

NAPCO SECURITY TECHNOLOGIES, INC

Form 10-Q

November 13, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: SEPTEMBER 30, 2012
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission File number: 0-10004

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

Delaware
(State or other jurisdiction of incorporation of organization)

11-2277818
(IRS Employer Identification Number)

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

11701
(Zip Code)

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

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

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

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

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

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

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

Yes No

Number of shares outstanding of each of the issuer’s classes of common stock, as of: November 12, 2012

COMMON STOCK, \$.01 PAR VALUE PER SHARE 19,108,906

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2012 (unaudited)	June 30, 2012 (audited)
	(in thousands, except for share data)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$2,327	\$2,979
Accounts receivable, net of reserves and allowances	14,549	16,408
Inventories	18,698	19,448
Prepaid expenses and other current assets	989	964
Income tax receivable	137	--
Deferred income taxes	657	650
Total Current Assets	37,357	40,449
Inventories - non-current	4,735	3,834
Deferred income taxes	1,718	1,762
Property, plant and equipment, net	7,060	7,247
Intangible assets, net	11,021	11,251
Other assets	227	207
TOTAL ASSETS	\$62,118	\$64,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long term debt	\$1,600	\$1,600
Accounts payable	3,707	3,163
Accrued expenses	1,345	1,814
Accrued salaries and wages	1,551	1,589
Accrued income taxes	--	78
Total Current Liabilities	8,203	8,244
Long-term debt, net of current maturities	16,500	18,657
Accrued income taxes	126	126
Total Liabilities	24,829	27,027
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common Stock, par value \$0.01 per share; 40,000,000 shares authorized; 20,108,906 and 20,095,713 shares issued; and 19,108,906 and 19,095,713 shares outstanding, respectively	201	201
Additional paid-in capital	14,080	14,080
Retained earnings	28,623	29,057
	42,904	43,338
Less: Treasury Stock, at cost (1,000,000 shares)	(5,615)	(5,615)
TOTAL STOCKHOLDERS' EQUITY	37,289	37,723
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$62,118	\$64,750

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30,	
	2012	2011
	(In thousands, except share and per share data)	
Net sales	\$15,216	\$16,203
Cost of sales	11,080	12,047
Gross Profit	4,136	4,156
Selling, general, and administrative expenses	4,535	4,298
Operating Loss	(399)	(142)
Other expense:		
Interest expense, net	177	304
Other, net	3	14
	180	318
Loss before Benefit for Income Taxes	(579)	(460)
Benefit for income taxes	145	293
Net Loss	\$(434)	\$(167)
Loss per share:		
Basic	\$(0.02)	\$(0.01)
Diluted	\$(0.02)	\$(0.01)
Weighted average number of shares outstanding:		
Basic	19,097,000	19,096,000
Diluted	19,097,000	19,096,000

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended September 30, 2012 2011 (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$(434	) \$(167
Adjustments to reconcile net loss to net cash provided by operating activities:)
Depreciation and amortization	484	536
Deferred income taxes	37	36
Stock based compensation expense	--	7
Changes in operating assets and liabilities:		
Accounts receivable	1,859	2,462
Inventories	(151	) (2,064
Prepaid expenses and other current assets	(24	) 274
Income tax receivable	(137	) (368
Other assets	(23	) (29
Accounts payable and accrued expenses	(41	) 135
Net Cash Provided by Operating Activities	1,570	822
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant, and equipment	(65	) (34
Net Cash Used in Investing Activities	(65	) (34
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(2,157	) (893
Net Cash Used in Financing Activities	(2,157	) (893
Net Decrease in Cash and Cash Equivalents	(652	) (105
CASH AND CASH EQUIVALENTS - Beginning	2,979	3,077
CASH AND CASH EQUIVALENTS - Ending	\$2,327	\$2,972
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid, net	\$111	\$290
Income taxes paid	\$31	\$464
NON-CASH FINANCING ACTIVITIES:		
Surrender of shares for common stock options exercised	\$47	\$--

See accompanying notes to condensed consolidated financial statements.

NAPCO SECURITY TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
SEPTEMBER 30, 2012

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

Nature of Business

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

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

Significant Accounting Policies

The accompanying Condensed Consolidated Financial Statements are unaudited. In management's opinion, all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation have been made. The results of operations for the period ended September 30, 2012 are not necessarily indicative of results that may be expected for any other interim period or for the full year.

The unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended June 30, 2012. The accounting policies used in preparing these unaudited Condensed Consolidated Financial Statements are consistent with those described in the June 30, 2012 Consolidated Financial Statements. In addition, the Condensed Consolidated Balance Sheet as of June 30, 2012 was derived from the audited financial statements but does not include all disclosures required by Generally Accepted Accounting Principles ("GAAP").

Principles of Consolidation

The consolidated financial statements include the accounts of Napco Security Technologies, Inc. and all of its wholly-owned subsidiaries, including those of Marks USA I, LLC ("Marks"), a subsidiary which acquired substantially all of the assets and certain liabilities of G. Marks Hardware Inc. on August 18, 2008. All inter-company balances and transactions have been eliminated in consolidation.

Accounting Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include approximately \$460,000 of short-term time deposits at September 30, 2012 and June 30, 2012. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. The Company has cash balances in banks in excess of the maximum amount insured by the FDIC and other international agencies as of September 30, 2012 and June 30, 2012.

Accounts Receivable

Accounts receivable is stated net of the reserves for doubtful accounts of \$200,000 and for returns and other allowances of \$1,010,000 and \$1,184,000 as of September 30, 2012 and June 30, 2012, respectively. Our reserves for doubtful accounts and for returns and other allowances are subjective critical estimates that have a direct impact on reported net earnings. These reserves are based upon the evaluation of accounts receivable agings, specific exposures, sales levels and historical trends.

Inventories

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

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

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.

Intangible Assets

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

The Company's acquisition of substantially all of the assets and certain liabilities of Marks included intangible assets with a fair value of \$16,440,000 on the date of acquisition. The intangible assets are amortized over their estimated useful lives of twenty years (customer relationships) and seven years (non-compete agreement). The Marks USA trade name was deemed to have an indefinite life. At the conclusion of the quarter ended June 30, 2011, the Company performed its annual impairment evaluation and determined that its intangible asset relating to its Marks trade name was partially impaired. Accordingly, in the quarter ended June 30, 2011 the Company recorded an impairment charge of \$400,000 which represented the excess book value of this intangible asset over its current valuation.

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

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	September 30, 2012			June 30, 2012		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Other intangible assets:						
Customer relationships	\$9,800	\$(4,818)	\$4,982	\$9,800	\$(4,601)	\$5,199
Non-compete agreement	340	(201)	139	340	(188)	152
Trade name	5,900	--	5,900	5,900	--	5,900
	\$16,040	\$(5,019)	\$11,021	\$16,040	\$(4,789)	\$11,251

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Amortization expense for intangible assets subject to amortization was approximately \$230,000 and \$266,000 for the three months ended September 30, 2012 and 2011, respectively. Amortization expense for each of the next five fiscal years is estimated to be as follows: 2013 - \$917,000; 2014 - \$781,000; 2015 - \$667,000; 2016 - \$529,000 and 2017 - \$441,000. The weighted average amortization period for intangible assets was 15.5 years and 15.8 years at September 30, 2012 and June 30, 2012, respectively.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets in question may not be recoverable. An impairment would be recorded in circumstances where undiscounted cash flows expected to be generated by an asset are less than the carrying value of that asset.

Revenue Recognition

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

Sales Returns and Other Allowances

The Company analyzes sales returns and is able to make reasonable and reliable estimates of product returns based on the Company's past history. Estimates for sales returns are based on several factors including actual returns and based on expected return data communicated to it by its customers. Accordingly, the Company believes that its historical returns analysis is an accurate basis for its allowance for sales returns. Actual results could differ from those estimates.

Advertising and Promotional Costs

Advertising and promotional costs are included in "Selling, General and Administrative" expenses in the consolidated statements of operations and are expensed as incurred. Advertising expense for the three months ended September 30, 2012 and 2011 was \$427,000 and \$251,000, respectively. This increase resulted primarily from increased expenditures on a major tradeshow and additional media advertising during the 3 months ended September 30, 2012 as compared to the same period a year ago.

Research and Development Costs

Research and development costs incurred by the Company are charged to expense in the year incurred and are included in "Cost of Sales" in the consolidated statements of operations. Company-sponsored research and development expense for the three months ended September 30, 2012 and 2011 was \$1,336,000 and \$1,031,000, respectively. The increase was due primarily to expenses relating to development of the Company's iBridge™ tablet computer/touch screen keypad.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the

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

Earnings Per Share

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

The following provides a reconciliation of information used in calculating the per share amounts (in thousands, except per share data):

	Three Months Ended September 30,		Weighted Average Shares		Net Loss per Share	
	2012	2011	2012	2011	2012	2011
Basic EPS	\$(434)	\$(167)	19,097	19,096	\$(0.02)	\$(0.01)
Effect of Dilutive Securities:						
Stock Options	--	--	--	--	--	--
Diluted EPS	\$(434)	\$(167)	19,097	19,096	\$(0.02)	\$(0.01)

Options to purchase 1,383,140 and 1,410,140 shares of common stock for the three months ended September 30, 2012 and 2011, respectively, were not included in the computation of Diluted EPS because their inclusion would be anti-dilutive. These options were still outstanding at the end of the respective periods.

Stock-Based Compensation

The Company has established two share incentive programs as discussed in Note 8.

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 \$0 and \$7,000 were recognized for the three months ended September 30, 2012 and 2011, respectively.

Foreign Currency

All assets and liabilities of foreign subsidiaries are translated into U.S. Dollars at fiscal year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the fiscal year. The realized and unrealized gains and losses associated with foreign currency translation, as well as related other comprehensive income, were not material for the three months ended September 30, 2012 and 2011.

Comprehensive Income

For the three months ended September 30, 2012 and 2011, 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 11, and no additional segment data has been presented.

Shipping and Handling Revenues and Costs

The Company records the amount billed to customers in net sales (\$121,000 and \$136,000 for the three months ended September 30, 2012 and 2011, respectively) and classifies the costs associated with these revenues in cost of sales (\$223,000 and \$264,000 for the three months ended September 30, 2012 and 2011, respectively).

Recently Issued Accounting Standards

In July 2012, the FASB amended its authoritative guidance related to testing indefinite-lived intangible assets for impairment. Under the revised guidance, entities testing their indefinite-lived intangible assets for impairment have the option of performing a qualitative assessment before performing further impairment testing. If entities determine, on the basis of qualitative factors, that it is more-likely-than-not that the asset is impaired, a quantitative test is required. The guidance becomes effective in the beginning of the Company's fiscal 2014, with early adoption permitted. The Company is currently evaluating the timing of adopting this guidance which is not expected to have an impact on the Company's consolidated financial statements.

In September 2011, the FASB amended its authoritative guidance related to testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before performing Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more-likely-than-not less than the carrying amount, the two-step impairment test would be required. This guidance becomes effective in the beginning of the Company's fiscal 2013, with early adoption permitted. The Company is not adopting this guidance early, and it does not expect the guidance to have an impact on the Company's consolidated financial statements.

NOTE 2 - Business and Credit Concentrations

The Company had two customers with accounts receivable balances that aggregated 22% of the Company's accounts receivable at September 30, 2012. One of these customers had an accounts receivable balance of 11% and 15% of the Company's accounts receivable at September 30, 2012 and June 30, 2012, respectively. Sales to any one customer did not exceed 10% of net sales in any of the past three fiscal years.

NOTE 3 - Inventories

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

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

	September 30, 2012	June 30, 2012
Component parts	\$ 13,240	\$ 13,155
Work-in-process	3,220	3,199
Finished product	6,973	6,928
	\$ 23,433	\$ 23,282
Classification of inventories, net of reserves:		
Current	\$ 18,698	\$ 19,448
Non-current	4,735	3,834
	\$ 23,433	\$ 23,282

NOTE 4 - Property, Plant, and Equipment

Property, plant and equipment consist of the following:

	September 30, 2012	June 30, 2012	Useful Life in Years
	(in thousands)		
Land	\$ 904	\$ 904	--
Buildings	8,911	8,911	30 to 40
Molds and dies	6,757	6,748	3 to 5
Furniture and fixtures	2,320	2,317	5 to 10
Machinery and equipment	19,160	19,107	7 to 10
Leasehold improvements	372	372	Shorter of the lease term or life of asset
	38,424	38,359	
Less: accumulated depreciation and amortization	31,364	31,112	
	\$ 7,060	\$ 7,247	

Depreciation and amortization expense on property, plant, and equipment was approximately \$252,000 and \$257,000 for the three months ended September 30, 2012 and 2011, respectively.

NOTE 5 – Acquisition of Business

On August 18, 2008, the Company acquired substantially all of the assets and business of Marks for \$25.2 million in cash, the repayment of \$1 million of bank debt and the assumption of current liabilities. The Marks business involves the manufacturing and distribution of door-locking devices. The Company funded the acquisition with a term loan from its lenders, which has since been amended as described in Note 7.

NOTE 6 - Income Taxes

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

The Company does not expect that our unrecognized tax benefits will significantly change within the next twelve months. We file a consolidated U.S. income tax return and tax returns in certain state and local and foreign jurisdictions. As of September 30, 2012 we remain subject to examination in all tax jurisdictions for all relevant jurisdictional statutes for fiscal years 2008 and thereafter.

The Company has identified its U.S. Federal income tax return and its State return in New York as its major tax jurisdictions. During the three months ended September 30, 2012 there was no change in the Company's reserve for uncertain income tax positions. As a result, as of September 30, 2012 and June 30, 2012 the Company has a long-term accrued income tax liability of \$126,000.

NOTE 7 - Long-Term Debt

As of September 30, 2012, long-term debt consisted of a revolving credit facility of \$11,000,000 (the “Revolving Credit Facility”) which expires in June 2017 and two term loans, one for \$6,000,000 which expires in June 2019, and one for \$6,500,000 which expires in June 2017 (the “Term Loans”). Repayment of the Terms Loans commenced on September 30, 2012. The \$6,000,000 Term Loan is being repaid with 28 equal, quarterly payments of \$75,000 and the remaining balance of \$3,900,000 due on or before the expiration date. The \$6,500,000 Term Loan is being repaid in 20 equal, quarterly payments of \$325,000.

Outstanding balances and interest rates as of September 30, 2012 and June 30, 2012 are as follows (dollars in thousands):

	September 30, 2012			June 30, 2012		
	Outstanding	Interest Rate		Outstanding	Interest Rate	
Revolving line of credit	\$6,000	3.1	%	\$7,757	3.1	%
Term loans	12,100	3.1	%	12,500	3.1	%
Total debt	\$18,100	3.1	%	\$20,257	3.1	%

On June 29, 2012, the Company entered into a Third Amended and Restated Credit Agreement with the Company, as the Borrower, and HSBC Bank USA, National Association as Lender, Administrative Agent and Collateral Agent (the "Agreement"). The Agreement amended and restated the previous revolving credit facility and term loan as described above. The Agreement also provides for a LIBOR-based interest rate option of LIBOR plus 2.0% to 2.75%, 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 Agreement. In addition, the Agreement provides for availability under the Revolving Credit Facility to be limited to the lesser of \$11,000,000 or the result of a borrowing base formula based upon the Company's Accounts Receivables and Inventory values net of certain deductions. The Company's obligations under the Agreement continue to be secured by all of its assets, including but not limited to, deposit accounts, accounts receivable, inventory, the Company's corporate headquarters in Amityville, NY, equipment and fixtures and intangible assets. In addition, the Company's wholly-owned subsidiaries, with the exception of the Company's foreign subsidiaries, have issued guarantees and pledges of all of their assets to secure the Company's obligations under the 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 Agreement.

The agreements contain 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 restated agreement.

NOTE 8 - Stock Options

In December 2002, the stockholders approved the 2002 Employee Stock Option Plan (the 2002 Plan). The 2002 Plan authorizes the granting of awards, the exercise of which would allow up to an aggregate of 1,836,000 shares of the Company's common stock to be acquired by the holders of such awards. Under the 2002 Plan, the Company may grant stock options, which are intended to qualify as incentive stock options (ISOs), to key employees. Any plan participant who is granted ISOs and possesses more than 10% of the voting rights of the Company's outstanding common stock must be granted an option with a price of at least 110% of the fair market value on the date of grant.

Under the 2002 Plan, stock options have been granted to key employees with a term of 10 years at an exercise price equal to the fair market value on the date of grant and are exercisable in whole or in part at 20% per year from the date of grant. At September 30, 2012, 1,471,480 stock options were granted, 364,520 stock options were available for grant, and 1,353,140 stock options were exercisable under this plan.

No options were granted during the three months ended September 30, 2012 or 2011.

The following table reflects activity under the 2002 Plan for the three months ended September 30,

2012		2011	
Options	Weighted	Options	Weighted

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		average exercise price		average exercise price
Outstanding, beginning of period	1,380,140	\$2.95	1,380,140	\$2.95
Granted	--	--	--	--
Terminated	--	--	--	--
Exercised	27,000	1.76	--	--
Outstanding, end of period	1,353,140	\$2.95	1,380,140	\$2.95
Exercisable, end of period	1,353,140	\$2.95	1,372,140	\$2.93
Weighted average fair value at grant date of options granted	n/a		n/a	
Total intrinsic value of options exercised	36,000		n/a	
Total intrinsic value of options outstanding	\$1,459,000		\$407,000	
Total intrinsic value of options exercisable	\$1,459,000		\$407,000	

27,000 options were exercised during the three months ended September 30, 2012 and no options were exercised during the three months ended September 30, 2011. This exercise was paid for with 13,807 shares of the Company's common stock which was retired upon receipt. Cash received from option exercises for each of the three months ended September 30, 2012 and 2011 was \$0 and the actual tax benefit realized for the tax deductions from option exercises totaled \$0 for both of these periods.

The following table summarizes information about stock options outstanding under the 2002 Plan at September 30, 2012:

Range of exercise prices	Number outstanding at September 30, 2012	Options outstanding		Options exercisable	
		Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at September 30, 2012	Weighted average exercise price
\$ 0.72 - \$ 4.00	987,390	0.8	1.89	987,390	1.89
\$ 4.01 - \$ 7.50	328,250	4.3	5.29	328,250	5.29
\$ 7.51 - \$11.16	37,500	3.5	11.16	37,500	11.16
	1,353,140	1.7	2.97	1,353,140	2.97

As of September 30, 2012, there was no unearned stock-based compensation cost related to non-vested share-based compensation arrangements granted under the 2002 Plan. All options outstanding under the 2002 Plan were vested as of the beginning of the current period; therefore, the total fair value of the options vested during the three months ended September 30, 2012 under the 2002 Plan was \$0.

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

The following table reflects activity under the 2000 Plan for the three months ended September 30,

	2012		2011	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	30,000	\$5.03	30,000	\$5.03
Granted	--	--	--	--
Terminated	--	--	--	--
Exercised				