NAPCO SECURITY TECHNOLOGIES, INC
Form 4
October 03, 2013

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Blaustein Randy B

(Last) (First) (Middle)

333 BAYVIEW AVENUE

(Street)

AMITYVILLE, NY 11757

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NAPCO SECURITY TECHNOLOGIES, INC [NSSC]

3. Date of Earliest Transaction (Month/Day/Year)
10/02/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Am Underlying Sec (Instr. 3 and 4)

	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)				
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title
NAPCO Security Technologies, Inc. Non-Employee Stock Options	$ 4.88	10/02/2013		A		5,000		09/09/2013 (1)	09/09/2023	NAPCO Security Technologie Inc. Commo Stock

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Blaustein Randy B 333 BAYVIEW AVENUE AMITYVILLE, NY 11757	X			

Signatures

Randy B. Blaustein	10/03/2013
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Exercisable, cumulatively, at 20% per year commencing September 9, 2013.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 5pt; text-align: left"> 100.00% $1,323,868 100.00% $1,285,936 100.00% $1,106,237 100.00% Transaction accounts $1,010,492 69.58% $877,352 66.27% $807,460 62.79% $654,632 59.18%

Liquidity has improved with the increase in transaction deposits and decrease in wholesale funding. The Company’s net loan to deposit ratio has decreased from 103.1% at December 31, 2017 to 89.4% at September 30, 2018. The Company expects some seasonality in deposits that will likely increase the loan to deposit ratio into the low to mid 90s in the fourth quarter of 2018. The Company intends to use available on-balance sheet liquidity to fund loans, increase investments and pay down wholesale funding.

The Bank uses advances from the FHLB of Atlanta to supplement the supply of funds it may lend and to meet deposit withdrawal requirements. Advances from the FHLB are secured by the Bank’s stock in the FHLB, a portion of the Bank’s loan portfolio and certain investments. Generally, the Bank’s ability to borrow from the FHLB of Atlanta is limited by its available collateral and also by an overall limitation of 30% of assets. Further, short-term credit facilities are available at the Federal Reserve Bank of Richmond and other commercial banks. FHLB long-term debt consists of adjustable-rate advances with rates based upon LIBOR, fixed-rate advances, and convertible advances. At September 30, 2018 and December 31, 2017, 100% of the Bank’s long-term debt was fixed for rate and term, as the conversion optionality of the advances have either been exercised or expired.

Stockholders’ Equity

Total stockholders’ equity increased $40.1 million, or 36.6%, to $150.1 million at September 30, 2018 compared to $110.0 million at December 31, 2017. This increase primarily resulted from the issuance of 918,526 shares of common stock, valued at $35.6 million (based on the $38.78 per share closing price), as the stock component of the merger consideration paid in the County First acquisition. In addition, stockholders’ equity increased due to net income of $7.4 million and net stock related activities related to stock-based compensation and ESOP activity of $297,000. These increases to stockholders’ equity were partially offset by decreases due to common dividends paid of $1.6 million, an increase in accumulated other comprehensive losses of $1.5 million and repurchases of common stock of $67,000.

Common stockholders' equity of $150.1 million and $110.0 million at September 30, 2018 and December 31, 2017 resulted in a book values per common share of $26.93 and $23.65, respectively. Tangible book value at September 30, 2018 was $24.47. Tangible book value was the same as book value prior to December 31, 2017 because the Company had no intangible assets. The Company's ratio of tangible common equity to tangible assets increased to 8.21% at September 30, 2018 from 7.82% at December 31, 2017. The Company's Common Equity Tier 1 ("CET1") ratio was 10.30% at September 30, 2018 compared to 9.51% at December 31, 2017. The Company remains well capitalized at September 30, 2018 with a Tier 1 capital to average assets (leverage ratio) of 9.51% at September 30, 2018 compared to 8.79% at December 31, 2017.

The following table shows the Company's equity and the dollar and percentage changes for the periods presented.

(dollars in thousands)	September 30, 2018	December 31, 2017	$ Change	% Change
Common Stock at par of $0.01	$ 56	$ 46	$ 10	21.7 %
Additional paid in capital	84,246	48,209	36,037	74.8 %
Retained earnings	69,295	63,648	5,647	8.9 %
Accumulated other comprehensive loss	(2,633)	(1,191)	(1,442)	121.1 %
Unearned ESOP shares	(816)	(755)	(61)	8.1 %
Total Stockholders' Equity	$ 150,148	$ 109,957	$ 40,191	36.6 %

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LIQUIDITY AND CAPITAL RESOURCES

Capital Resources

The Company has no business other than holding the stock of the Bank and does not have significant operating cash needs, except for the payment of dividends declared on common stock, and the payment of interest on subordinated debentures and subordinated notes, and noninterest expense.

The Company evaluates capital resources by our ability to maintain adequate regulatory capital ratios. The Company and the Bank annually update a three-year strategic capital plan. In developing its plan, the Company considers the impact to capital of asset growth, income accretion, dividends, holding company liquidity, investment in markets and people and stress testing. Our capital position is reflected in shareholders’ equity, subject to certain adjustments for regulatory purposes. Shareholders’ equity, or capital, is a measure of our net worth, soundness, and viability. At September 30, 2018, we continue to remain in a well-capitalized position. Shareholders’ equity at September 30, 2018 was $150.1 million, compared to $110.0 million at December 31, 2017. The increase in capital during the first nine months of 2018 was principally due to a $35.6 million issuance of stock for the County First acquisition.

During the nine months ended September 30, 2018 and 2017, the Company performed ongoing assessments using regulatory capital ratios and determined that the Company meets the new requirements specified in the Basel III rules upon full adoption of such requirements. Our subsidiary bank made the election to retain the AOCI treatment under the prior capital rules in a March 2015 regulatory filing.

Federal banking regulations require the Company and the Bank to maintain specified levels of capital. As of September 30, 2018, and December 31, 2017, the Company and Bank were well-capitalized under the regulatory framework for prompt corrective action under the Basel III Capital Rules. Management believes, as of September 30, 2018 and December 31, 2017, that the Company and the Bank met all capital adequacy requirements to which they were subject. See Note 12 of the Consolidated Financial Statements.

Liquidity

Liquidity is our ability to meet cash demands as they arise. Such needs can develop from loan demand, deposit withdrawals or acquisition opportunities. Potential obligations resulting from the issuance of standby letters of credit and commitments to fund future borrowings to our loan customers are other factors affecting our liquidity needs. Many of these obligations and commitments are expected to expire without being drawn upon; therefore, the total commitment amounts do not necessarily represent future cash requirements affecting our liquidity position.

Based on management’s going concern evaluation, we believe that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s or the Bank’s ability to continue as a going concern, within one year of the date of the issuance of the financial statements.

Asset liquidity is provided by cash and assets which are readily marketable or which will mature in the near future. Liquid assets include cash, federal funds sold, and short-term investments in cash deposits with other banks. Liquidity is also provided by access to funding sources, which include core depositors and brokered deposits. Other sources of funds include our ability to borrow, such as purchasing federal funds from correspondent banks, sales of securities under agreements to repurchase and advances from the FHLB.

At September 30, 2018 and December 31, 2017, the Bank had $35.5 million and $65.6 million, respectively, in loan commitments outstanding. In addition, at September 30, 2018 and December 31, 2017, the Bank had $23.0 million and $17.9 million, respectively, in letters of credit and approximately $225.1 million and $162.2 million, respectively, available under lines of credit. Certificates of deposit due within one year of September 30, 2018 and December 31, 2017 totaled $256.4 million or 58.03% and $312.4 million, or 69.2%, respectively, of total certificates of deposit outstanding. If maturing deposits do not remain, the Bank will be required to seek other sources of funds, including other certificates of deposit and borrowings. Depending on market conditions, we may be required to pay higher rates on such deposits or other borrowings than we currently pay on the certificates of deposits. We believe, however, based on past experience that a significant portion of our certificates of deposit will remain with us. We have the ability to attract and retain deposits by adjusting the interest rates offered.

The Company’s principal sources of liquidity are cash on hand and dividends received from the Bank. The Bank is subject to various regulatory restrictions on the payment of dividends.

The Bank's principal sources of funds for investment and operations are net income, deposits, sales of loans, borrowings, principal and interest payments on loans, principal and interest received on investment securities and proceeds from the maturity and sale of investment securities. The Bank's principal funding commitments are for the origination or purchase of loans, the purchase of securities and the payment of maturing deposits. Deposits are considered the primary source of funds supporting the Bank's lending and investment activities. The Bank also uses borrowings from the FHLB of Atlanta to supplement deposits. The amount of FHLB advances available to the Bank is limited to the lower of 30% of Bank assets or the amount supportable by eligible collateral including FHLB stock, loans and securities. In addition, the Bank has established unsecured and secured lines of credit with the Federal Reserve Bank and commercial banks.

For additional information on these agreements, including collateral, see Note 11 of the Consolidated Financial Statements as presented in the Company's Form 10-K for the year ended December 31, 2017.

The Bank's most liquid assets are cash, cash equivalents and federal funds sold. The levels of such assets are dependent on the Bank's operating, financing and investment activities at any given time. The variations in levels of cash and cash equivalents are influenced by deposit flows and anticipated future deposit flows.

Cash and cash equivalents as of September 30, 2018 totaled $71.6 million, an increase of $56.2 million from the December 31, 2017 total of $15.4 million. Ending cash balances increased primarily due to proceeds from the sale of investment securities, the increase in net deposits and cash from the County First acquisition. These increases were partially offset by decreases in net total debt outstanding and excess of loans originations over principal collected. Changes to the level of cash and cash equivalents have minimal impact on operational needs as the Bank has substantial sources of funds available from other sources.

During the nine months ended September 30, 2018, all financing activities provided $27.6 million in cash compared to $59.6 million in cash provided for the same period in 2017. The Company used $32.0 million of additional cash from financing activities in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to net decreases of $117.5 million in long-term debt and short-term borrowings and an increase in dividends paid of $270,000, offset by increases in net deposits of $87.7 million and $762,000 less cash used for ESOP shares. During the first quarter of 2018, the Company used cash and the sale of securities acquired in the County First acquisition to pay down wholesale brokered deposits and FHLB debt, which represents the reduction in both deposits and debt. Acquired deposits of approximately $200 million are not included on the cash flow statement.

During the nine months ended September 30, 2018, all investing activities provided $15.5 million in cash compared to $63.1 million in cash used for the same period in 2017. The increase in cash provided of $78.6 million was primarily the result of net increases in cash provided from $32.5 million of cash from the County First acquisition, $1.4 million from sale of assets, $1.9 million less cash used for securities transactions, $42.9 million less cash used for loan activities, and $124,000 less cash used for purchases of premises and equipment. The Company received $34.9 million from the sale of securities from the County First acquisition in the first nine months of 2018 compared to $7.3 million from sales in the comparable prior year period. Cash provided increased as principal received on loans for the nine months ended September 30, 2018 increased over the prior year comparable period. Principal collected on loans increased $33.9 million from $187.5 million from the nine months ended September 30, 2017 to $221.4 million for the nine months ended September 30, 2018. Cash used decreased for the funding of loans originated, which decreased $9.0 million from $247.7 million for the nine months ended September 30, 2017 to $238.7 million for the nine months ended September 30, 2018.

Operating activities provided cash of $13.1 million, or $3.7 million more cash, for the nine months ended September 30, 2018 compared to $9.4 million of cash provided for the same period of 2017.

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ITEM 3. Quantitative and qualitative Disclosure about Market Risk

Interest rate risk is defined as the exposure to changes in net interest income and capital that arises from movements in interest rates. Depending on the composition of the balance sheet, increasing or decreasing interest rates can negatively affect the Company's results of operations and financial condition.

The Company measures interest rate risk over the short and long term. The Company measures interest rate risk as the change in net interest income ("NII') caused by a change in interest rates over twelve and twenty-four months. The Company's NII simulations provide information about short-term interest rate risk exposure. The Company also measures interest rate risk by measuring changes in the values of assets and liabilities due to changes in interest rates. The economic value of equity ("EVE") is defined as the present value of future cash flows from existing assets, minus the present value of future cash flows from existing liabilities. EVE simulations reflect the interest rate sensitivity of assets and liabilities over a longer time period, considering the maturities, average life and duration of all balance sheet accounts.

The Board of Directors has established an interest rate risk policy, which is administered by the Bank's Asset Liability Committee ("ALCO"). The policy establishes limits on risk, which are quantitative measures of the percentage change in NII and EVE resulting from changes in interest rates. Both NII and EVE simulations assist in identifying, measuring, monitoring and controlling interest rate risk and are used by management and the ALCO Committee to ensure that interest rate risk exposure will be maintained within Board policy guidelines. The ALCO Committee reports quarterly to the Board of Directors. Mitigating strategies are used to maintain interest rate risk within established limits.

The Company's interest rate risk ("IRR") model uses assumptions which include factors such as call features, prepayment options and interest rate caps and floors included in investment and loan portfolio contracts. Additionally, the IRR model estimates the lives and interest rate sensitivity of the Company's non-maturity deposits. These assumptions have a significant effect on model results. The assumptions are developed primarily based upon historical behavior of Bank customers. The Company also considers industry and regional data in developing IRR model assumptions. There are inherent limitations in the Company's IRR model and underlying assumptions. When interest rates change, actual movements of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. The Company prepares a current base case and several alternative simulations at least quarterly. Current interest rates are shocked by +/- 100, 200, 300, and 400 basis points ("bp"). In addition, the Company simulates additional rate curve scenarios (e.g., bear flattener). The Company may elect not to use particular scenarios that it determines are impractical in a current rate environment. The Company's internal limits for parallel shock scenarios are as follows:

Shock in Basis Points

	Net Interest Income ("NII")	Economic Value of Equity ("EVE")
+ - 400	25 %	40 %
+ - 300	20 %	30 %
+ - 200	15 %	20 %
+ - 100	10 %	10 %

It is management's goal to manage the portfolios of the Bank so that net interest income at risk over a twelve-month and twenty-four month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels. As of September 30, 2018, June 30, 2018, March 31, 2018, and December 31, 2017, the Company did not exceed any Board approved sensitivity limits. Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. The below schedule estimates the changes in net interest income over a twelve-month period for parallel rate shocks for up 200, 100 and down 100 scenarios:

Estimated Changes in Net Interest Income

Change in Interest Rates:	**+ 200 bp**	**+ 100 bp**	**- 100 bp**
Policy Limit	(15.00)%	(10.00)%	(10.00)%
September 30, 2018	0.05 %	0.40 %	(0.40)%
June 30, 2018	(2.77)%	(1.22)%	0.40 %
March 31, 2018	0.72 %	0.47 %	(0.05)%
December 31, 2017	(1.28)%	(0.54)%	(1.30)%

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Measures of equity value at risk indicate the ongoing economic value of the Company by considering the effects of changes in interest rates on all of the Company's cash flows, and by discounting the cash flows to estimate the present value of assets and liabilities. The below schedule estimates the changes in the economic value of equity at parallel shocks for up 200, 100 and down 100 scenarios:

Estimated Changes in Economic Value of Equity (EVE)			
Change in Interest Rates:	+ 200 bp	+ 100 bp	- 100 bp
Policy Limit	(20.00)%	(10.00)%	(10.00)%
September 30, 2018	5.46 %	5.83 %	9.77 %
June 30, 2018	(1.00)%	0.19 %	18.14 %
March 31, 2018	(6.54)%	(3.08)%	7.92 %
December 31, 2017	(13.15)%	(6.01)%	18.35 %

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, management of the Company carried out an evaluation, under the supervision and with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, (1) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (2) is accumulated and communicated to the Company's management, including its principal executive and financial officers as appropriate to allow timely decisions regarding required disclosure. It should be noted that the design of the Company's disclosure controls and procedures is based in part upon certain reasonable assumptions about the likelihood of future events, and there can be no reasonable assurance that any design of disclosure controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote, but the Company's principal executive and financial officers have concluded that the Company's disclosure controls and procedures are, in fact, effective at a reasonable assurance level. There were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2018 that have materially affected, or are reasonable likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings – The Company is not involved in any pending legal proceedings. The Bank is not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the financial condition and results of operations of the Company.

Item 1A - Risk Factors - In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A- Risk Factors" in the Form 10-K that we filed with the Securities and Exchange Commission, which could materially affect our business, financial condition or future results. The risks described are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds

(a) Not applicable

(b) Not applicable

(c) On May 4, 2015, the Board of Directors approved a repurchase plan ("2015 repurchase plan). The 2015 repurchase plan authorizes the repurchase of up to 250,000 shares of outstanding common stock. The 2015 repurchase plan will continue until it is completed or terminated by the Company's Board of Directors. During the quarter ended December 31, 2015, the 2015 repurchase plan began with the termination of the 2008 repurchase program. As of September 30, 2018, 186,757 shares were available to be repurchased under the 2015 repurchase program. The following schedule shows repurchases during the three months ended September 30, 2018.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1-31, 2018	-	$ -	-	186,757

August 1-31, 2018	-		-	-	186,757
September 1-30, 2018	-		-	-	186,757
Total	-	$	-	-	186,757

Item 3 - Defaults Upon Senior Securities - None

Item 4 – Mine Safety Disclosures – Not Applicable

Item 5 - Other Information – None

Item 6 – Exhibits

Exhibit 31 - Rule 13a-14(a) Certifications

Exhibit 32 - Section 1350 Certifications

Exhibit 101.0 - The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows; and (v) the Notes to the Consolidated Financial Statements.

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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.

	THE COMMUNITY FINANCIAL CORPORATION
Date: November 9, 2018	By: /s/ William J. Pasenelli William J. Pasenelli President and Chief Executive Officer
Date: November 9, 2018	By: /s/ Todd L. Capitani Todd L. Capitani Chief Financial Officer

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