Annual Report 2011

Originally founded in 1873, AFA has provided almost 140 years of uninterrupted Central Station Alarm Service to its customers.

Corporate Profile

AFA's Central Station service consists of a detecting system installed in subscribers' premises and frequently owned, serviced, monitored 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 wireless or over the Internet. AFA presently operates UL Listed and FM Approved state-of-the-art computerized Central Stations servicing the Eastern United States. These Central Stations are staffed twenty-four hours a day, seven days a week and monitor approximately 38,000 AFA subscriber locations. The Company also monitors approximately 12,000 locations for customers of approximately 150 Alarm Dealers who do not have their own central stations. Upon receipt of an alarm signal, AFA personnel take the necessary action, which may include alerting Fire or Police Departments, 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;
- 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.

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 the finest 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 and inspection and maintenance services.

AFA's National Accounts Division continues to add dynamic growth to the Company. The division concentrates on providing fire and security protection to various retail chain stores throughout the United States.

Letter To Our Shareholders

In 2011, the Company experienced one of the most trying years in its history. While the changes we instituted during late 2009 and the beginning of 2010 enabled the Company to show marginal overall improvement in 2011, most results fell well short of our goals for the year. Some of the problems we encountered in 2010 carried over into the past year and in some areas accelerated, causing more stress on both the Company's financial performance and on our employees themselves. In particular, the first three quarters came in well below expectations in almost all categories. I believe much of the blame for this trend can be attributed to causes outside our control, primarily the economy and politics; however, that provided little solace. Fortunately though, by year end we saw tangible evidence of "light at the end of the tunnel," highlighted by a marked improvement in sales in the fourth quarter, which has been sustained to date.

Net income in 2011 amounted to $ 1,348,000 or $8.79 per share as compared to $997,000 or $6.51 per share in 2010. Cash flow from operating activities in 2011 amounted to $1,761,000 or $11.49 per share as compared to $869,000 or $5.67 in 2010. Overall revenues were basically flat from year to year: $71,520,000 in 2011 as compared to $72,433,000 in 2010. Our revenue performance was consistent with results reported by the industry as a whole.

For the fourth consecutive year, the Company experienced a decline in booked sales, albeit a slight one. New booked sales in 2011 amounted to $33,669,000, about 2% less than in 2010. For the second straight year, the cumulative effect of the recent trend of lower sales, coupled with increased operating expenses continued to hamper our ability to generate budgeted earnings and cash. However, helping to offset this lackluster sales performance was the highlight of the year: the Company's 7.1% gross attrition rate, one of our best in recent memory. This metric was largely responsible for the Company's ability to organically grow its recurring revenue base for the thirteenth consecutive year. The Company was also able to maintain its backlog level constant throughout the year.

Compounding the difficult business climate in 2011 was the Company's implementation of its conversion into new accounting and operational software systems. This turned out to be much more difficult than was anticipated. The burden put additional stress on many within the Company which, coupled with the difficult economic environment, gave us cause for serious concern by the end of the third quarter.

By mid-year, management realized additional changes needed to be made to restore acceptable levels of profitability going forward. We continued to re-evaluate our staffing and made some additional targeted personnel reductions. Also, we put a salary freeze into effect for the remainder of the year. Elsewhere, we explored ways to contain costs, most notably our constantly rising health care costs and auto maintenance. By year-end, most of the contemplated changes had been implemented which we expect will favorably impact our results in 2012.

What looked like a promising year for our National Accounts Division early on ended up with booked sales in 2011 coming in at 6% less than in 2010. All was not lost however, as in retrospect the National Accounts Division's overall performance could best be described as retrenching. Although its overall sales were a disappointment, its sales of recurring revenues increased by 65%. Many of our existing chains executed multi-year extensions and/or expanded the scope of the services we now provide for them. We also added five new chains during 2011 as well as two more to date in 2012.

The New York branch, while unable to totally avoid the challenges we faced during the year, was nevertheless able to manage acceptable results. Offsetting a slight reduction in sales was the branch's continued exemplary performance in its quest to control attrition, coming in at 5.3% for 2011. Also positive was a 9% increase in the branch's backlog at year end.

The New England branch did not fare as well. Aided by a similarly strong performance in controlling attrition, it did manage to end 2011 with an operating profit and no significant reduction in recurring revenue. However, it experienced a 15% drop in new sales which contributed to a 26% drop in its year-end backlog.

On the other hand, our New Jersey branch rebounded nicely from its dismal 2010 performance. Spurred on by a 27% increase in new sales and good results in controlling attrition, the branch was able to maintain its profitability level while increasing its year-end backlog by 48%.

The Georgia branch also experienced a rebound for 2010. The anticipated positive impact from the prior year's acquisition became a realization, enabling the branch to post increases in earnings and new sales in 2011.

Once again our Midlantic branch felt the effect of the National Accounts fall off and failed to meet expectations. Still, the office has stabilized and entered 2012 with a healthier backlog.

The restructuring we implemented in early 2011 led to a dramatic improvement in the North Carolina branch. In recent years, this branch had become a habitual underperformer, but that was no longer the case in 2011. Although it did not quite meet our original expectations, its results improved across the board. The branch is now positioned to be a contributor from here on in.

The Florida branch and its problems, which I highlighted in last year's letter, continued to plague us throughout 2011. The constantly high cost of doing business in Florida, and the branch's 33% drop in new sales during 2011, combined to yield another unacceptable year and a significant drain on the Company. After an extensive review of what options existed to correct this situation, management acted decisively in early 2012. First, the decision was made to keep the branch to support the Company's National Accounts Program. Then, management refocused and restructured the Branch accordingly. Consequently, significant cuts were made including unproductive sales representatives, excess clerical and operational employees and associated vehicles. We anticipate this restructuring will at a minimum stop the drain and eventually yield positive results.

We have been encouraged by the Company's performance to date in 2012. Our year started off with a bang when the Company booked some huge new sales in January. The angst and hardships resulting from the computer conversion process has lessened substantially, enabling us to get back to focusing on the business itself. Moreover, we are getting closer to realizing some of the operational and business benefits of the conversion, including integration with our new website, which in turn will enable the Company to be more interactive with our customer base. Our customers will be able to take advantage of the latest technology such as apps and requesting service on line, while our field technicians will have online access which should result in faster and more efficient service. The aforementioned new influx of bookings has led to increased cash collections. In fact, the Company's cash position improved so much during the past four months that we were able to pay off all outstanding working capital debt and still grow our cash on hand position.

Barring some unforeseen external complication, we expect the remainder of 2012 to yield positive results, showing tangible year-to-year gains in both sales and earnings.

Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	**2011**	2010
Assets		
Current assets		
Cash and cash equivalents	**$ 1,768,982**	$ 2,386,753
Accounts receivable, net of allowance for doubtful accounts	**14,641,524**	12,256,549
Inventories	**4,179,938**	4,295,178
Prepaid expenses and other current assets	**549,429**	868,782
Total current assets	**21,139,873**	19,807,262
Property, plant and equipment, net	**8,478,768**	8,672,565
Goodwill and intangible assets, net	**464,290**	481,068
Other assets	**265,916**	176,462
Total assets	**$30,348,847**	$29,137,357
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 2,373,786**	$ 1,357,752
Accounts payable	**4,547,308**	2,873,791
Accrued expenses and other current liabilities	**4,515,140**	5,682,746
Deferred revenues	**5,995,079**	6,030,843
Total current liabilities	**17,431,313**	15,945,132
Long-term debt	**5,921,445**	7,295,232
Pension obligation	**2,495,668**	1,550,565
Obligation for postretirement benefits	**260,950**	293,044
Deferred revenues	**1,846,609**	2,221,107
Fair value of interest rate swaps	**423,298**	328,665
Total liabilities	**28,379,283**	27,633,745
Commitments and Contingencies (Note 16)		
Shareholders' equity		
Common stock, $1 par value; 153,278 shares authorized; issued and outstanding in 2011 and 2010	**153,278**	153,278
Additional paid-in capital	**316,142**	316,142
Accumulated other comprehensive loss	**(2,228,903)**	(1,653,909)
Retained earnings	**3,729,047**	2,688,101
Total shareholders' equity	**1,969,564**	1,503,612
Total liabilities & shareholders' equity	**$30,348,847**	$29,137,357

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,	2011	2010
Revenues		
Sales	**$41,393,367**	$42,443,870
Service	**30,126,903**	29,989,431
	71,520,270	72,433,301
Costs and expenses		
Cost of sales	**30,841,018**	31,237,807
Cost of services, exclusive of depreciation and amortization	**19,347,949**	19,189,425
Depreciation and amortization	**1,924,850**	2,053,379
Selling, general, and administrative	**16,755,815**	17,963,507
	68,869,632	70,444,118
Income from operations	**2,650,638**	1,989,183
Interest and dividend income	**74,882**	80,428
Interest expense, net	**(401,018)**	(309,261)
Income before provision for income taxes	**2,324,502**	1,760,350
Provision for income taxes	**977,000**	763,000
Net income	**$ 1,347,502**	$ 997,350
Earnings per share	**$ 8.79**	$ 6.51
Weighted average number of shares outstanding	**153,278**	153,278
Dividends per share	**$ 2.00**	$ 52.00
Comprehensive income		
Net income	**$ 1,347,502**	$ 997,350
Net actuarial loss arising during the year, net of taxes	**(520,138)**	(285,629)
Interest rate swap, net of taxes	**(54,856)**	—
Comprehensive income	**$ 772,508**	$ 711,721

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, 2011 and 2010

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2009	153,278	$153,278	$316,142	$(1,368,280)	$ 9,661,206	$ 8,762,346
Net income for the year	—	—	—	—	997,350	997,350
Cash dividends ($52.00 per share)	—	—	—	—	(7,970,455)	(7,970,455)
Net actuarial loss arising during the year	—	—	—	(285,629)	—	(285,629)
Balance at December 31, 2010	153,278	$153,278	$316,142	$(1,653,909)	$ 2,688,101	$ 1,503,612
Net income for the year	**—**	**—**	**—**	**—**	**1,347,502**	**1,347,502**
Cash dividends ($2.00 per share)	**—**	**—**	**—**	**—**	**(306,556)**	**(306,556)**
Net actuarial loss arising during the year	**—**	**—**	**—**	**(520,138)**	**—**	**(520,138)**
Interest rate swap	**—**	**—**	**—**	**(54,856)**	**—**	**(54,856)**
Balance at December 31, 2011	**153,278**	**$153,278**	**$316,142**	**$(2,228,903)**	**$ 3,729,047**	**$ 1,969,564**

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

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2011	2010
Cash flows from operating activities		
Net income	**$ 1,347,502**	$ 997,350
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,924,850**	2,053,379
Deferred income taxes	**311,300**	53,600
Loss on interest rate swap	**3,177**	79,059
Changes in operating assets and liabilities		
Accounts receivable	**(2,384,975)**	(995,578)
Inventories	**115,240**	300,674
Prepaid expenses and other current assets	**319,353**	(135,209)
Other assets	**(17,355)**	(26,247)
Accounts payable	**1,673,517**	(385,603)
Accrued expenses and other current liabilities	**(1,167,606)**	(732,334)
Deferred revenues	**(410,262)**	(513,353)
Liability for postretirement benefits	**46,071**	173,447
Net cash provided by operating activities	**1,760,812**	869,185
Cash flows from investing activities		
Capital expenditures	**(1,714,274)**	(1,142,936)
Acquisition of intangible assets	**—**	(27,488)
Net cash used in investing activities	**(1,714,274)**	(1,170,424)
Cash flows from financing activities		
Dividends paid	**(306,556)**	(7,970,455)
Proceeds from borrowings–Line of credit	**1,000,000**	—
Proceeds from borrowings–Term loan	**—**	5,500,000
Repayments of mortgage note	**(257,753)**	(242,657)
Repayments of term loan	**(1,100,000)**	(91,667)
Net cash used in financing activities	**(664,309)**	(2,804,779)
Net decrease in cash and cash equivalents	**(617,771)**	(3,106,018)
Cash and cash equivalents		
Beginning	**2,386,753**	5,492,771
Ending	**$ 1,768,982**	$ 2,386,753
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	**$ 383,104**	$ 210,876
Income taxes	**325,903**	951,868

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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010, cash and cash equivalents included money market funds of $90,600 and $1,046,800, 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 charged 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 and $12,384 has been recorded in interest expense in the consolidated statements of income and comprehensive income in each of the years ended December 31, 2011 and 2010, respectively.

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, 2011 and 2010 (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 ranging primarily from four to eight years.

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 its 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, 2011 and 2010.

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 $3,064,000 and $2,597,000 at December 31, 2011 and 2010, respectively. Billings to this customer amounted to $17,421,000 and $17,907,000 for the years ended December 31, 2011 and 2010, respectively.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $153,000 and $162,000 for the years ended December 31, 2011 and 2010, 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 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 loss on an interest rate swap that does not qualify for hedge accounting of $3,176 and $79,059 for the years ended December 31, 2011 and 2010, respectively. The Company recorded a liability in connection with another interest rate swap that qualifies for hedge accounting of $54,856 and $0 for the years ended December 31, 2011 and 2010, respectively. The change in

fair value has been included as a component of comprehensive income.

Comprehensive Income

Comprehensive Income consists of net income and other comprehensive income or loss. Other 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 transaction that occurred after the balance sheet date of December 31, 2011 through April 9, 2012, the date it issued these financial statements. Any subsequent events that required recognition or disclosure have been reflected in these financial statements.

3. Accounts Receivable

Accounts receivable consist of the following:

December 31,	2011	2010
Trade receivables, including progress bills and amounts due on completed contracts	**$13,183,600**	$10,979,868
Costs and estimated earnings in excess of billings on uncompleted contracts	**1,607,924**	1,426,681
	14,791,524	12,406,549
Less: allowance for doubtful accounts	**(150,000)**	(150,000)
	$14,641,524	$12,256,549

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

December 31,	2011	2010
Costs incurred on uncompleted contracts	**$ 3,886,530**	$ 4,063,284
Estimated earnings	**1,441,845**	1,541,845
	5,328,375	5,605,129
Less: billings to date	**(4,019,751)**	(4,394,502)
	1,308,624	1,210,627
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(1,607,924)**	(1,426,681)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (299,300)**	$ (216,054)

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, 2011, are expected to be billed and collected within one year.

4. Property, Plant and Equipment, Net

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

	Estimated Lives	December 31, 2011	2010
Land		**$ 242,000**	$ 242,000
Buildings	30	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25	**47,114,631**	46,346,602
Central station and other equipment	3-10	**16,853,783**	16,134,969
Leasehold improvements	Lesser of lease term or useful life	**380,121**	380,121
Installations in progress	*	**449,601**	222,170
		69,719,371	68,005,097
Less: accumulated depreciation		**(61,240,603)**	(59,332,532)
		$ 8,478,768	$ 8,672,565

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

Depreciation expense was $1,908,071 and $2,027,385 for the years ended December 31, 2011 and 2010, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net consists of the following:

	Estimated Lives	December 31, 2011	2010
Goodwill	—	**$ 441,301**	$ 441,301
Alarm contracts	4-8 years	**199,365**	277,500
Gross goodwill and intangibles		**640,666**	718,801
Less: accumulated amortization		**(176,376)**	(237,733)
Goodwill and intangible assets, net		**$ 464,290**	$ 481,068

Amortization of intangible assets was $16,779 and $25,994 during the years ended December 31, 2011 and 2010, respectively. Future estimated amortization expense for the next five years is as follows as of December 31, 2011:

Years ending December 31,	
2012	$ 8,521
2013	5,867
2014	5,627
2015	2,974
	$22,989

6. Other Assets

Other assets consist of the following:

December 31,	**2011**	2010
Debt issue costs, net (Note 2)	**$ 65,577**	$ 83,834
Other	**200,339**	92,628
	$265,916	$176,462

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

December 31,	**2011**	2010
Salaries, wages and vacation	**$2,317,367**	$3,077,464
Employee benefit plan contribution	**148,436**	446,050
Current portion of liability for postretirement benefits	**43,400**	47,300
Income taxes payable	**7,344**	211
Billings in excess of costs	**299,300**	216,054
Healthcare costs payable	**600,000**	500,000
Refundable NYC Fire Department fees	**611,716**	831,635
Other	**487,577**	564,032
	$4,515,140	$5,682,746

8. Long-Term Debt

Long-term debt consists of the following:

December 31,	**2011**	2010
Line of credit	**$ 1,000,000**	$ —
Term loan	**4,308,333**	5,408,333
Mortgage note	**2,986,898**	3,244,651
	8,295,231	8,652,984
Less: current portion	**(2,373,786)**	(1,357,752)
Long-term debt	**$ 5,921,445**	$ 7,295,232

Future maturities of long-term debt are as follows:

Years ending December 31,	
2012	$2,373,790
2013	1,390,820
2014	1,408,910
2015	3,121,711
	$8,295,231

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, 2011 and 2010 was approximately $1,408,000 and $1,564,000, 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 (0.36% at December 31, 2011) plus 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 plus 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.

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 $(331,842) and $(328,665) at December 31, 2011 and 2010, respectively, has been recorded based on current market rates. This swap is not treated as a hedge. The Company has a swap on its five-year term loan with its lender to effectively fix its interest rate on the related debt at 3.44%. Such swap will be treated as a hedge. The fair value of the hedge totaling $91,456 net of deferred income tax assets of $36,600 has been recognized in accumulated other comprehensive loss at December 31, 2011.

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, 2012. Interest is payable at LIBOR plus 2.10%. Use of the funds are unrestricted. In August 2011, the Company borrowed $1,000,000 against its credit line leaving $2,600,000 available for use at December 31, 2011.

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, 2011 and 2010. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balance at December 31, 2009	$ 4,717,842	$ 3,797,388	$ 8,515,230
Billings	28,494,730	1,231,421	29,726,151
Amortizations to income	(28,489,729)	(1,499,702)	(29,989,431)
Balance at December 31, 2010	4,722,843	3,529,107	8,251,950
Billings	**28,809,998**	**906,643**	**29,716,641**
Amortizations to income	**(28,733,762)**	**(1,393,141)**	**(30,126,903)**
Balance at December 31, 2011	**$ 4,799,079**	**$ 3,042,609**	**$ 7,841,688**

10. Common Stock

Issuance of Employee Stock Appreciation Rights

The Company issued stock appreciation rights to certain employees in January 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,	2011	2010
Current		
Federal	**$509,005**	$605,465
State and local	**156,695**	103,935
	665,700	709,400
Deferred		
Federal	**285,200**	36,600
State and local	**26,100**	17,000
	311,300	53,600
	$977,000	$763,000

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

	2011	2010
Federal statutory rate	**34.0%**	34.0%
State and local income taxes, net of federal income tax benefit	**5.9%**	6.3%
Other items	**2.1%**	3.0%
Effective rate	**42.0%**	43.3%

The effective tax rate differed from the federal statutory tax rate primarily as result of state income taxes and certain non-taxable 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,	2011	2010
Deferred Tax Assets		
Advance service revenue	**$ 1,349,800**	$ 1,519,100
Intangibles	**238,300**	378,100
Net operating loss carryforwards (state)	**6,000**	18,000
Benefit plans	**1,092,900**	765,100
Other	**256,100**	262,600
	2,943,100	2,942,900
Less: valuation allowance	**(6,000)**	(18,000)
Deferred tax assets	**2,937,100**	2,924,900
Deferred Tax Liabilities		
Depreciation	**(2,789,700)**	(2,808,300)
Other	**(41,100)**	(110,000)
Net deferred tax assets	**$ 106,300**	$ 6,600

As of December 31, 2011 and 2010, the Company recorded a valuation allowance of $6,000 and $18,000, respectively, on the deferred tax assets to reduce the total to an amount that management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The net change in the valuation allowance against deferred tax assets were a decrease of $12,000 and an increase of $18,000 during the years ended December 31, 2011 and 2010, respectively. Net deferred tax assets are included in other assets, as the current portion is not deemed significant.

Liabilities for uncertain tax positions reflected as of December 31, 2011 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 2008 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, 2011 and 2010, 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, 2011 and 2010, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	2010
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 6,697,425**	$ 5,946,438	**$ 340,345**	$ 357,811
Service cost	**—**	—	**—**	—
Interest cost	**356,404**	351,723	**13,030**	16,855
Actuarial loss (gain)	**1,209,175**	645,551	**(6,684)**	4,960
Benefits paid	**(271,905)**	(246,287)	**(42,341)**	(39,281)
Benefit obligation at end of year	**$ 7,991,099**	$ 6,697,425	**$ 304,350**	$ 340,345
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 5,146,860**	$ 5,054,731	**$ —**	$ —
Actual return on plan assets	**502,476**	338,416	**—**	—
Employer contribution	**118,000**	—	**42,341**	39,281
Benefits paid	**(271,905)**	(246,287)	**(42,341)**	(39,281)
Fair value of plan assets at end of year	**$ 5,495,431**	$ 5,146,860	**$ —**	$ —
Benefit obligations in excess of fair value	**$(2,495,668)**	$(1,550,565)	**$(304,350)**	$(340,345)

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	2010
Non-current pension liability	**$(2,495,668)**	$(1,550,565)	**$ —**	$ —
Current portion of liability for postretirement benefits	**—**	—	**(43,400)**	(47,300)
Non-current liability for postretirement benefits	**—**	—	**(260,950)**	(293,045)
Net amount recognized	**$(2,495,668)**	$(1,550,565)	**$(304,350)**	$(340,345)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	2010
Actuarial loss	**$3,403,209**	$2,505,961	**$220,438**	$250,748
	$3,403,209	$2,505,961	**$220,438**	$250,748

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $2,174,047, net of deferred income tax assets of $1,449,600 at December 31, 2011 and accumulated other comprehensive loss totaling $1,653,909, net of deferred income tax assets of $1,102,800 at December 31, 2010.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2011			2011		
	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 (gain) arising during the year	**$1,035,473**	**$414,200**	**$621,273**	**$ (6,684)**	**$ (2,700)**	**$ (3,984)**
Less: amortization included in net periodic pension cost	**138,225**	**55,300**	**82,925**	**23,626**	**9,400**	**14,226**
Net change during the year	**$ 897,248**	**$358,900**	**$538,348**	**$(30,310)**	**$(12,100)**	**$(18,210)**

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	**2010**
Interest cost	**$ 356,404**	$ 351,723	**$13,030**	$16,854
Expected return on plan assets	**(328,773)**	(320,675)	**—**	—
Amortization of net losses	**138,225**	115,735	**23,626**	41,006
	$ 165,856	$ 146,783	**$36,656**	$57,860

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2012 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$178,412	$22,922
Total	$178,412	$22,922

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

	Pension Benefits		Other Postretirement Benefits	
	2011	2010	**2011**	2010
Discount rate used for net periodic cost	**5.27%**	6.18%	**4.40%**	5.00%
Discount rate used for benefit obligation	**4.16%**	5.27%	**3.38%**	4.40%
Expected return on plan assets	**6.50%**	6.50%	**—**	—
Rate of compensation increase	**—**	—	**—**	—

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

The assumed increase in the health care cost trend rate at the end of 2011 was 8%, gradually decreasing to 5% by the year 2014 and thereafter 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, 2011 and the net periodic pension and other postretirement benefits cost for 2011.

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. 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, 2011 and 2010 is as follows:

	2011	2010
General Investment Account	**95.9%**	94.7%
Principal Financial Group Stock Separate Account	**4.1%**	5.3%

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
2012	$ 347,600	$ 43,400
2013	361,000	37,900
2014	379,400	33,300
2015	405,500	29,500
2016	432,600	26,400
2017-2021	2,305,200	97,400
	$4,231,300	$267,900

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, 2011 and 2010, respectively.

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 non-matching and matching contributions for all eligible employees. Company contributions to the plan amounted to approximately $474,000 and $622,000 for the years ended December 31, 2011 and 2010, respectively.

13. Related Party Transactions

In 1968, the Company entered into an agreement with Ready Alarm, Inc. ("Ready") which provides for the sale to Ready of alarm systems installed prior to November 1, 1967 in the premises of a substantial portion of the Company's subscribers. In 1970, Ready was acquired by United Telephone Services, Inc. ("United"), all of the outstanding shares of which are owned by the Chairman of the Company, members of his family and family trusts. There have been no sales of alarm systems to Ready since its acquisition by United in 1970.

Pursuant to a United shareholders' agreement, all shares of the Company owned by United and present shareholders of United, which represent approximately 51% of the outstanding shares of the Company, are voted as directed by the Chairman.

The Company received approximately $134,000 in 2011 and 2010, respectively, for central station protection services rendered to Ready's subscribers under a contract expiring in December 2014.

A member of the board of directors is a shareholder in the insurance agency that the Company uses to place its insurance. Premiums incurred were approximately $1,251,000 and $1,230,000 in 2011 and 2010, respectively. The placement of insurance coverage and resulting premiums are subject to independent third party review.

14. 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, 2011	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	**$ 90,600**	**$ —**	**$ —**	**$ 90,600**
Derivative liabilities	**$ —**	**$423,298**	**$ —**	**$423,298**

December 31, 2010	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	$1,046,800	$ —	$ —	$1,046,800
Derivative liabilities	$ —	$328,665	$ —	$ 328,665

15. New York City Fire Department Litigation

In June 2008, the Company reached a settlement in an ongoing action against the New York City Fire Department. All disputed fees had been paid into an independent escrow fund pending resolution of the matter. The Company received approximately $3,860,000 of which approximately $2,559,000 was retained by the Company as a reimbursement of costs incurred since 1994, with the balance of approximately $1,301,000 to be returned to the Company's customers in the form of credits against future Fire Department fees. The Company has recorded a liability of $612,000 and $832,000 at December 31, 2011 and 2010, respectively, in connection with credits issuable to its customers related to this matter.

16. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancellable operating leases for office, storage and operating facilities (real property) through 2017 for approximate aggregate minimum rentals of $2,414,000 as follows:

Years ending December 31,	
2012	$ 820,000
2013	577,000
2014	464,000
2015	323,000
2016	212,000
2017	18,000
	$2,414,000

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 $2,137,000 and $2,326,000 for the years ended December 31, 2011 and 2010, 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.

Report of Independent Auditors

To the Board of Directors and Shareholders of
AFA Protective Systems, Inc:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of AFA Protective Systems, Inc. and its subsidiaries (the "Company") at December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

April 9, 2012
Melville, New York

AFA Protective Systems, Inc. and Subsidiaries

Selected Financial Data

For Each of the Five Years in the Period Ended December 31, 2011.

	2011	2010	2009	2008	2007
Sales	**$41,393,367**	$42,443,870	$48,023,623	$52,683,340	$48,465,616
Service revenues	**$30,126,903**	$29,989,431	$30,049,342	$29,123,167	$28,129,317
Net income	**$ 1,347,502**	$ 997,350	$ 2,155,019	$ 2,577,452	$ 1,624,457
Earnings per share	**$ 8.79**	$ 6.51	$ 14.05	$ 16.80	$ 10.57
Cash dividends per share	**$ 2.00**	$ 52.00(a)	$ 2.00	$ 22.00(b)	$ 2.00
Average number of shares outstanding	**153,278**	153,278	153,388	153,435	153,617
At year end:					
Deferred revenues	**$ 7,841,688**	$ 8,251,950	$ 9,551,039	$ 9,380,806	$ 8,587,602
Property, plant and equipment, net	**$ 8,478,768**	$ 8,672,565	$ 9,557,013	$10,096,607	$10,967,918
Total assets	**$30,348,847**	$29,137,357	$32,678,126	$33,485,536	$34,180,409
Shareholders' equity	**$ 1,969,564**	$ 1,503,612(a)	$ 8,762,346	$ 7,515,736(b)	$ 8,481,849
Number of shares outstanding	**153,278**	153,278	153,278	153,420	153,497
Book value per share	**$ 12.85**	$ 9.81(a)	$ 57.17	$ 48.99(b)	$ 55.26

(a) The Board of Directors approved a special dividend of $50 per share to shareholders of record on December 1, 2010 and paid on December 15, 2010.
(b) The Board of Directors approved a special dividend of $20 per share to shareholders of record on September 15, 2008 and paid on October 15, 2008.

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, 2011 and 2010 are as follows:

Year Ended December 31, 2011

Quarter		Bid	Dividends
1	High	**$250**	**$ .50**
	Low	**240**	
2	High	**244**	**.50**
	Low	**237**	
3	High	**244**	**.50**
	Low	**237**	
4	High	**238**	**.50**
	Low	**236**	
			$2.00

Year Ended December 31, 2010

Quarter		Bid	Dividends
1	High	$400	$ .50
	Low	257	
2	High	271	.50
	Low	263	
3	High	275	.50
	Low	265	
4	High	300	50.50
	Low	240	
			$52.00

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

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

Robert D. Kleinman
Chairman of the Board of Directors, Secretary and General Counsel, AFA Protective Systems, Inc.

Fredric Mack
Partner, The Mack Company, Fort Lee, NJ

**Members of Audit Committee*

Officers

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

Richard D. Kleinman
President and Chief Operating Officer

James J. Jackson
Senior Vice President, Branch Operations

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

Stephen P. Hyle
Vice President and Director of National Accounts

David M. Kleinman
Secretary

Registrar and Transfer Agent

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016

Independent Auditors

PricewaterhouseCoopers LLP
401 Broad Hollow Road
Melville, NY 11747

Annual Meeting

The Annual Meeting of Stockholders will be held on Monday, June 4 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.

Executive Offices

155 Michael Drive
Syosset, NY 11791
(516) 496-2322

Regional Offices

Florida

1255 LaQuinta Drive
Suite 100A
Orlando, FL 32809
(407) 812-9200

13161 56th Court
Suite 201
Clearwater, FL 33760
(727) 556-2905

6535 Nova Drive
Suite 111
Davie, FL 33314
(954) 473-0022

Georgia

805C Franklin Court
Marietta, GA 30067
(770) 794-9000

Metropolitan New York

519 Eighth Avenue
New York, NY 10018
(212) 279-5000

170 Eileen Way
Syosset, NY 11791
(516) 496-2322

10 Skyline Drive
Hawthorne, NY 10532
(914) 347-5481

4 Chelsea Place
Suite 103
Clifton Park, NY 12065
(518) 447-1645

Mid Atlantic

4643 Benson Avenue
Baltimore, MD 21227
(410) 247-8305

National Accounts

161 Forbes Road
Suite 201
Braintree, MA 02184
(781) 848-6200

New England

200 High Street
Boston, MA 02110
(617) 772-5900

20 North Plains Industrial Road
Wallingford, CT 06492
(203) 265-0202

240 Chestnut Street
Warwick, RI 02888
(401) 461-2770

New Jersey

961 Joyce Kilmer Avenue
North Brunswick, NJ 08902
(732) 846-4000

520 Fellowship Road
Suite D-404
Mt. Laurel, NJ 08054
(856) 231-4242

North Carolina

214 Rowan Street
Fayetteville, NC 28301
(910) 423-4054

8029 Fairview Road
Mint Hill, NC 28227
(704) 545-4531

AFA Protective Systems, Inc.
155 Michael Drive
Syosset, NY 11791
Telephone: 516-496-2322
Fax: 516-496-2848

www.afap.com