YOUR FIRE AND SECURITY SOLUTION

AFA PROTECTIVE SYSTEMS, INC.

2014 ANNUAL REPORT

Originally founded in 1873, AFA has provided uninterrupted central station alarm service to its customers for almost 142 years.

Corporate Profile

AFA's Central Station service consists of a detecting system installed in subscribers' premises and frequently owned, serviced, monitored, inspected and maintained by AFA. The vast majority of signals from subscribers' premises are transmitted to AFA's Central Stations via subscribers' telephone lines, GSM cellular networks or over the Internet. AFA presently operates redundant UL Listed and FM Approved state-of-the-art computerized Central Stations servicing the United States. Our Central Stations operate twenty-four hours a day, seven days a week and monitor approximately 39,000 AFA subscriber locations. The Company also monitors approximately 10,000 locations for customers of approximately 130 Alarm Dealers who do not have their own central stations. Upon receipt of an alarm signal, AFA personnel take the appropriate action, which may include alerting Fire or Police Departments, verifying an alarm condition, notifying its subscribers, and dispatching AFA personnel or other response agents to the protected premises.

THE PRIMARY SCOPE OF AFA'S SERVICES INCLUDES:

- Fire detection systems;
- Burglar and vandalism protection;
- Monitoring of subscriber-owned systems;
- Access control systems;
- Smoke detection;
- Installation, maintenance and testing of high-rise life safety systems;
- Sprinkler alarm supervision;
- Closed circuit TV (CCTV) systems;
- Remote video surveillance;
- Video verification of alarm;
- Industrial process supervision, including temperature;
- Sump pump and air conditioning supervision;
- Flood detection;
- Boiler supervision;
- Remote access to and control of alarm system;
- Investigator response.

The majority of the Company's revenues comes from the sale and installation of specialized alarm systems including sophisticated high-rise fire and life safety systems which the Company designs and installs to meet proliferating fire and life safety codes. The Company is also a provider of video surveillance systems and intrusion related services whereby customers can remotely view and control their own systems.

AFA does not manufacture detecting equipment. Technology continues to change rapidly and new equipment is so readily available that AFA can better meet subscribers' needs by selecting quality products available from the industry's top suppliers.

AFA's core revenues include the recurring annual service fees paid by customers for Central Station monitoring, inspection and maintenance services.

Letter To Our Shareholders

In 2014, the Company realized improved results in many areas, such as increased sales and controlling attrition, but shrinking margins compromised the Company's ability to maximize earnings for the year. In fact, dwindling margins have become the Company's greatest hurdle going forward in the short term. Largely caused by competitive pressures on pricing, the challenge has become how to deliver our traditional high level of service while maintaining an acceptable level of profitability. One thing is certain: regardless, we will not compromise our well-earned reputation for superior service that has enabled us to endure longer than anyone else in the industry. We plan to meet this challenge by further increasing our sales volume along with sensible pricing.

By the end of last year, the Company completed its self-study and rebranding process. We were gratified to learn that management's impression of our Company was echoed by our employees as well as our customers. In a nutshell, we are considered to be a reputable and dependable business partner. We spent countless hours considering our image and whether we should change our logo. As you can see from the cover of this report, we decided to retain our century old logo and update it to have a simpler, cleaner look. Also, you can see that we coined a new descriptive tag line to accompany our logo, thereby fostering awareness of our capabilities to the public at large. Our new tag line—*Your Fire and Security Solution*—succinctly describes who we are and what we do. Together, they form the cornerstone of our new marketing platform.

In December, the Company rolled out all of these initiatives as well as new sales techniques and offerings for our entire sales force. These are now incorporated into all of our promotional materials, including brochures, uniforms, vehicles and our recently updated, user-friendly, state-of-the-art website. I invite you to see the website for yourself at www.afap.com to learn all about the Company. While our increased marketing expenditures did translate into more new sales in 2014, we believe that since our efforts took virtually all of last year to reach fruition we still have not realized their full potential. With everything now in place, we should see a more significant tangible benefit in 2015 and beyond, meaning we expect future sales from these efforts to grow at a faster pace than before.

Net income in 2014 amounted to $1,532,000 or $9.47 per share as compared to $1,678,000 or $10.36 per share in 2013. Cash flow from operating activities in 2014 amounted to $1,865,000 or $11.52 per share as compared to $4,068,000 or $25.12 per share in 2013. Overall revenues rose from year to year: $79,827,000 in 2014 as compared to $75,815,000 in 2013.

The Company's gross rate of attrition for the year came in at 7.7%, significantly improved over the prior year's experience and well below the industry norm. This improvement was a key factor in our ability to post a year-to-year gain in recurring revenue. We also achieved meaningful increases in both sales bookings and backlog. New sales bookings in 2014 amounted to $40,442,000 which represents nearly a 6% increase from 2013. At year end, our backlog had grown by 12% to $14,473,000. These three metrics provided the Company with one of its strongest bases ever going into the current year.

Somewhat offsetting the aforementioned positive trends, early this year we learned that our largest customer would be discontinuing approximately 40% of its ongoing business with the Company effective April 1, 2015. This will necessarily negatively affect our top line in 2015. However, this involved no material loss of recurring revenue and it alleviates our need to service the most time-consuming portion of our business to maintain. We continue to service this account in other segments of our business and enjoy a positive relationship in those areas. Moreover, we used this news as an opportunity to restructure affected departments and consequently made staff reductions commensurate to offset the loss of business. We believe the end result will be that despite the loss in top line revenue, profitability will not be materially adversely affected going forward, if at all. In fact, we believe the elimination of the stress this segment of the business caused within the Company and the resulting availability of additional time to devote to other more lucrative opportunities, will make us stronger in the long run.

Our National Accounts Division continued to grow with a 15% increase in sales bookings, its best performance in six years. Significantly, and unlike in prior years, the growth was spread throughout the Division's customer base. During the year, the Division added four new chain accounts as well as extending and expanding the scope of services for many existing accounts. Although the aforementioned loss of business emanated from this Division, again, we are confident that the redirection of that time will yield results more than offsetting that loss.

The New York branch had another good year. New sales bookings were up slightly and the year-end backlog was up over 20% as compared to the prior year. Although the branch's profit was down about 10%, this can be attributed to the larger backlog. As more of the backlog is installed and put online this year, this should translate into better profitability in 2015.

The New England branch started out slow but in the latter part of the year made positive strides to return to being a major contributor. Although overall sales bookings for the branch were off 24%, sales of recurring revenues almost doubled. By year end, its recurring revenue base was slightly higher and its operating profit also rose. In order to do so though, its backlog fell by 30%. Our cause for optimism in this branch is based upon the fact that the new sales team that was assembled early last year started to produce meaningful results by the fall of last year and has continued to do so into 2015.

Both of our New Jersey branches had respectable years, although slightly below expectations in all metrics. We are hopeful the changes made mid-year to both branches will enable them to post better results in 2015 across the board.

The Mid-Atlantic branch's results were dramatically improved as compared to the prior year, with double-digit increases in all areas.

Our Georgia branch had a decent year, but was the branch most affected by low margins. The branch's sales and profitability were in line with that of the prior year, however in order to maintain that profitability it had to install proportionately more jobs. That caused a noticeable reduction in its year-end backlog, meaning less of a workload for the branch going into 2015. Management is diligently working on how to correct the dwindling margin issue Company-wide, and especially in this branch.

The North Carolina branch completed its restructuring but was also hampered by low margins. Moving forward, we have pared back the branch's overheads commensurate to its current workload. We are exploring various options to increase our return on investment in the Carolinas to acceptable levels.

As expected, the positive trend Florida began in 2013 turned into a profitable year in 2014. Sales were up and its year end recurring revenue grew by approximately 40%. However, in order to stay on its positive path, we recognize that our recommitment of resources to this branch must be accompanied by further improvements in new sales.

At this time I would like to recognize our longtime Chief Financial Officer, Raymond Greenberger. Mr. Greenberger has been with the Company for 41 years and has announced his retirement effective later this year. He has not only been our confidant and most trusted advisor, but a true friend. Under his stewardship, all shareholders could be confident that their financial interests were protected over the years and we all owe him a debt of gratitude and our best wishes in retirement.

Looking ahead, even with the partial loss of the one significant account, we still project that our performance in 2015 will exceed that in 2014 in all important categories.

Robert D. Kleinman
Chairman and Chief Executive Officer

Consolidated Balance Sheets

December 31,	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 1,256,134	$ 1,495,786
Accounts receivable, net of allowance for doubtful accounts	16,737,561	14,751,055
Inventories	4,833,918	4,480,227
Prepaid expenses and other current assets	541,075	658,176
Total current assets	23,368,688	21,385,244
Property, plant and equipment, net	7,225,051	7,519,168
Goodwill and intangible assets, net	6,198,482	6,781,386
Other assets	100,785	125,985
Total assets	$36,893,006	$35,811,783
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 4,116,721	$ 1,320,296
Accounts payable	5,034,365	4,144,047
Accrued expenses and other current liabilities	4,435,385	4,760,762
Deferred revenues	6,061,183	6,141,467
Total current liabilities	19,647,654	16,366,572
Long-term debt	3,093,605	6,210,327
Deferred income taxes	1,634,599	2,310,575
Pension obligation	2,288,843	1,021,388
Obligation for postretirement benefits	207,556	196,371
Deferred revenues	2,038,634	2,032,394
Fair value of interest rate swaps	69,228	145,874
Total liabilities	28,980,119	28,283,501
Commitments and Contingencies (Note 14)		
Shareholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 161,868 shares issued and outstanding in 2014 and 2013	161,868	161,868
Additional paid-in capital	3,055,349	3,055,349
Accumulated other comprehensive loss	(2,152,648)	(1,328,732)
Retained earnings	6,848,318	5,639,797
Total shareholders' equity	7,912,887	7,528,282
Total liabilities & shareholders' equity	$36,893,006	$35,811,783

The accompanying notes are an integral part of these consolidated financial statements.

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31,	2014	2013
Revenues		
Sales	$48,330,463	$44,175,705
Service	31,496,073	31,639,529
	79,826,536	75,815,234
Costs and expenses		
Cost of sales	35,920,819	33,174,714
Cost of services, exclusive of depreciation and amortization	20,289,753	19,467,166
Depreciation and amortization	2,356,242	2,355,896
Selling, general, and administrative	18,526,149	17,819,560
	77,092,963	72,817,336
Income from operations	2,733,573	2,997,898
Interest and dividend income	60,132	77,821
Interest expense, net	(203,448)	(271,416)
Income before provision for income taxes	2,590,257	2,804,303
Provision for income taxes	1,058,000	1,126,000
Net income	$ 1,532,257	$ 1,678,303
Earnings per share	$ 9.47	$ 10.36
Weighted average number of shares outstanding	161,868	161,928
Dividends per share	$ 2.00	$ –
Comprehensive income		
Net income	$ 1,532,257	$ 1,678,303
Net actuarial (loss) gain arising during the year, net of taxes	(813,182)	599,433
Interest rate swap, net of taxes	(10,734)	40,545
Comprehensive income	$ 708,341	$ 2,318,281

The accompanying notes are an integral part of these consolidated financial statements.

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2014 and 2013

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2012	163,080	$163,080	$ 3,057,694	$(1,968,710)	$4,269,421	$5,521,485
Net income for the year	–	–	–	–	1,678,303	1,678,303
Purchase & retirement of common stock	(1,212)	(1,212)	(2,345)	–	(307,927)	(311,484)
Net actuarial gain arising during the year	–	–	–	599,433	–	599,433
Interest rate swap	–	–	–	40,545	–	40,545
Balance at December 31, 2013	161,868	161,868	3,055,349	(1,328,732)	5,639,797	7,528,282
Net income for the year	–	–	–	–	**1,532,257**	**1,532,257**
Cash dividends ($2.00 per share)	–	–	–	–	**(323,736)**	**(323,736)**
Net actuarial loss arising during the year	–	–	–	**(813,182)**	–	**(813,182)**
Interest rate swap	–	–	–	**(10,734)**	–	**(10,734)**
Balance at December 31, 2014	**161,868**	**$161,868**	**$3,055,349**	**$(2,152,648)**	**$6,848,318**	**$7,912,887**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,	2014	2013
Cash flows from operating activities		
Net income	$ 1,532,257	$ 1,678,303
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,356,242	2,355,896
Deferred income taxes	(675,976)	220,523
Gain on interest rate swap	(87,380)	(133,096)
Changes in operating assets and liabilities		
Accounts receivable	(1,986,506)	(1,150,839)
Inventories	(353,691)	176,152
Prepaid expenses and other current assets	117,101	(85,070)
Other assets	6,944	16,011
Accounts payable	890,318	137,941
Accrued expenses and other current liabilities	(325,378)	675,956
Deferred revenues	(74,044)	625,239
Obligations for pension and postretirement benefits	465,458	(448,677)
Net cash provided by operating activities	1,865,345	4,068,339
Cash flows from investing activities		
Capital expenditures	(1,460,966)	(1,825,681)
Acquisitions of assets	–	(900)
Net cash used in investing activities	(1,460,966)	(1,826,581)
Cash flows from financing activities		
Dividends paid	(323,736)	–
Purchase and retirement of common stock	–	(311,484)
Proceeds from borrowings–line of credit	1,000,000	–
Proceeds from borrowings–term loan	3,000,000	–
Repayments of line of credit	(3,000,000)	(400,000)
Repayments of mortgage note	(308,907)	(290,817)
Repayments of term loan	(1,011,388)	(1,100,000)
Net cash used in financing activities	(644,031)	(2,102,301)
Net (decrease) increase in cash and cash equivalents	(239,652)	139,457
Cash and cash equivalents		
Beginning	1,495,786	1,356,329
Ending	$ 1,256,134	$ 1,495,786
Supplemental disclosures of cash flow information		
Cash paid for:		
Income taxes	$ 998,915	$ 1,414,890
Interest	331,070	345,713

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Basis of Presentation

Description of the Business

AFA Protective Systems, Inc. and Subsidiaries (the "Company") is engaged in the installation, operation, maintenance and sale of protective systems to safeguard life and property from a variety of hazards. Operations are conducted primarily in the eastern United States.

Basis of Presentation

The financial statements include the accounts of AFA Protective Systems, Inc. and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Revenue Recognition

Service charges to alarm system subscribers, for services to be rendered over a maximum period of one year, are deferred and taken into income as earned over the service period. Advance service billings on new subscribers are also deferred and reflected in income over a five-year period, the term of most contracts. For income tax purposes, the Company reports advance billings as income in the year billed. Selling expenses in connection with obtaining new subscribers are charged to income from operations as incurred.

The percentage-of-completion method is used for the recognition of revenue from sales of security systems under long-term contracts in accordance with ASC 605-35, "Revenue Recognition–Construction Type and Production Type Contracts," and is based on the ratio of costs incurred to date on the contract to total estimated contract costs, after providing currently for all known or anticipated losses. Due to uncertainties inherent in the estimation process, it is possible that completion costs will be revised in the near term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2014 and 2013, the Company has used a variety of methods and assumptions, which were based on estimates of market conditions and risks existing at the time. The fair value of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, approximate their carrying value because of the current nature of these instruments. The carrying value of the Company's long-term borrowings at December 31, 2014 and 2013 approximate fair value as interest rates approximate current market rates based on their variable nature. The Company believes its mortgage interest rate reflects current market rates. The Company's interest rate swaps have been measured at fair value under the same principles.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. At December 31, 2014 and 2013, cash and cash equivalents included money market funds of $91,000 and $90,900, respectively. Cash and cash equivalents held at financial institutions may at times exceed federally insured amounts. The Company believes it mitigates its risks by investing in or through major financial institutions.

Accounts Receivable

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a regular basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

Inventories

Inventories consist of finished goods, work in progress and parts, which are carried at the lower of cost (on a first-in, first-out basis) or market. The Company continues to evaluate the inventories on a periodic basis for slow moving, excess and obsolete stock on hand.

Property, Plant and Equipment

Property, plant and equipment are recorded at their historical cost and depreciated over their estimated useful lives, which range from 3 to 30 years. Maintenance and repairs are charges to expense as incurred; renewals and improvements that extend the life of the asset are capitalized. Upon retirement or sale, the asset cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss, if any, is included in the results of operations for the year. Leasehold improvements are amortized over the shorter of the lease term or remaining useful life of the related assets.

Central station equipment, equipment in subscribers' premises and other equipment are depreciated primarily by accelerated methods. The straight-line method is used for buildings and leasehold improvements. For income tax purposes, installation costs are deducted as incurred and accelerated methods and rates are used for all other assets.

Debt Issue Costs

Debt issue costs are being amortized using the interest method over the term of the related debt. Amortization of $18,257 has been recorded in interest expense in the consolidated statements of income and comprehensive income in each of the years ended December 31, 2014 and 2013.

Goodwill and Intangible Assets

Goodwill and indefinite lived intangible assets are not amortized but instead are reviewed annually for impairment or more frequently if impairment indicators arise. The Company tests for impairment whenever events or changes in circumstances indicate that the carrying amount of goodwill or other intangible assets may not be recoverable or at least annually at December 31 of each year. In the event that the Company determines that the value of goodwill or other intangible assets have become impaired, the Company will incur a charge for the amount of the impairment during the fiscal period in which the determination is made. The Company completed its review and determined there was no impairment during the years ended December 31, 2014 and 2013 (Note 5). Identifiable intangible assets represent primarily alarm contracts arising from acquisitions and are amortized on a straight-line basis over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. In reviewing for impairment, the Company compares the carrying value of the assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying amount. The Company believes the future cash flows to be received from its long-lived assets exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses for the years ended December 31, 2014 and 2013.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily trade accounts receivable. Customers in the commercial real estate industry, principally commercial building properties, account for a substantial portion of trade receivables. Credit risk with respect to trade receivables is generally minimized due to the large corporations and other organizations the Company services. Accounts receivable due from a major customer amounted to approximately $3,959,000 and $4,194,000 at December 31, 2014 and 2013, respectively. Billings to this customer amounted to $14,518,000 and $15,508,000 for the years ended December 31, 2014 and 2013, respectively. In 2015, this major customer informed the Company that it would discontinue certain services aggregating approximately 40% of its total business with the Company. The Company has reduced costs to offset the financial impact of these revenue reductions.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $318,000 and $126,000 for the years ended December 31, 2014 and 2013, respectively.

Earnings per Share

Earnings per share is computed by dividing net income by the weighted average number of shares outstanding during the reporting period. The Company has no additional dilutive securities.

Income Taxes

Deferred income taxes are provided for the tax effects of differences between the financial reporting and tax bases of the Company's assets and liabilities at the enacted tax rates in effect for the years in which the differences are expected to reverse. The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes tax liabilities when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for tax positions are included in interest expense.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include accounting for long-term contracts, the allowance for doubtful accounts, inventory obsolescence, depreciation and amortization, employee benefit plans, income taxes and contingencies.

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with ASC 815, "Derivatives and Hedging." ASC 815 requires that the Company recognize all derivatives as assets or liabilities and measure those instruments at fair value. The Company uses derivatives primarily for the purpose of hedging exposure to changes in interest rates. The Company recognized a gain on an interest rate swap that does not qualify for hedge accounting of $95,000 and $106,000 for the years ended December 31, 2014 and 2013, respectively. The fair value of the swap of $(51,194) and $(145,874) at December 31, 2014 and 2013, respectively, has been recorded based on current market rates. On February 5, 2014, the Company entered into another interest rate swap that qualifies for hedge accounting and recorded a swap liability of $18,000 on December 31, 2014.

Comprehensive Income

Comprehensive Income or loss consists of the net unrealized actuarial gains or losses related to the Company's postretirement and pension plans, and the fair value of its interest rate swap related to its term loan, net of income taxes.

Subsequent Events

The Company evaluated all events or transactions that occurred after the balance sheet date of December 31, 2014 through April 14, 2015, the date it issued these financial statements. Any subsequent events that required recognition or disclosure have been reflected in these financial statements.

Cost and estimated earnings on uncompleted contracts and related amounts billed were as follows:

December 31,	**2014**	2013
Costs incurred on uncompleted contracts	**$ 6,259,828**	$ 3,874,242
Estimated earnings	**1,769,809**	886,453
	8,029,637	4,760,695
Less: billings to date	**(6,298,825)**	(3,968,746)
	1,730,812	791,949
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(2,226,535)**	(1,366,359)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (495,723)**	$ (574,410)

Costs and estimated earnings in excess of billings on uncompleted contracts arise in the consolidated balance sheets when revenues have been recognized but the amounts cannot be billed under the terms of the contracts. Such amounts are recoverable from customers based upon various measures of performance, including achievement of certain milestones or completion of the contract. Substantially all amounts recorded as costs and estimated earnings in excess of billings on uncompleted contracts at December 31, 2014, are expected to be billed and collected within one year.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

December 31,	**2014**	2013
Trade receivables, including progress bills and amounts due on completed contracts	**$14,661,026**	$13,534,696
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,226,535**	1,366,359
	16,887,561	14,901,055
Less: allowance for doubtful accounts	**(150,000)**	(150,000)
	$16,737,561	$14,751,055

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of the following:

	Estimated Lives	December 31, **2014**	December 31, 2013
Land		**$ 242,000**	$ 242,000
Buildings	30	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25	**12,246,527**	13,057,492
Central station and other equipment	3-10	**3,889,046**	4,146,544
Installations in progress	*	**431,125**	187,878
		21,487,933	22,313,149
Less: accumulated depreciation		**(14,262,882)**	(14,793,981)
		$ 7,225,051	$ 7,519,168

*Depreciation expense is initiated once equipment is fully installed and operational.

Depreciation expense was $1,755,082 and $1,754,384 for the years ended December 31, 2014 and 2013, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net consists of the following:

	Estimated Lives	December 31, 2014	2013
Goodwill	–	$ 441,301	$ 441,301
Alarm contracts and contract intangibles	4-15 years	6,984,540	6,984,540
Non compete and other agreements	5 years	86,845	86,845
Gross goodwill and intangibles		7,512,686	7,512,686
Less: accumulated amortization		(1,314,204)	(731,300)
Goodwill and intangible assets, net		$ 6,198,482	$6,781,386

Amortization of intangible assets was $582,904 and $583,255 during the years ended December 31, 2014 and 2013, respectively. Future estimated amortization expense for the next five years is as follows as of December 31, 2014:

Years ending December 31,	
2015	$ 580,652
2016	577,478
2017	567,176
2018	559,680
2019	559,589
	$2,844,575

6. Other Assets

Other assets consist of the following:

December 31,	2014	2013
Debt issue costs, net	$ 10,807	$ 29,063
Other	89,978	96,922
	$100,785	$125,985

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

December 31,	2014	2013
Salaries, wages and vacation	$2,403,873	$2,695,673
Employee benefit plan contribution	134,586	263,532
Current portion of liability for postretirement benefits	23,800	28,500
Income taxes payable	132,265	169
Billings in excess of costs	495,723	574,410
Healthcare costs payable	500,000	500,000
Other	745,138	698,478
	$4,435,385	$4,760,762

8. Long-Term Debt

Long-term debt consists of the following:

December 31,	2014	2013
Line of credit	$ 1,000,000	$ 3,000,000
Term loan	4,096,938	2,108,327
Mortgage note	2,113,388	2,422,296
	7,210,326	7,530,623
Less: current portion	(4,116,721)	(1,320,296)
Long-term debt	$ 3,093,605	$ 6,210,327

Future maturities of long-term debt are as follows:

Years ending December 31,	
2015	$4,116,721
2016	1,003,333
2017	1,003,333
2018	1,003,333
2019	83,606
	$ 7,210,326

On June 1, 2005, the Company obtained a $4,400,000 ten-year mortgage from its primary bank collateralized by three buildings owned by the Company whose carrying value at December 31, 2014 and 2013 was approximately $940,000 and $1,096,000, respectively. Repayment is to be made in equal monthly installments of $37,249 based on an amortization schedule of fifteen years with interest of LIBOR (.16% at December 31, 2014) +1.52%. The remaining principal balance of $1,924,393 will be due in full on July 15, 2015.

On December 1, 2010, the Company obtained a $5,500,000 five-year term loan from its primary bank collateralized by a blanket U.C.C. filing against its assets. Repayment is to be made in monthly principal installments of $91,667 with an interest rate of LIBOR +1.75%. The terms of the agreement contain various restrictive covenants which include, but are not limited to, maintenance of certain income to debt service ratios and certain adjusted earnings requirements, as defined.

On January 31, 2014, the Company refinanced its term-loan combining outstanding advances of $3,000,000 on its working capital line of credit with the balance due on its term-loan. The new $5,108,307 five-year term loan maintains the same terms and conditions as the loan it superseded with repayment to be made in monthly principal installments of $83,611 with an interest rate of LIBOR +1.75%. In connection with the refinanced term-loan the Company entered into a new interest rate swap to fix its interest rate at 2.98% over the life of the term-loan, which swap matures in 2019. The Company's bank debt has been classified in accordance with the new financing terms.

In connection with the mortgage loan, the Company entered into an interest rate swap agreement, (the "Swap"), with its primary bank to effectively fix its variable interest rate at 6.05%. The fair value of the Swap of ($51,193) and ($145,874) at December 31, 2014 and 2013, respectively, has been recorded based on current market rates. The swap matures in July 2015 and is not treated as a hedge.

The Company has available $3,600,000 in a line of credit with its primary bank collateralized by a blanket U.C.C. filing against its assets expiring July 31, 2015. Interest is payable at LIBOR +2.10%. Use of the funds are unrestricted. As of December 31, 2014, the Company had outstanding advances of $1,000,000 against its line of credit leaving $2,600,000 available for use.

9. Deferred Revenues

Deferred revenues consist of annual service and other charges and advance service charges. Annual service and other charges represent customer billings for services not yet rendered for which the maximum billing period is one year and have been reflected as a current liability. Advance service charges consist of nonrefundable charges billed to customers at the time of new installations. The portion of these charges expected to be recognized within one year has been classified as current on the balance sheet at December 31, 2014 and 2013. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balance at December 31, 2012	$ 4,902,659	$ 2,645,963	$ 7,548,622
Billings	30,578,308	1,686,460	32,264,768
Amortizations to income	(30,417,500)	(1,222,029)	(31,639,529)
Balance at December 31, 2013	5,063,467	3,110,394	8,173,861
Billings	**30,336,410**	**1,085,619**	**31,422,029**
Amortizations to income	**(30,317,694)**	**(1,178,379)**	**(31,496,073)**
Balance at December 31, 2014	**$ 5,082,183**	**$ 3,017,634**	**$ 8,099,817**

10. Common Stock

Issuance of Employee Stock Appreciation Rights

The Company issued stock appreciation rights to certain employees in January 2013 and 2007 which will be payable only upon sale of the Company or change in its control, as defined. Since the sale of the Company or change in its control, as defined, are contingent events, no compensation expense is recorded until such events are probable of occurrence.

11. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	2014	2013
Current		
Federal	$ 926,502	$1,052,381
State and local	257,975	279,696
	1,184,477	1,332,077
Deferred		
Federal	(123,534)	(178,734)
State and local	(2,943)	(27,343)
	(126,477)	(206,077)
	$1,058,000	$1,126,000

A reconciliation of the federal statutory rate and the Company's effective tax rate follows:

	2014	2013
Federal statutory rate	34.0%	34.0%
State and local income taxes, net of federal income tax benefit	6.7	6.7
Other items	0.1	(0.6)
Effective rate	40.8%	40.1%

The effective tax rate differed from the federal statutory tax rate primarily as result of state income taxes, tax credits and certain nontaxable income.

The tax effects of the significant temporary differences which comprise the deferred tax assets and liabilities at December 31 are as follows:

December 31,	2014	2013
Deferred Tax Assets		
Advance service revenue	$ 1,200,700	$ 1,336,100
Benefit plans	1,014,400	504,400
Other	130,800	179,700
Deferred tax assets	2,345,900	2,020,200
Deferred Tax Liabilities		
Intangibles	(1,535,299)	(1,705,175)
Depreciation	(2,343,400)	(2,535,100)
Other	(101,800)	(90,500)
Net deferred tax liabilities	$(1,634,599)	$(2,310,575)

Liabilities for uncertain tax positions reflected as of December 31, 2014 are not significant and it is not anticipated that they will materially change in the next 12 months. With limited exceptions, the Company is no longer subjected to tax audits by taxing authorities for years through 2010 for all jurisdictions. Although the outcome of tax audits is always uncertain, the Company believes that its tax positions will generally be sustained under audit.

Interest expense and penalties related to income tax matters are recognized as a component of interest expense. For the years ended December 31, 2014 and 2013, the Company did not record any liabilities or expenses related to tax penalties and related interest.

12. Retirement Benefits

The Company maintains a noncontributory defined benefit pension plan for its hourly union employees who meet certain requirements of age, length of service and hours worked per year. The benefits provided are based upon years of service and the employee's compensation during the last five years of employment. The Company's funding policy is to contribute annually at least the minimum amount required by Federal regulations. Effective October 15, 1996, the collective bargaining agreement covering the New York/New Jersey union employees was terminated following a strike, which resulted in a workforce reduction. Accordingly, the plan was amended effective December 31, 1996, to eliminate benefit accruals for the remaining New York/New Jersey employees. Effective January 1, 1997, the plan was further amended to provide those participants whose benefits were frozen due to the termination of the union agreement, to have their benefits determined using the method applicable for early retirement if they continue in service until then. In conjunction with the Company's collective bargaining agreement effective August 1, 2007 covering its Massachusetts union employees effective February 1, 2008, the plan was amended to eliminate benefit accruals for the Massachusetts employees, and new employees are no longer eligible to enter the plan.

The Company provides certain health care and life insurance benefits to retired employees who have attained age 62 or 20 years of service at the date of retirement, whichever is later. Eligible retirees under age 65 are covered by the Company's health insurance plan, at a cost to the retiree equal to the Company's cost for an active employee. After attaining age 65, an eligible retiree's health care benefit coverage becomes coordinated with Medicare, with the retiree paying a portion of the cost of the coverage in excess of certain amounts. Effective December 31, 1996, the Company eliminated future benefits for employees who had not already retired or had given notice of retirement at that date. The Company's funding policy is generally to pay covered expenses as they are incurred.

The following is a reconciliation of the benefit obligation, fair value of plan assets and funded status of the Company's defined benefit and other postretirement benefit plans measured at December 31, 2014 and 2013, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 7,058,743**	$ 7,887,708	**$ 224,871**	$ 290,864
Service cost	**—**	—	**—**	—
Interest cost	**324,502**	293,663	**7,770**	7,609
Actuarial (gain) loss	**1,450,019**	(850,762)	**16,897**	(34,349)
Benefits paid	**(276,839)**	(271,866)	**(18,182)**	(39,253)
Benefit obligation at end of year	**$ 8,556,425**	$ 7,058,743	**$ 231,356**	$ 224,871
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 6,037,355**	$ 5,868,803	**$ —**	$ —
Actual return on plan assets	**307,066**	240,418	**—**	—
Employer contribution	**200,000**	200,000	**18,182**	39,253
Benefits paid	**(276,839)**	(271,866)	**(18,182)**	(39,253)
Fair value of plan assets at end of year	**$ 6,267,582**	$ 6,037,355	**$ —**	$ —
Benefit obligations in excess of fair value	**$(2,288,843)**	$(1,021,388)	**$ (231,356)**	$(224,871)

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Non-current pension liability	**$(2,288,843)**	$(1,021,388)	**$ —**	$ —
Current portion of liability for postretirement benefits	**—**	—	**(23,800)**	(28,500)
Non-current liability for postretirement benefits	**—**	—	**(207,556)**	(196,371)
Net amount recognized	**$(2,288,843)**	$(1,021,388)	**$(231,356)**	$(224,871)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Actuarial loss	**$3,407,334**	$2,050,602	**$162,780**	$164,131
Total	**$3,407,334**	$2,050,602	**$162,780**	$164,131

The amounts in the preceding table have been recognized in accumulated other comprehensive loss totaling $2,141,914, net of deferred income tax assets of $1,428,200 at December 31, 2014 and accumulated other comprehensive loss totaling $1,328,840, net of deferred income tax assets of $885,893, at December 31, 2013.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2014			2014		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial loss arising during the year	**$1,447,900**	**$579,200**	**$868,700**	**$16,897**	**$6,800**	**$10,097**
Less: amortization included in net periodic pension cost	**91,167**	**36,500**	**54,667**	**18,248**	**7,300**	**10,948**
Net change during the year	**$1,356,733**	**$542,700**	**$814,033**	**$(1,351)**	**$(500)**	**$ (851)**

Components of net periodic pension and other postretirement benefits costs:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Interest cost	**$ 324,502**	$ 293,663	**$ 7,770**	$ 7,609
Expected return on plan assets	**(304,947)**	(296,453)	**—**	—
Amortization of net losses	**91,167**	143,323	**18,248**	26,634
Total	**$ 110,722**	$ 140,533	**$26,018**	$34,243

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2015 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$176,673	$17,991
Total	$176,673	$17,991

Weighted average assumptions used to determine the benefit obligation and net periodic pension and other postretirement benefits costs as of and for the years ended December 31:

	Pension Benefits		Other Postretirement Benefits	
	2014	2013	**2014**	2013
Discount rate used for net periodic cost	**4.71%**	3.82%	**3.69%**	2.83%
Discount rate used for benefit obligation	**3.85%**	4.71%	**3.25%**	3.69%
Expected return on plan assets	**5.10%**	5.10%	**—**	—

The expected return on plan assets has been determined based on historical rates of return.

The assumed increase in health care cost trend rate at the end of 2014 was 8%, gradually decreasing to 5% by the year 2016 and is expected to remain at that level thereafter. A one percentage point increase or decrease in these trend rates would not have a significant effect on the accumulated benefit obligation at December 31, 2014 and the net periodic pension and other postretirement benefits costs for 2014.

Plan Assets

Assets are primarily invested in the General Account of Principal Mutual Life Insurance Company, which provides the contract and cashout value of the account. The Company's defined benefit plan investment strategy is to invest the assets in a conservative portfolio that provides an acceptable return with low down-side risk. Preservation of capital is of primary importance. The funds are invested principally in guaranteed investment contracts which are reinvested in new contracts upon expiration and stock in the Principal Financial Group, Inc.. Such investments are deemed Level 3 and Level 2 financial instruments, respectively, as defined in Note 13. Management believes that the General Investment Account is a low-risk fixed income investment, consistent with the defined benefit plan's strategy. The breakdown of the cashout value of the assets as of December 31, 2014 and 2013 is as follows:

	2014	2013
General Investment Account	**92.4%**	92.3%
Principal Financial Group Stock Separate Account	**7.6%**	7.7%

Cash Flows

Benefit payments, which reflect expected future service, as appropriate, expected to be paid for the next ten years are as follows:

Years ending December 31,	Pension Benefits	Other Postretirement Benefits
2015	$ 371,600	$ 23,800
2016	403,700	23,000
2017	425,700	22,000
2018	445,800	21,000
2019	455,100	19,900
Thereafter	2,308,900	82,200
	$4,410,800	$191,900

Substantially all non-union salaried employees of the Company were covered by another defined contribution pension plan. Contributions under the plan were based on specified percentages of the compensation of covered employees less forfeitures, if any. There is no unfunded past service cost for this plan. In January 2010, the Company terminated the plan and offered its employees covered by this plan to fully participate in the Company's 401K Plan discussed in the following paragraph. Pension expense for this plan was $0 for the years ended December 31, 2014 and 2013.

In connection with the aforementioned curtailment of the defined benefit pension plan, effective December 1, 1996 and the curtailment of the defined contribution plan discussed above, the Company established a 401(k) savings plan covering all eligible employees. Under the plan, employees may contribute up to certain percentages of their pretax earnings, subject to the Internal Revenue Service annual contribution limit. The Company can make nonmatching and matching contributions for all eligible employees. Company contributions to the plan amounted to approximately $505,000 and $480,000 for the years ended December 31, 2014 and 2013, respectively.

13. Fair Value of Financial Instruments

The Company measures fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering assumptions, generally accepted accounting principles establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date:

- *Level 1*—Observable 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 or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level 3*—Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and counterparty creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

Cash equivalents consisting of money market funds are reported at fair value utilizing Level 1 Inputs. Derivatives are reported at fair value utilizing Level 2 Inputs. The Company obtained dealer quotations to assist it in the valuation of its interest rate swaps.

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	**$91,000**	**$ –**	**$ –**	**$ 91,000**
Derivative liabilities	**–**	**69,228**	**–**	**69,228**

December 31, 2013	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	$90,900	$ –	$ –	$ 90,900
Derivative liabilities	–	145,874	–	145,874

14. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancelable operating leases for office, storage and operating facilities (real property) through 2020 for approximate aggregate minimum rentals of $2,034,500 as follows:

Years ending December 31,	
2015	$ 967,700
2016	546,500
2017	255,200
2018	137,500
2019	113,200
Thereafter	14,400
	$2,034,500

Certain leases are renewable and substantially all leases provide for payment of various cost escalations. Rent expense for all operating leases, including motor vehicles, was approximately $2,262,000 and $2,235,000 for the years ended December 31, 2014 and 2013, respectively.

Other

Various claims incident to the ordinary course of business, some of which have resulted in litigation, are pending against the Company. In the opinion of management, disposition of these matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

AFA Protective Systems, Inc. and Subsidiaries

Report of Independent Auditors

To the Board of Directors of
AFA Protective Systems, Inc.:

We have audited the accompanying consolidated financial statements of AFA Protective Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFA Protective Systems, Inc. and its subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Melville, New York
April 14, 2015

AFA Protective Systems, Inc. and Subsidiaries

SELECTED FINANCIAL DATA

For Each of the Five Years in the Period Ended December 31, 2014.

	2014	2013	2012	2011	2010
Sales	**$48,330,463**	$44,175,705	$42,644,275	$41,393,367	$42,443,870
Service revenues	**$31,496,073**	$31,639,529	$31,225,229	$30,126,903	$29,989,431
Net income	**$ 1,532,257**	$ 1,678,303	$ 2,253,074	$ 1,347,502	$ 997,350
Earnings per share	**$ 9.47**	$ 10.36	$ 14.74	$ 8.79	$ 6.51
Cash dividends per share	**$ 2.00**	$ –	$ 10.00(a)	$ 2.00	$ 52.00(b)
Average number of shares outstanding	**161,868**	161,928	152,832	153,278	153,278
At year end:					
Deferred revenues	**$ 8,099,817**	$ 8,173,861	$ 7,548,622	$ 7,841,688	$ 8,251,950
Property, plant and equipment, net	**$ 7,225,051**	$ 7,519,168	$ 7,447,871	$ 8,478,768	$ 8,672,565
Total assets	**$36,893,006**	$35,811,783	$35,157,895	$30,348,847	$29,137,357
Shareholders' equity	**$ 7,912,887**	$ 7,528,282	$ 5,521,485(a)	$ 1,969,564	$ 1,503,612(b)
Number of shares outstanding	**161,868**	161,868	163,080	153,278	153,278
Book value per share	**$ 48.88**	$ 46.51	$ 33.86(a)	$ 12.85	$ 9.81(b)

(a) The Board of Directors approved a special dividend of $6.00 per share and advanced its 2013 dividend of $2.00 per share to shareholders of record on December 14, 2012.
(b) The Board of Directors approved a special dividend of $50.00 per share to shareholders of record on December 1, 2010 and paid on December 15, 2010.

AFA Protective Systems, Inc. and Subsidiaries

MARKET PRICES AND DIVIDEND INFORMATION

The Company's Common Stock is traded in the over-the-counter market. The range of high and low bid quotations as provided by the National Association of Security Dealers qualified interdealer quotation medium and the amount of cash dividends paid per share for each of the quarters of the fiscal years ended December 31, 2014 and 2013 are as follows:

Year Ended December 31, 2014

Quarter		Bid	Dividends
1	High	$275	$ .50
	Low	273	
2	High	290	.50
	Low	275	
3	High	277	.50
	Low	275	
4	High	288	.50
	Low	275	
			$2.00

Year Ended December 31, 2013

Quarter		Bid	Dividends
1	High	$262	$0
	Low	262	
2	High	267	0
	Low	267	
3	High	273	0
	Low	267	
4	High	273	0
	Low	273	
			$0

Executive and Regional Offices

Executive Office

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(516) 496-2322

Regional Offices

Florida
6013 Benjamin Road
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Suite 805
Fayetteville, NC 28301
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1135 Four Lakes Drive
Unit H
Matthews, NC 28105
(704) 246-7920

Corporate Information

Board of Directors

Asher Bernstein
President, Bernstein Management Corp., a real estate company, New York, NY

Stephen Hess*
President, Hess Associates, Manhasset, NY

Stephen Genatt*
President, Genatt Associates, New Hyde Park, NY

David M. Kleinman
Vice President and Secretary, AFA Protective Systems, Inc.

Richard D. Kleinman
President, AFA Protective Systems, Inc.

Robert D. Kleinman
Chairman of the Executive Committee and Board of Directors, AFA Protective Systems, Inc.

Fredric Mack
Partner, The Mack Company Fort Lee, NJ

Thomas Von Essen
Independent consultant in the fire safety industry and former Fire Commissioner of the City of New York

*Members of Audit Committee

Officers

Robert D. Kleinman
Chairman of the Board of Directors, Chief Executive Officer and General Counsel

Richard D. Kleinman
President and Chief Operating Officer

Raymond S. Greenberger
Vice President and Chief Financial Officer, Treasurer and Assistant Secretary

Stephen P. Hyle
Vice President and Director of National Accounts

David M. Kleinman
Vice President and Secretary

Registrar and Transfer Agent

Computershare, Inc.
480 Washington Boulevard, 29th Floor
Jersey City, NJ 07310

Independent Auditors

PricewaterhouseCoopers LLP
401 Broad Hollow Road
Melville, NY 11747

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, June 16 at 11:30 a.m. at the Company's Corporate Headquarters, 155 Michael Drive, Syosset, New York. All stockholders are invited to attend. A formal Notice of Meeting accompanies this report.

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