts, CD's and time deposits. During the **nine** **three** months ended **March 31, 2023** **September 30, 2023**, the Company generated cash flows from operations of **\$12,416,000** **\$11,210,000**. 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.

Accounts receivable at **March 31, 2023** **September 30, 2023** decreased by **\$5,048,000** **\$3,148,000** to **\$24,170,000** **\$22,921,000** as compared to **\$29,218,000** **\$26,069,000** at **June 30, 2022** **June 30, 2023**. This decrease is primarily the result of the higher sales volume of equipment during the quarter ended **June 30, 2022** **June 30, 2023**, which is typically the Company's highest, as compared to the quarter ended **March 31, 2023** **September 30, 2023**. **In addition, sales** of the Company's radio communication devices were unusually high in the month of June 2022 due to the Company fulfilling backorders of these products which had built up during the world-wide supply chain difficulties. Sales of these products were at more normal levels in the month of **March 2023**.

Inventories, which include both current and non-current portions, increased by **\$11,000,000** **\$5,798,000** to **\$60,786,000** **\$54,147,000** at **March 31, 2023** **September 30, 2023** as compared to **\$49,786,000** **\$48,349,000** at **June 30, 2022** **June 30, 2023**. The increase was due primarily to a build-up of inventory of the Company's radio products in order to mitigate potential supply chain **interruptions** **interruptions** of these products. The increase was also due to the ongoing shortages of certain component parts and the Company purchasing large quantities of these **hard to source** **hard-to-source** component parts when they **become** **became** available. As these challenges **begin** **have begun** to subside, the Company **has reduced the quantities of these components being** **purchased and** believes its inventory levels will decrease.

Accounts payable and accrued expenses, not including income taxes payable, decreased increased by \$7,129,000 \$2,210,000 to \$17,496,000 \$21,896,000 as of March 31, 2023 September 30, 2023 as compared to \$24,625,000 \$19,686,000 as of June 30, 2022 June 30, 2023. This decrease increase is primarily due to a decreases 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, accrued employee compensation, and accounts payable, which relates to the Company reducing Company's recent purchases relating to its newly introduced Prima intrusion alarm products as well as recent purchases of component parts in components for the latter part of the quarter ended March 31, 2023 after building up it's inventory in fiscal 2022. Company's radio products.

As of March 31, 2023 September 30, 2023 and 2022, long-term debt consisted of a revolving line of credit of \$11,000,000 ("Revolver Agreement"), with no amounts outstanding, which expires in June 2024. The revolving credit facility contains various restrictions and covenants

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including, among others, restrictions on borrowings and compliance with certain financial ratios, as defined in the agreement. The Company's long-term debt is described more fully in Note 8 to the condensed consolidated financial statements.

As of March 31, 2023 September 30, 2023, the Company had no material commitments for capital expenditures or inventory purchases other than purchase orders issued in the normal course of business. In addition, the Company's balance sheet reflects a refund liability of \$4,841,000 \$3,833,000 as of March 31, 2023 September 30, 2023 for customer returns and promotional credits which is more fully discussed in Note 2 to the Condensed Consolidated Financial Statements. condensed consolidated financial statements.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

The Company's principal financial instrument is long-term debt (consisting of a revolving credit facility) that provides for interest based on the prime rate or LIBOR SOFR 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 \$885,000. \$887,000.

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ITEM 4: Controls and Procedures

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

At the conclusion of the period ended March 31, 2023 September 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. As disclosed in our Annual Report on Form 10-K for the year ended **June 30, 2022** **June 30, 2023**, management identified **two three** material weaknesses in internal control.

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 material weakness did not result in any identified misstatements to the financial statements and there were no changes to the previously released financial results. Based on this material weaknesses, the Company's management concluded that at June 30, 2022 the Company's internal controls over financial reporting were not effective.**

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. **The**

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 result 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 misstatement 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 statements. There resources to these efforts.

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Based on these material weaknesses, the Company's management has concluded that at September 30, 2023 the Company's internal controls over financial reporting were no changes to the previously released financial results, not effective.

Management, **together with external consultants**, is currently designing and implementing additional controls and procedures to remediate these items and expects to complete these actions during fiscal 2023. These include, but are not limited 2024. While the Company has begun the process to **modifying its program change-management process over certain** take measures which it believes will remediate the underlying causes of **its information technology (IT) systems that support** 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 **reporting processes as well as implementing changes resources to its forecasted sales and usage data used in calculating its reserve for excess and slow-moving inventory, these efforts.**

During the three **and nine** months ended **March 31, 2023** **September 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. **As of March 31, 2023, the Company's controls over financial reporting were not effective because of the two material weaknesses noted except as described above.**

PART II: OTHER INFORMATION

[Item 1. Legal Proceedings](#)

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.

On August 18, 2023, the Company announced that it would be restating its financial statements for the quarters ending September 30, 2022, December 31, 2022 and March 31, 2023. Following this announcement, on August 29, 2023, a purported class action, brought on behalf of a putative class who acquired publicly traded NAPCO securities between November 7, 2022 and August 18, 2023, 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. The action, captioned *Zornberg v. Napco Security Technologies, Inc. et al.*, asserts securities fraud claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 in connection with statements made in the Company's quarterly reports and earnings releases during the period of November 7, 2022 through May 8, 2023. On October 30, 2023, five plaintiffs filed applications to be lead plaintiff in the action. The Company intends to vigorously defend against the action.

Item 1A. Risk Factors

Information regarding the Company's Risk Factors are set forth in the Company's Annual Report on Form 10-K for the year ended June 30, 2022 June 30, 2023. There has been no material change in the risk factors previously disclosed in the Company's Form 10-K for the three and nine months ended March 31, 2023 September 30, 2023.

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Item 6. Exhibits

31.1	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Richard L. Soloway, Chairman of the Board and President
31.2	Certification Pursuant to Rule 13a-14(a)/15d-14(a) of Kevin S. Buchel, Executive Vice President and Chief Financial Officer
32.1	Section 1350 Certifications
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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SIGNATURES

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

May 8, November 9, 2023

NAPCO SECURITY TECHNOLOGIES, INC.

(Registrant)

By: /s/ RICHARD L. SOLOWAY

Richard L. Soloway

Chairman of the Board of Directors, President and Secretary

(Chief Executive Officer)

By: /s/ KEVIN S. BUCHEL

Kevin S. Buchel

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Richard Soloway, certify that:

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

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2023 November 9, 2023

/s/RICHARD L. SOLOWAY

Richard Soloway
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, Kevin S. Buchel, certify that:

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

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2023 November 9, 2023

/s/KEVIN S. BUCHEL
Kevin S. Buchel
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of Napco Security Technologies, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2023 September 30, 2023, filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, RICHARD L. SOLOWAY, Chief Executive Officer of the Company, certify, that to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2023 November 9, 2023

/s/RICHARD L. SOLOWAY
Richard L. Soloway, Chief Executive Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

In connection with the Quarterly Report of Napco Security Technologies, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2023 September 30, 2023, filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, KEVIN S. BUCHEL, Chief Financial Officer of the Company, certify, that to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 8, 2023 November 9, 2023

/s/KEVIN S. BUCHEL
Kevin S. Buchel, Chief Financial Officer

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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

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