



YOUR FIRE AND SECURITY SOLUTION



AFA PROTECTIVE SYSTEMS, INC.
2015 ANNUAL REPORT



Originally founded in 1873, AFA has provided uninterrupted central station alarm service to its customers for longer than anyone in the industry.

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 AFA subscriber locations, as well as 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;
- Elevator 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.

In 2015, the Company was beset with a number of obstacles resulting in its inability to meet expectations. The combination of the continued underperformance of our Southern branches, the previously reported early year loss of a substantial portion of business from our largest account, increased healthcare costs and the interim cost of transitioning to our new executive team was more than the rest of our business could offset, thereby resulting in decreased earnings for the year. Still, through it all we have seen enough positive signs to encourage our belief that we are on the right course and will see more positive results in the near future.

Net income in 2015 amounted to \$538,000 or \$3.32 per share as compared to \$1,532,000 or \$9.47 per share in 2014. Cash flow from operating activities in 2015 amounted to \$5,336,000 or \$32.98 per share as compared to \$1,865,000 or \$11.52 per share in 2014. Overall revenues fell from the prior year: \$76,355,000 in 2015 as compared to \$79,827,000 in 2014.

The Company's gross rate of attrition for the year came in at 7.9%, consistent with the prior year and well below the industry norm. The aforementioned singular loss of ongoing business did however, negatively impact what would have otherwise been improvements in many meaningful categories. In particular, annual recurring revenue decreased during the year by \$159,000, new sales bookings amounted to \$38,491,000 and our year-end backlog was \$14,398,000. While these were below last year's results, it is important to note that the overall fall off was substantially mitigated by improvements in business with other existing and new customers.

Our National Accounts Division experienced an overall decline during the year, as a direct result of the ongoing loss from our largest account or just under 30% of its total business. However, as expected, that particular loss freed up the branch to pursue other, more profitable opportunities. Consequently, despite the significant loss, we already have seen noticeable growth from other National Accounts, both in the form of additional business from other existing accounts and the addition of totally new accounts. During the year, the Division added five new chain accounts as well as extended and expanded the scope of services for many existing accounts. In fact, by year end, for the first time ever our National Accounts Division was doing more business

with its other accounts than it was doing with its largest account. Thus, we believe the customer mix and resulting exposure is much more favorable going forward than it ever was before.

The most positive thing to report about 2015 is that all of our Northern branches performed well. The New York branch had another good year. New booked sales and profits were up slightly, and its gross attrition was limited to just 6.2%. Even more encouraging has been its start in 2016 where early on the branch has delivered exceptional sales bookings.

The New England branch continued the rebound it began last year. Although its profitability was down, its sales bookings for the year were up 60%, which is further indication of its return to being a solid contributor going forward.

Both of our New Jersey branches had good years, although slightly below expectations. The larger Northern New Jersey office increased sales bookings by 17% but experienced a few large losses that dampened its overall results. Still, it generated meaningful profits, retained most of its recurring revenue base and entered the new year with an increased backlog of work. The Southern New Jersey office experienced its best year ever with increases in sales, profitability and recurring revenues.

The Mid-Atlantic branch's results continued to improve and achieved double-digit growth in profitability and recurring revenues.

The story was markedly different in our Southern branches. Our Georgia branch, for many years a bright spot, had a down year. Perennially a victim of low margins, the branch was for the first time unprofitable despite good sales volume and a healthy recurring revenue base. Although we recognized this trend during the year and made changes to address the problem, it was not enough to totally alter the outcome for 2015. This issue has been addressed going into 2016 by emphasizing our ongoing sales efforts in the branch to be more focused on profitability and recurring revenue.

Despite our restructuring last year, our North Carolina branch continued to disappoint and we finally decided to eliminate our commercial operation in the region. The new emphasis for the

branch is two-fold: 1) to retain our original residential operation based in Fayetteville with the goals of maintaining our recurring revenue base, offering enhanced services and generating an operating profit, and 2) maintaining a workforce based in the Charlotte area to handle our National Accounts needs in the region. Since we have implemented these changes our losses from this area have ceased.

While the operating results at our Florida branch were below expectations, the branch generated a small profit as well as an increase in new sales bookings of 30%, leading us to believe it is on the right track going forward.

Our industry now seems to be at a crossroad. For at least a decade, it was generally thought that the residential sector was more valuable than commercial business. However, during the past year the “experts” have become more enamored with the commercial sector, where we are mostly concentrated. We believe there are three reasons for this shift. First, the residential market is even more competitive than the commercial market. Second, the residential market is more susceptible to attack from new entrants currently outside of the industry. Third, the increasing availability of “Do It Yourself” systems is perceived to be a definite threat to alarm providers in the residential market as opposed to the commercial market, where the systems are more sophisticated, more code driven, and “Do It Yourself” is not an option.

In addition, over the past nine months there has been significant merger and acquisition activity involving many of the major players in the industry. Based on past experience, in such an environment we believe the integration experience those players will face in 2016 will present new opportunities for other companies, including our Company, to take advantage of.

Nevertheless, we still have to fully resolve the ongoing matter of what has evidently now become an industry-wide issue of shrinking margins on outright sales. In recent years, I have reported that this has been a major negative influence on our earnings capabilities. Last year, we began to seriously address the issue by forcing our branches to get better pricing and be more diligent in cost control; and we did see a marginal increase in

our gross margins during the year. However, it was not enough to alter our recent perception that the outright sale business model—especially in the bid market arena—may not be the best use of our resources. Historically, the commercial alarm industry was strictly a service and lease business model. That changed during the 1970’s and 1980’s, as most major competitors felt the need to compete with non-traditional new entrants into the industry. While in the beginning there was definitely some immediate cash flow benefit to the outright sale model, we believe the proliferation of competitors in recent years, including electrical contractors, has made this segment so competitive that it has become difficult to attain acceptable margins. As a result, we have recently embarked upon and are currently examining whether, where and to what extent we should continue selling and installing pure outright sales unassociated with any recurring revenue stream.

Earlier I alluded to transition in our executive team. During 2015, we welcomed two new members, Ronald Rothman and Joseph Goren. Mr. Rothman has assumed the role of Senior Vice President of Sales and Business Development. He came to us with over 30 years of experience in the manufacturing side of the industry during which time he has been honored multiple times and is an inductee of the Security Systems & Integration Hall of Fame. Mr. Goren is our new Chief Financial Officer who fit into our organization virtually seamlessly and is already intimately involved with assisting us in making all strategic decisions.

Given all of the foregoing, forecasting the future, especially the near future, is difficult. However, based upon the measures we have taken thus far and our early sales results this year, we do believe that we should see an overall improvement in operating results during 2016.



Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS

December 31,	2015	2014
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,637,952	\$ 1,256,134
Accounts receivable, net of allowance for doubtful accounts	12,260,141	16,737,561
Inventories, net	3,953,785	4,833,918
Prepaid expenses and other current assets	1,103,307	541,075
Total current assets	19,955,185	23,368,688
Property, plant and equipment, net	7,026,045	7,225,051
Goodwill and intangible assets, net	5,636,273	6,198,482
Other assets	89,625	100,785
Total assets	\$32,707,128	\$36,893,006
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 1,289,048	\$ 4,116,721
Accounts payable	3,437,920	5,034,365
Accrued expenses and other current liabilities	4,150,446	4,435,385
Deferred revenues	6,115,731	6,061,183
Total current liabilities	14,993,145	19,647,654
Long-term debt	3,756,938	3,093,605
Deferred income taxes	1,312,766	1,634,599
Pension obligation	2,252,686	2,288,843
Accrued postretirement benefits	108,896	207,556
Deferred revenues	2,114,150	2,038,634
Fair value of interest rate swaps	12,930	69,228
Total liabilities	24,551,511	28,980,119
COMMITMENTS AND CONTINGENCIES		
Shareholders' equity		
Common stock, \$1 par value; 1,500,000 shares authorized; 161,768 and 161,868 shares issued and outstanding in 2015 and 2014, respectively	161,768	161,868
Additional paid-in capital	3,055,449	3,055,349
Accumulated other comprehensive loss	(2,124,078)	(2,152,648)
Retained earnings	7,062,478	6,848,318
Total shareholders' equity	8,155,617	7,912,887
Total liabilities and shareholders' equity	\$32,707,128	\$36,893,006

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

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31,	2015	2014
Revenues		
Sales	\$45,337,695	\$48,330,463
Service	31,016,879	31,496,073
	<u>76,354,574</u>	<u>79,826,536</u>
Costs and expenses		
Cost of sales	33,897,732	35,920,819
Cost of services, exclusive of depreciation and amortization	20,623,227	20,289,753
Depreciation and amortization	2,238,354	2,356,242
Selling, general, and administrative	18,506,852	18,526,149
	<u>75,266,165</u>	<u>77,092,963</u>
Income from operations	1,088,409	2,733,573
Interest and dividend income	106,049	60,132
Interest expense	(175,713)	(203,448)
Income before provision for income taxes	1,018,745	2,590,257
Provision for income taxes	481,000	1,058,000
Net income	<u>\$ 537,745</u>	<u>\$ 1,532,257</u>
Earnings per share	\$ 3.32	\$ 9.47
Weighted average number of shares outstanding	161,768	161,868
Dividends per share	\$ 2.00	\$ 2.00
Comprehensive income		
Net income	\$ 537,745	\$ 1,532,257
Unrealized gain (loss) on minimum pension and postretirement liability, net of taxes	25,506	(813,182)
Interest rate swap, net of taxes	3,064	(10,734)
Comprehensive income	<u>\$ 566,315</u>	<u>\$ 708,341</u>

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years Ended December 31, 2015 and 2014

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balances 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)
Unrealized gain (loss) on minimum pension and postretirement liability, net	—	—	—	(813,182)	—	(813,182)
Interest rate swap, net	—	—	—	(10,734)	—	(10,734)
Balances at December 31, 2014	161,868	161,868	3,055,349	(2,152,648)	6,848,318	7,912,887
Net income for the year	—	—	—	—	537,745	537,745
Cash dividends (\$2.00 per share)	—	—	—	—	(323,585)	(323,585)
Purchase and retirement of common stock	(100)	(100)	100	—	—	—
Unrealized gain (loss) on minimum pension and postretirement liability, net	—	—	—	25,506	—	25,506
Interest rate swap, net	—	—	—	3,064	—	3,064
Balances at December 31, 2015	161,768	\$161,768	\$3,055,449	\$(2,124,078)	\$7,062,478	\$8,155,617

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,	2015	2014
Cash flows from operating activities		
Net income	\$ 537,745	\$ 1,532,257
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,238,354	2,356,242
Deferred income taxes	(321,833)	(675,976)
Gain on interest rate swap	(53,234)	(87,380)
Changes in operating assets and liabilities		
Accounts receivable	4,477,420	(1,986,506)
Inventories	880,133	(353,691)
Prepaid expenses and other current assets	(562,232)	117,101
Other assets	351	6,944
Accounts payable	(1,596,445)	890,318
Accrued expenses and other current liabilities	(284,939)	(325,378)
Deferred revenues	130,064	(74,044)
Accrued pension and postretirement benefits	(109,311)	465,458
Net cash provided by operating activities	5,336,073	1,865,345
Cash flows from investing activities		
Capital expenditures	(1,445,837)	(1,460,966)
Acquisitions of alarm contracts	(20,495)	—
Net cash used in investing activities	(1,466,332)	(1,460,966)
Cash flows from financing activities		
Dividends paid	(323,585)	(323,736)
Purchase and retirement of common stock	—	—
Proceeds from borrowings—line of credit	2,600,000	1,000,000
Proceeds from borrowings—second term loan	2,000,000	3,000,000
Repayments of line of credit	(3,600,000)	(3,000,000)
Repayments of mortgage note	(2,113,388)	(308,907)
Repayments of term loan	(1,050,950)	(1,011,388)
Net cash used in financing activities	(2,487,923)	(644,031)
Net increase (decrease) in cash and cash equivalents	1,381,818	(239,652)
Cash and cash equivalents		
Beginning	1,256,134	1,495,786
Ending	\$ 2,637,952	\$ 1,256,134
Supplemental disclosures of cash flow information		
Cash paid for:		
Income taxes	\$ 1,004,387	\$ 998,915
Interest	223,620	331,070

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

NOTES TO 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

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, pension and postretirement benefits and income taxes.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. At December 31, 2015 and 2014, cash and cash equivalents included money market funds of \$86,839 and \$91,043, 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. Inventory reserves, which are charged to cost of sales are established for slow moving, excess and obsolete stock on hand and are re-evaluated periodically to give effect to sales results and changing market conditions.

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 gains 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.

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, 2015 and 2014.

Goodwill and Intangible Assets

The Company follows the provisions of Accounting Standards Codification (“ASC”) 350 “Goodwill and Other Intangible Assets.” Goodwill reflects the cost of an acquisition in excess of the fair values assigned to identifiable net assets acquired. 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, 2015 and 2014. Identifiable intangible assets represent primarily alarm contracts arising from acquisitions and are amortized on a straight-line basis over their estimated useful lives.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2015 and 2014, 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, 2015 and 2014 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.

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 \$51,194 and \$94,680 for the years ended December 31, 2015 and December 31, 2014, respectively. The fair value of the swap was (\$51,194) at December 31, 2014 and was recorded based on current market rates at that time. The swap expired during July 2015.

On February 5, 2014, the Company entered into an interest rate swap that qualifies for hedge accounting. The fair value of the swap liability is \$11,850 and \$18,034 at December 31, 2015 and 2014, respectively.

On October 29, 2015, the Company entered into a second interest rate swap that qualifies for hedge accounting. The fair value of the swap liability is \$1,080 at December 31, 2015.

Comprehensive Income

ASC 220 "Comprehensive Income," establishes rules for the reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income consists of net income, unrealized gains or losses on minimum pension and postretirement liability, and the fair value of its interest rate swaps related to its term loans, net of income taxes.

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.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately \$300,637 and \$318,489 for the years ended December 31, 2015 and 2014, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 \$1,054,119 and \$3,958,746 at December 31, 2015 and 2014, respectively. Billings to this customer amounted to \$8,087,369 and \$14,518,383 for the years ended December 31, 2015 and 2014, respectively.

Subsequent Events

The Company evaluated all events or transactions that occurred after the balance sheet date of December 31, 2015 through April 13, 2016, the date it issued these consolidated financial statements. Any subsequent events that required recognition or disclosure have been reflected in these consolidated financial statements.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

December 31,	2015	2014
Trade receivables, including progress bills and amounts due on completed contracts	\$11,047,081	\$14,661,026
Costs and estimated earnings in excess of billings on uncompleted contracts	1,363,060	2,226,535
	12,410,141	16,887,561
Less: Allowance for doubtful accounts	(150,000)	(150,000)
	\$12,260,141	\$16,737,561

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

December 31,	2015	2014
Costs incurred on uncompleted contracts	\$ 4,064,118	\$ 6,259,828
Estimated earnings	1,249,558	1,769,809
	5,313,676	8,029,637
Less: Billings to date	(4,180,091)	(6,298,825)
	1,133,585	1,730,812
Costs and estimated earnings in excess of billings (included in accounts receivable)	(1,363,060)	(2,226,535)
Billings in excess of costs (included in accrued expenses and other current liabilities)	\$ (229,475)	\$ (495,723)

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, 2015, 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,	
		2015	2014
Land		\$ 242,000	\$ 242,000
Buildings	30	4,679,235	4,679,235
Equipment in subscribers' premises	10-25	11,905,801	12,246,527
Central station and other equipment	3-10	3,652,029	3,889,046
Installations in progress	*	481,205	431,125
		20,960,270	21,487,933
Less: Accumulated depreciation		(13,934,225)	(14,262,882)
		\$ 7,026,045	\$ 7,225,051

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

Depreciation expense was \$1,644,843 and \$1,755,082 for the years ended December 31, 2015 and 2014, respectively.

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets, net consists of the following:

	Estimated Lives	December 31,	
		2015	2014
Goodwill	—	\$ 441,301	\$ 441,301
Alarm contracts and contract intangibles	4-15 years	7,005,035	6,984,540
Non compete and other agreements	5 years	86,845	86,845
Gross goodwill and intangibles		7,533,181	7,512,686
Less: Accumulated amortization		(1,896,908)	(1,314,204)
Goodwill and intangible assets, net		\$ 5,636,273	\$ 6,198,482

Amortization of intangible assets was \$582,704 and \$582,904 during the years ended December 31, 2015 and 2014, respectively. Future estimated amortization expense is as follows as of December 31, 2015:

Years ending December 31,	
2016	\$ 581,576
2017	571,275
2018	563,778
2019	563,688
2020	441,323
Thereafter	2,473,332
	\$ 5,194,972

6. OTHER ASSETS

Other assets consist of the following:

December 31,	2015	2014
Debt issue costs, net	\$ —	\$ 10,807
Other	89,625	89,978
	\$89,625	\$100,785

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

December 31,	2015	2014
Salaries, wages and vacation	\$2,767,811	\$2,403,873
Employee benefit plan contribution	—	134,586
Current portion of liability for postretirement benefits	16,700	23,800
Income taxes payable	853	132,265
Billings in excess of costs	229,475	495,723
Healthcare costs payable	525,000	500,000
Other	610,607	745,138
	\$4,150,446	\$4,435,385

8. LONG-TERM DEBT

Long-term debt consists of the following:

December 31,	2015	2014
Line of credit	\$ —	\$ 1,000,000
Term loan	3,093,605	4,096,938
Second term loan	1,952,381	—
Mortgage note	—	2,113,388
	5,045,986	7,210,326
Less: Current portion	(1,289,048)	(4,116,721)
Long-term debt	\$ 3,756,938	\$ 3,093,605

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, 2015 and 2014 was approximately \$786,000 and \$940,000, 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 plus 1.52%. 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 Swap was not treated as a hedge and had a fair value at December 31, 2014 of (\$51,194), which was based on the current market rate at that time. The Swap and mortgage matured on July 15, 2015 and the outstanding principal balance of \$1,951,801 was repaid with available cash and \$1,600,000 of borrowings from the Company's working capital line of credit.

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%. On January 31, 2014, the Company refinanced its term loan combining outstanding advances of \$3,000,000 on its working capital line of credit

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 plus 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.

On October 26, 2015, the Company obtained a second term loan combining outstanding advances of \$1,400,000 on its working capital line of credit and \$600,000 of additional borrowings. The new \$2,000,000 five-year term loan maintains the same terms and conditions as the other existing term loan, with repayment to be made in monthly principal installments of \$23,809 with an interest rate of LIBOR plus 1.75%. In connection with the second term loan, the Company entered into a new interest rate swap to fix its interest rate at 3.12% over the life of the term loan, which swap matures in 2020. The Company's bank debt has been classified in accordance with the new financing terms.

The term loan agreements 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.

During October 2015, in conjunction with the new term loan, the Company increased its available working capital line of credit with its primary bank from \$3,600,000 to \$5,600,000. The line of credit is collateralized by a blanket U.C.C. filing against its assets and expires July 31, 2016. Interest is payable at LIBOR plus 2.10%. Use of the funds are unrestricted. As of December 31, 2015, the Company had no outstanding advances against its line of credit.

Future maturities of long-term debt are as follows:

Years ending December 31,	
2016	\$1,289,048
2017	1,289,048
2018	1,289,048
2019	369,320
2020	809,522
	<u>\$5,045,986</u>

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 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 consolidated balance sheets at December 31, 2015 and 2014. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balances 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)
Balances at December 31, 2014	5,082,183	3,017,634	8,099,817
Billings	29,863,695	1,283,248	(31,146,943)
Amortizations to income	(29,897,647)	(1,119,232)	(31,016,879)
Balances at December 31, 2015	\$ 5,048,231	\$ 3,181,650	\$ 8,229,881

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 will be recorded until such events are probable.

11. INCOME TAXES

Components of the provision for income taxes are as follows:

December 31,	2015	2014
Current		
Federal	\$ 666,539	\$ 926,502
State and local	155,338	257,975
	821,877	1,184,477
Deferred		
Federal	(296,034)	(123,534)
State and local	(44,843)	(2,943)
	(340,877)	(126,477)
	\$ 481,000	\$1,058,000

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

	2015	2014
Federal statutory rate	34.0%	34.0%
State and local income taxes, net of federal income tax benefit	7.2	6.7
Other items	6.0	0.1
Effective rate	47.2%	40.8%

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,	2015	2014
Deferred Tax Assets		
Advance service revenue	\$ 1,371,700	\$ 1,200,700
Benefit plans	957,896	1,014,400
Other	101,600	130,800
Deferred tax assets	2,431,196	2,345,900
Deferred Tax Liabilities		
Intangibles	(1,373,062)	(1,535,299)
Depreciation	(2,266,800)	(2,343,400)
Other	(104,100)	(101,800)
Net deferred tax liabilities	\$(1,312,766)	\$(1,634,599)

Liabilities for uncertain tax positions reflected as of December 31, 2015 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 2011 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, 2015 and 2014, the Company did not record any liabilities or expenses related to tax penalties and related interest.

12. PENSION AND POSTRETIREMENT 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2015 and 2014, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Change in Benefit Obligation				
Benefit obligation at beginning of year	\$ 8,556,425	\$ 7,058,743	\$ 231,356	\$ 224,871
Service cost	—	—	—	—
Interest cost	335,133	324,502	7,132	7,770
Change in assumptions	(387,368)	—	(85,822)	—
Actuarial (gain) loss	293,320	1,450,019	(12,025)	16,897
Benefits paid	(289,557)	(276,839)	(15,045)	(18,182)
Benefit obligation at end of year	\$ 8,507,953	\$ 8,556,425	\$ 125,596	\$ 231,356
Change in Plan Assets				
Fair value of plan assets at beginning of year	\$ 6,267,582	\$ 6,037,355	\$ —	\$ —
Actual return on plan assets	(22,758)	307,066	—	—
Employer contribution	300,000	200,000	15,045	18,182
Benefits paid	(289,557)	(276,839)	(15,045)	(18,182)
Fair value of plan assets at end of year	\$ 6,255,267	\$ 6,267,582	\$ —	\$ —
Benefit obligations in excess of fair value	\$(2,252,686)	\$(2,288,843)	\$(125,596)	\$(231,356)

The change in actuarial assumptions for the pension benefits relates to the use of an updated mortality table and the change in discount rate. The discount rate is updated annually for the determination of net periodic pension cost. Also, the Plan actuary has reviewed and assessed a new mortality table, the scale MP 2015 table, in determining the actuarial present value of accumulated plan benefits at the end of the year. The change in actuarial assumptions for the postretirement benefits primarily relates to a change in the claims rate for certain participants.

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Noncurrent pension liability	\$(2,252,686)	\$(2,288,843)	\$ —	\$ —
Current portion of liability for postretirement benefits	—	—	(16,700)	(23,800)
Noncurrent liability for postretirement benefits	—	—	(108,896)	(207,556)
Net amount recognized	\$(2,252,686)	\$(2,288,843)	\$(125,596)	\$(231,356)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Actuarial loss	\$3,480,737	\$3,407,334	\$46,868	\$162,780
Total	\$3,480,737	\$3,407,334	\$46,868	\$162,780

The amounts shown above have been recognized in accumulated other comprehensive loss totaling \$2,116,408, net of deferred income tax assets of \$1,411,196, at December 31, 2015, and accumulated other comprehensive loss totaling \$2,141,914, net of deferred income tax assets of \$1,428,200, at December 31, 2014.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2015			2015		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial (gain) loss arising during the year	\$247,082	\$98,833	\$148,249	\$ (97,847)	\$(39,139)	\$(58,708)
Less: Amortization included in net periodic pension cost	173,679	69,472	104,207	18,065	7,226	10,839
Net change during the year	\$ 73,403	\$29,361	\$ 44,042	\$(115,912)	\$(46,365)	\$(69,547)

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2015	2014	2015	2014
Interest cost	\$ 335,133	\$ 324,502	\$ 7,132	\$ 7,770
Expected return on plan assets	(318,372)	(304,947)	—	—
Amortization of net losses	173,679	91,167	18,065	18,248
Total	\$ 190,440	\$ 110,722	\$25,197	\$26,018

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2016 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	\$162,222	\$4,438
Total	\$162,222	\$4,438

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	
	2015	2014	2015	2014
Discount rate used for net periodic cost	3.85%	4.71%	3.25%	3.69%
Discount rate used for benefit obligation	4.19%	3.85%	3.34%	3.25%
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 2015 was 8%, gradually decreasing to 5% by the year 2019 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, 2015 and the net periodic pension and other postretirement benefits cost for 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 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, 2015 and 2014 is as follows:

	2015	2014
General Investment Account	93.2%	92.4%
Stock Separate Account	6.8%	7.6%

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
2016	\$ 424,900	\$ 16,700
2017	450,200	15,500
2018	472,700	14,400
2019	482,400	13,200
2020	481,400	12,000
Thereafter	2,471,600	44,000
	<u>\$4,783,200</u>	<u>\$115,800</u>

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. There was no pension expense for this plan for either of the years ended December 31, 2015 and 2014.

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 \$496,196 and \$494,382 for the years ended December 31, 2015 and 2014, 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. The General investment account is a contract provision that allows a fixed interest account in a group contract with the underlying investment custodian, which primarily consists of intermediate-term, fixed income investment and is reported

utilizing Level 3 Inputs. The Stock separate account consists of equities and is reported at fair value utilizing Level 2 Inputs. Derivatives are reported at fair value utilizing Level 2 Inputs. The Company obtained dealer quotations to assist in the valuation of its interest rate swaps.

December 31, 2015	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	\$86,839	\$ —	\$ —	\$ 86,839
General investment account	—	—	5,831,083	5,831,083
Stock separate account	—	424,184	—	424,184
Derivative liabilities	—	12,930	—	12,930

December 31, 2014	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	\$91,043	\$ —	\$ —	\$ 91,043
General investment account	—	—	5,791,572	5,791,572
Stock separate account	—	476,010	—	476,010
Derivative liabilities	—	69,228	—	69,228

The following table sets forth a summary of changes in fair value of the pension's Level 3 investments for the years ended December 31, 2015 and 2014:

	2015	2014
Balances at January 1,	\$5,791,572	\$5,595,419
Deposits	300,000	200,000
Investment return	29,068	272,992
Benefit payments and credits	(289,557)	(276,839)
Balances at December 31,	\$5,831,083	\$5,791,572

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 \$2,230,000 and \$2,262,000 for the years ended December 31, 2015 and 2014, 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.

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 \$3,294,300 as follows:

Years ending December 31,	
2016	\$1,001,400
2017	659,500
2018	585,400
2019	568,100
2020	400,500
Thereafter	79,400
	<u>\$3,294,300</u>

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, 2015 and 2014, 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, 2015 and 2014, 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.



Melville, New York
April 13, 2016

SELECTED FINANCIAL DATA

For Each of the Five Years in the Period Ended December 31, 2015.

	2015	2014	2013	2012	2011
Sales	\$45,337,695	\$48,330,463	\$44,175,705	\$42,644,275	\$41,393,367
Service revenues	\$31,016,879	\$31,496,073	\$31,639,529	\$31,225,229	\$30,126,903
Net income	\$ 537,745	\$ 1,532,257	\$ 1,678,303	\$ 2,253,074	\$ 1,347,502
Earnings per share	\$ 3.32	\$ 9.47	\$ 10.36	\$ 14.74	\$ 8.79
Cash dividends per share	\$ 2.00	\$ 2.00	\$ —	\$ 10.00(a)	\$ 2.00
Average number of shares outstanding	161,768	161,868	161,928	152,832	153,278
At year end:					
Deferred revenues	\$ 8,229,881	\$ 8,099,817	\$ 8,173,861	\$ 7,548,622	\$ 7,841,688
Property, plant and equipment, net	\$ 7,026,045	\$ 7,225,051	\$ 7,519,168	\$ 7,447,871	\$ 8,478,768
Total assets	\$ 32,707,128	\$36,893,006	\$35,811,783	\$35,157,895	\$30,348,847
Shareholders' equity	\$ 8,155,617	\$ 7,912,887	\$ 7,528,282	\$ 5,521,485(a)	\$ 1,969,564
Number of shares outstanding	161,768	161,868	161,868	163,080	153,278
Book value per share	\$ 50.42	\$ 48.88	\$ 46.51	\$ 33.86(a)	\$ 12.85

(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.

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, 2015 and 2014 are as follows:

Year Ended December 31, 2015				Year Ended December 31, 2014			
Quarter		Bid	Dividends	Quarter		Bid	Dividends
1	High	\$300	\$.50	1	High	\$275	\$.50
	Low	293			Low	273	
2	High	301	.50	2	High	290	.50
	Low	280			Low	275	
3	High	294	.50	3	High	277	.50
	Low	280			Low	275	
4	High	286	.50	4	High	288	.50
	Low	282			Low	275	
			\$2.00				\$2.00

AFA Protective Systems, Inc. and Subsidiaries
EXECUTIVE AND REGIONAL OFFICES

EXECUTIVE OFFICE

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

REGIONAL OFFICES

FLORIDA

6013 Benjamin Road
Suite 201
Tampa, FL 33634
(727) 556-2905

217 Altamonte Commerce Blvd.
Suite 1234
Altamonte Springs, FL 32714
(407) 812-9200

6535 Nova Drive
Suite 111
Davie, FL 33317
(954) 473-0022

GEORGIA

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Marietta, GA 30067
(770) 794-9000

METROPOLITAN NEW YORK

519 Eighth Avenue
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Syosset, NY 11791
(516) 496-2322

10 Skyline Drive
Hawthorne, NY 10532
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MID-ATLANTIC

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

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

NATIONAL ACCOUNTS

150 Wood Road
Suite 301
Braintree, MA 02184
(781) 848-6200

NEW ENGLAND

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

48 Capital Drive
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

NORTH CAROLINA

894-D Elm Street
Fayetteville, NC 28303
(910) 423-4054

1135 Four Lakes Drive
Suite G
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*

OFFICERS

Robert D. Kleinman

*Chairman of the Board of Directors,
Chief Executive Officer and
General Counsel*

Richard D. Kleinman

President and Chief Operating Officer

Ronald K. Rothman

*Senior Vice President of Sales and
Business Development*

Stephen P. Hyle

*Vice President and
Director of National Accounts*

David M. Kleinman

Vice President and Secretary

Joseph H. Goren

Chief Financial Officer and Treasurer

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 7 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.

*Members of Audit Committee



AFA PROTECTIVE SYSTEMS, INC.

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