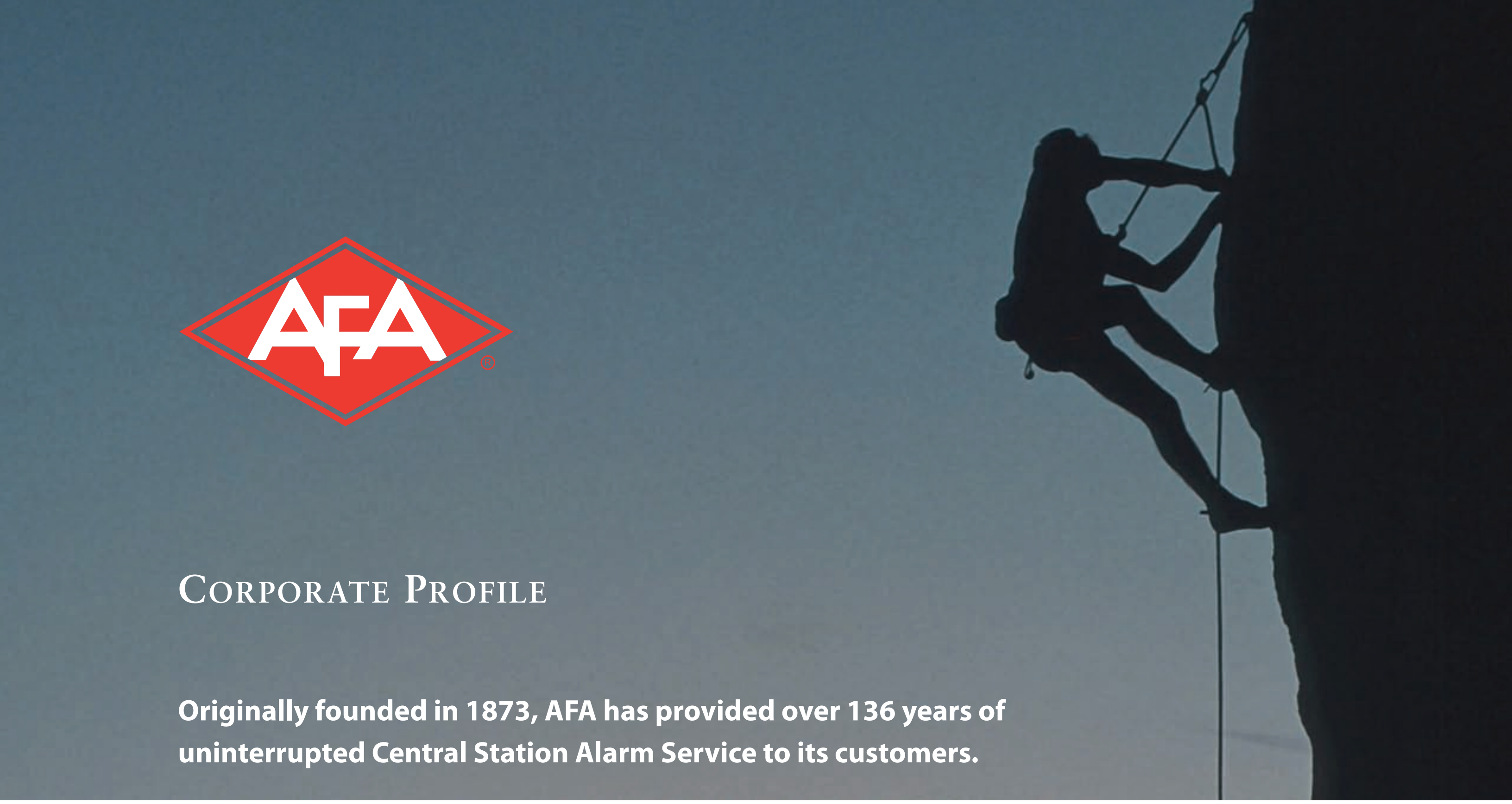
MEETING THE CHALLENGE

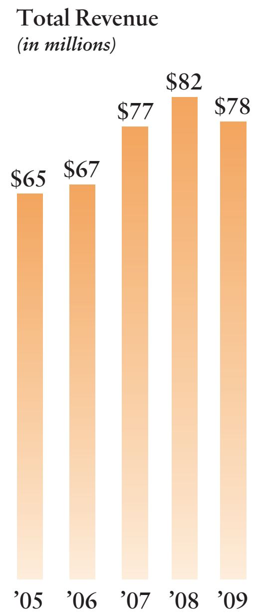
2009 Annual Report



CORPORATE PROFILE

Originally founded in 1873, AFA has provided over 136 years of uninterrupted Central Station Alarm Service to its customers.

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, long-range radio 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 Stations are staffed twenty-four hours a day and monitor approximately 30,000 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:

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

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

As anticipated, the Company was largely able to survive the economic storm that swept the nation in 2009. While the prolonged downturn did interrupt our growth pattern of recent years, our early proactive intervention enabled us to achieve satisfactory results for the year.

Net income in 2009 amounted to $2,155,000 or $14.05 per share as compared to $2,577,000 or $16.80 per share in 2008. Cash flow from operating activities in 2009 amounted to $6,913,000 or $45.07 per share compared to $6,867,000 or $44.75 per share in 2008. As a reminder, the Company's 2008 income and cash flow results included the recovery of prior expenses and interest related to the successfully concluded litigation with the New York City Fire Department. Thus, after extracting that one-time event, both the Company's income and cash flow in 2009 were notably better than in 2008.

On the other hand, for the first time in recent memory, overall revenues dropped in 2009 to $78,073,000 as compared to $81,807,000 in 2008. This anomaly was common throughout the alarm industry in 2009, which on the whole reportedly experienced revenue reductions of approximately 8%, or twice that felt by the Company. This downturn was the direct result of the economy. In the Company's case, the lower revenues were attributable to the Company's lower booked sales in 2008 and 2009 as well as a higher rate of attrition experienced in 2009. Still, the Company was able to generate a gain, albeit it minuscule, in its recurring revenue for the eleventh consecutive year.

Our primary disappointment in 2009 was the Company's second straight year of lower sales. New booked sales approached $37 million or almost 18% less than in 2008 and 26% less than our record results in 2007. Since we were unable to sell new bookings sufficient to offset our operations departments' physical installations of work previously sold, the Company's backlog fell to just over $12 million at year end. While the backlog has dropped significantly over the past two years, it still remains at a healthy level for the Company. However, a further drop in the backlog during 2010 would be concerning.

Going into 2009, we expected to experience a higher rate of attrition than normal due to the economy. Unfortunately, that expectation was realized, and the Company's gross attrition rate for the year ran about 10%. Interestingly, our overall performance in this all-important metric was decidedly better, but the end result was significantly impacted by one large loss incurred during the year. Nevertheless, our overall result was still significantly better than the industry average for the year.

By the Spring of 2009, management realized new sales would not reach our expectations for the year. At that juncture we became proactive. Since the Company's revenues would not grow in 2009, we acted to preserve profitability by implementing different ways to cut expenses during the year. The Company was able to reduce costs in many areas, including negotiating with our vendors to lower prices as well as achieve small workforce reductions which were accomplished through normal attrition without replacement.

Our National Accounts Division was not immune to the economy. Total sales of the division were down 20% from the prior year, and the large recurring revenue loss referred to earlier herein was based here. Nevertheless, the Division did land two new accounts as well as complete the execution of extension agreements with our largest accounts. Thus, we currently have multi-year contracts in place with our three largest chain accounts. Our ability to service these chain accounts remains unparalleled, as evidenced by our receiving "Vendor of the Year" awards multiple times in 2009.

Under the circumstances, our New York Branch had a good year. Despite experiencing a sales drop-off, the branch actually had meaningful recurring revenue growth and increased profitability. This was achieved by significantly reducing expenses and by being able to hold attrition of its existing business to a low rate.

The New England Branch had an overall good year as well, mirroring the Company's performance as a whole by maintaining profitability and its recurring revenue base in the face of reduced new sales.

The New Jersey Branch was one of our hardest hit by the economic downturn. Nevertheless, it posted acceptable overall results, similar to the prior year.

The Georgia Branch also posted results in line with the prior year. However, in order to achieve these results the branch dug deep into its backlog making its continued success even more dependent upon a prompt increase in new sales.

The North Carolina Branch was unable to keep up the momentum achieved during the prior two years. The revenues generated during the year were insufficient to offset the ongoing cost of this operation and in all probability will result in our instituting some structural changes in 2010.

Similarly, the Florida Branch fell backwards. Although it had improved in recent years, management has long felt this branch has underachieved. To fully realize its potential, during the first quarter of 2010 we made structural changes in the Branch's senior management and sales department. We are optimistic these changes will yield noticeable improvement in the near future.

The Midlantic Branch bucked the Company trend and experienced increased sales in 2009. Its new operations office in Virginia has turned out to be a total positive by bringing in new sales beyond expectations in addition to filling our pressing geographical operations void. Still, management is monitoring the current makeup of this branch and its ability to continue to perform well in its current form.

The first quarter of 2010 has been disappointing. The past year and a half experience of lower sales has finally started to impact the overall profitability of the Company. Consequently, the steps we took in 2009 to offset the dilemma will be augmented.

The challenge to promptly increase Company profitability to higher levels is one we accept and one we will meet. We have already embarked on new initiatives to do just that. Briefly stated, these include the following:

1) Upgrading our computer system. This will enable us to be more efficient operationally and give us better reporting from our accounting department.

2) Review and revise employee benefits. Our benefits have long been among the best in the industry. While we intend to maintain that standing, we are mindful that some of our long-standing benefits are very costly and virtually outdated in today's corporate world. Thus, we are in the process of altering some of these programs which will result in substantially reduced costs going forward.

3) Become lean. In times like these it is more imperative than ever that we review each employee closely to determine whether the employee and/or his position are necessary and productive.

4) Expand our service capability. Particularly with larger accounts seeking turn key providers, we need to be able to offer a wider range of services.

5) Reevaluate our pricing. We must price our services at levels where we know we are making adequate returns.

We expect to have new initiatives addressing all of these areas completed or at least well under way by the end of the year.

We are confident that our current plan is up to meeting these challenges and that we will see even more positive results going forward.

Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	2009	2008
Assets		
Current assets		
Cash and cash equivalents	**$ 5,492,771**	$ 2,700,715
Accounts receivable, net of allowance for doubtful accounts	**11,260,971**	13,902,747
Inventory, other than installation materials	**4,835,857**	5,249,581
Prepaid expenses and other current assets	**733,573**	588,304
Total current assets	**22,323,172**	22,441,347
Property, plant and equipment, net	**9,557,013**	10,096,607
Inventory of installation materials	**168,151**	276,294
Goodwill and intangible assets, net	**479,574**	514,277
Other assets	**150,216**	157,011
Total assets	**$32,678,126**	$33,485,536
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 242,657**	$ 1,628,446
Accounts payable	**3,259,394**	3,553,720
Accrued expenses and other current liabilities	**6,019,700**	6,233,205
Deferred revenues	**7,141,651**	6,909,252
Total current liabilities	**16,663,402**	18,324,623
Long-term debt	**3,244,651**	4,187,294
Deferred income taxes	**154,600**	170,200
Pension obligation	**891,707**	124,650
Obligation for postretirement benefits	**302,426**	219,271
Deferred revenues	**2,409,388**	2,471,554
Fair value of interest rate swaps	**249,606**	472,208
Total liabilities	**23,915,780**	25,969,800
Commitments and Contingencies (Note 15)		
Shareholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 153,278 shares issued and outstanding in 2009 and 153,420 shares in 2008	**153,278**	153,420
Additional paid-in capital	**316,142**	316,416
Accumulated other comprehensive loss	**(1,368,280)**	(802,144)
Retained earnings	**9,661,206**	7,848,044
Total shareholders' equity	**8,762,346**	7,515,736
Total liabilities and shareholders' equity	**$32,678,126**	$33,485,536

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,	2009	2008
Revenues		
Sales	**$48,023,623**	$52,683,340
Service	**30,049,342**	29,123,167
	78,072,965	81,806,507
Costs and expenses		
Cost of sales	**34,673,822**	37,645,317
Cost of services, exclusive of depreciation and amortization	**19,030,836**	18,924,356
Depreciation and amortization	**2,132,947**	2,291,049
Selling, general, and administrative	**18,412,625**	17,896,486
	74,250,230	76,757,208
Income from operations	**3,822,735**	5,049,299
Interest and dividend income	**101,342**	173,495
Interest expense, net	**(134,058)**	(853,342)
Income before provision for income taxes	**3,790,019**	4,369,452
Provision for income taxes	**1,635,000**	1,792,000
Net income	**$ 2,155,019**	$ 2,577,452
Earnings per share	**$ 14.05**	$ 16.80
Weighted average number of shares outstanding	**153,388**	153,435
Dividends per share	**$ 2.00**	$ 22.00
Comprehensive income		
Net income	**$ 2,155,019**	$ 2,577,452
Other comprehensive loss, net of tax		
Net actuarial loss arising during the year	**(566,136)**	(145,226)
Comprehensive income	**$ 1,588,883**	$ 2,432,226

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, 2009 and 2008

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2007	153,497	$153,497	$316,565	$ (656,918)	$ 8,668,705	$ 8,481,849
Net income for the year	—	—	—	—	2,577,452	2,577,452
Cash dividends ($22.00 per share)	—	—	—	—	(3,375,239)	(3,375,239)
Net actuarial loss arising during the year	—	—	—	(145,226)	—	(145,226)
Purchase and retirement of common stock	(77)	(77)	(149)	—	(22,874)	(23,100)
Balance at December 31, 2008	153,420	153,420	316,416	(802,144)	7,848,044	7,515,736
Net income for the year	**—**	**—**	**—**	**—**	**2,155,019**	**2,155,019**
Cash dividends ($2.00 per share)	**—**	**—**	**—**	**—**	**(306,773)**	**(306,773)**
Net actuarial loss arising during the year	**—**	**—**	**—**	**(566,136)**	**—**	**(566,136)**
Purchase and retirement of common stock	**(142)**	**(142)**	**(274)**	**—**	**(35,084)**	**(35,500)**
Balance at December 31, 2009	**153,278**	**$153,278**	**$316,142**	**$(1,368,280)**	**$ 9,661,206**	**$ 8,762,346**

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,	2009	2008
Cash flows from operating activities		
Net income	**$ 2,155,019**	$ 2,577,452
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**2,153,065**	2,308,734
Provision for doubtful accounts	**—**	20,000
Deferred income taxes	**241,400**	(118,400)
(Gain)/loss on interest rate swap	**(222,602)**	433,901
Changes in operating assets and liabilities		
Accounts receivable	**2,641,776**	383,030
Inventory, other than installation materials	**413,724**	26,536
Prepaid expenses and other current assets	**(145,269)**	(337,031)
Other assets	**(13,323)**	15,166
Accounts payable	**(294,326)**	(710,755)
Accrued expenses and other current liabilities	**(93,104)**	1,176,849
Deferred revenues	**170,233**	803,204
Liability for postretirement benefits	**(93,324)**	287,897
Net cash provided by operating activities	**6,913,269**	6,866,583
Cash flows from investing activities		
Capital expenditures	**(1,450,507)**	(1,436,644)
Acquisition of intangible assets	**—**	(4,410)
Net cash used in investing activities	**(1,450,507)**	(1,441,054)
Cash flows from financing activities		
Dividends paid	**(306,773)**	(3,375,239)
Purchase and retirement of common stock	**(35,500)**	(23,100)
Repayments of mortgage note	**(228,447)**	(215,068)
Repayments of term loan	**(2,099,986)**	(1,400,004)
Net cash used in financing activities	**(2,670,706)**	(5,013,411)
Net increase in cash and cash equivalents	**2,792,056**	412,118
Cash and cash equivalents		
Beginning	**2,700,715**	2,288,597
Ending	**$ 5,492,771**	$ 2,700,715
Supplemental disclosures of cash flow information		
Cash paid for:		
Interest	**$ 336,543**	$ 419,400
Income taxes	**1,613,555**	2,075,490

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, 2009 and 2008, 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, 2009 and 2008 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 swap has 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, 2009 and 2008, cash and cash equivalents included money market funds of $1,040,010 and $1,244,628, 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 and receivables in collection 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

Inventory, other than installation materials, consists of finished goods, work in progress and parts related to the sale of security systems which are carried at the lower of cost (on a first-in, first-out basis) or market. Inventory of installation materials is classified as a noncurrent asset in the consolidated balance sheet. The Company classifies only inventory to be used to construct Company-owned systems at subscriber premises as inventory of installation materials. The Company continues to evaluate its 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 10 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 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.

Debt Issue Costs

Debt issue costs are being amortized using the interest method over the term of the related debt. Amortization of $20,117 and $17,684 has been recorded in interest expense in the consolidated statements of income and comprehensive income in each of the years ended December 31, 2009 and 2008, 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, 2009 and 2008 (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 their carrying amount. The Company believes the future cash flows to be received from its long-lived assets exceed the assets' carrying value, and accordingly, the Company has not recognized any impairment losses for the years ended December 31, 2009 and 2008.

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 one major customer amounted to approximately $1,566,000 and $2,613,000 at December 31, 2009 and 2008, respectively. Billings to this customer amounted to $21,091,000 and $24,757,000 for the years ended December 31, 2009 and 2008, respectively.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $205,000 and $279,000 for the years ended December 31, 2009 and 2008, 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.

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 for the purpose of hedging exposure to changes of interest rates but does not qualify for hedge accounting. Changes in the fair value of derivatives that do not qualify for hedge accounting are recorded immediately in the statements of income and comprehensive income. For the year ended December 31, 2009, the Company recognized a gain of $222,602 and for the year ended December 31, 2008, the Company recognized a loss of $433,901 on its interest rate swaps, respectively. Both changes resulted from changes in the fair value of the derivatives, which have been included as a component of interest expense in the consolidated statements of income and 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.

Subsequent Events

The Company evaluated all events and transactions that occurred after the balance sheet date of December 31, 2009 through March 31, 2010, the date it issued these financial statements. During this period, the Company did not have any subsequent events that required recognition or disclosure in the consolidated financial statements.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued the FASB Accounting Standards Codification (the "Codification"). The Codification is the single source of authoritative nongovernmental U.S. GAAP, superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related literature. The Codification eliminates the GAAP hierarchy contained in Statement of Financial Accounting Standards and establishes one level of authoritative GAAP. All other literature is considered non-authoritative. The Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. In response, the Company has used plain English or included the references to the Codification, as appropriate, in these consolidated financial statements.

On January 1, 2008, the FASB issued new accounting guidance on fair value measurement. The guidance does not require any new fair value measurements but provides a definition of fair value, establishes a framework for measuring fair value, and expands disclosure about fair value measurements. On January 1, 2009, the Company adopted the guidance as it relates to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on at least an annual basis. The guidance defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America ("GAAP"), and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements and are to be applied prospectively with limited exceptions. The adoption of the guidance did not have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued guidance which establishes general standards of: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of this guidance did not impact the Company's consolidated financial statements.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The amended guidance eliminates exceptions to consolidating qualifying special-purpose entities, contains new criteria for determining the primary beneficiary, and increases the frequency of required reassessments to determine whether a company is the primary beneficiary of a variable interest entity. This guidance also contains a new requirement that any term, transaction, or arrangement that does not have a substantive effect on an entity's status as a variable interest entity, a company's power over a variable interest entity, or a company's obligation to absorb losses or its right to receive benefits of an entity must be disregarded. The elimination of the qualifying special-purpose entity concept and its consolidation exception means more entities will be subject to consolidation assessments and reassessments. The Company will adopt these statements for interim and annual reporting periods beginning on January 1, 2010. The Company is currently evaluating the impact of this amended guidance on its consolidated financial statements.

3. Accounts Receivable

Accounts receivable consist of the following:

December 31,	2009	2008
Trade receivables, including progress bills and amounts due on completed contracts	**$10,299,890**	$12,169,242
Costs and estimated earnings in excess of billings on uncompleted contracts	**1,111,081**	1,883,505
	11,410,971	14,052,747
Less: allowance for doubtful accounts	**(150,000)**	(150,000)
	$11,260,971	$13,902,747

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

December 31,	2009	2008
Costs incurred on uncompleted contracts	**$ 2,678,159**	$ 4,256,176
Estimated earnings	**904,714**	1,322,508
	3,582,873	5,578,684
Less: billings to date	**(2,847,996)**	(4,109,475)
	734,877	1,469,209
Costs and estimated earnings in excess of billings	**(1,111,081)**	(1,883,505)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (376,204)**	$ (414,296)

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, 2009, 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, 2009	2008
Land		**$ 242,000**	$ 242,000
Buildings	30 years	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25 years	**45,511,961**	44,657,392
Central station and other equipment	10 years	**15,759,567**	15,079,364
Leasehold improvements	Lesser of lease term or useful life	**380,120**	380,120
Installations in progress	*	**289,278**	351,321
		66,862,161	65,389,432
Less: accumulated depreciation		**(57,305,148)**	(55,292,825)
		$ 9,557,013	$ 10,096,607

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

Depreciation expense was $2,098,244 and $2,251,502 for the years ended December 31, 2009 and 2008, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net consists of the following:

	Estimated Lives	December 31, 2009	2008
Goodwill	—	**$ 441,301**	$ 441,301
Alarm contracts	4-8 years	**250,012**	263,381
Gross goodwill and intangibles		**691,313**	704,682
Less: accumulated amortization		**(211,739)**	(190,405)
Goodwill and intangible assets, net		**$ 479,574**	$ 514,277

Amortization of intangible assets was $34,703 and $39,547 during the years ended December 31, 2009 and 2008, respectively. Future estimated amortization expense for the next five years is as follows as of December 31, 2009:

Years Ending December 31,	
2010	$21,897
2011	11,580
2012	3,323
2013	1,099
	$37,899

6. OTHER ASSETS

Other assets consist of the following:

December 31,	2009	2008
Debt issue costs, net (Note 2)	**$ 64,187**	$ 84,304
Other	**86,029**	72,707
	$150,216	$157,011

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consist of the following:

December 31,	2009	2008
Salaries, wages and vacation	**$2,757,982**	$2,838,613
Employee benefit plan contribution	**1,188,264**	1,210,288
Current portion of liability for postretirement benefits	**55,385**	46,004
Income taxes payable	**38,135**	160,867
Billings in excess of costs	**376,204**	414,296
Healthcare costs payable	**350,000**	350,000
Refundable NYC Fire Department fees	**1,072,508**	1,079,658
Other	**181,222**	133,479
	$6,019,700	$6,233,205

8. LONG-TERM DEBT

Long-term debt consists of the following:

December 31,	2009	2008
Term loan	**$ —**	$ 2,099,986
Mortgage note	**3,487,308**	3,715,754
	3,487,308	5,815,740
Less: current portion	**(242,657)**	(1,628,446)
Long-term debt	**$3,244,651**	$ 4,187,294

Future maturities of long-term debt are as follows:

Years Ending December 31,	
2010	$ 242,657
2011	257,752
2012	273,786
2013	290,816
2014	308,906
Thereafter	2,113,391
	$3,487,308

On June 1, 2005, the Company obtained a $7,000,000 five-year term loan from its primary bank collateralized by a blanket U.C.C. filing against its assets. Repayment was to be made in monthly principal installments of $116,667 with an interest rate of LIBOR + 1.6%. The terms of the agreement contained various restrictive covenants which included, but were not limited to, maintenance of certain income to debt service ratios and certain adjusted earnings requirements, as defined. On December 10, 2009, the Company prepaid $700,089 representing the balance due on its term loan plus accrued interest.

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, 2009 and 2008 was approximately $1,720,000 and $1,876,000, 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 (0.23% at December 31, 2009) +1.52%. The remaining principal balance of $1,924,393 will be due in full on July 15, 2015.

In connection with the term and mortgage loans, the Company entered into two interest rate swap agreements (the "Swaps") with its primary bank to effectively fix its variable interest rates at 5.67% on the term loan and 6.05% on the mortgage loan. On December 10, 2009, the Company unwound and settled its swap agreement for its term loan at a cost of $8,000, which was included in interest expense on the consolidated statements of income and comprehensive income. The fair value of the remaining swap at December 31, 2009 $(249,606) and the swaps outstanding at December 31, 2008 $(472,208) have been recorded based on current market rates.

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 June 6, 2010. Interest is payable at LIBOR plus 2.10%. Use of the funds are unrestricted. At December 31, 2009 and 2008, the Company had $3,600,000 of its line of credit available for use.

9. Deferred Revenues

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

	Annual Service and Other Charges	Advance Service Charges	Total
Balance, December 31, 2007	$ 4,675,859	$ 3,901,743	$ 8,577,602
Billings	28,378,433	1,547,938	29,926,371
Amortizations to income	(27,564,040)	(1,559,127)	(29,123,167)
Balance, December 31, 2008	5,490,252	3,890,554	9,380,806
Billings	**28,785,616**	**1,433,959**	**30,219,575**
Amortizations to income	**(28,522,217)**	**(1,527,125)**	**(30,049,342)**
Balance, December 31, 2009	**$ 5,753,651**	**$ 3,797,388**	**$ 9,551,039**

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.

Stock Repurchases

The Company purchased and retired 142 and 77 shares of common stock for $35,500 and $23,100 during the years ended December 31, 2009 and 2008, respectively. The shares issued and outstanding were 153,278 and 153,420 at December 31, 2009 and 2008, respectively.

11. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	2009	2008
Current		
Federal	**$1,013,452**	$1,474,300
State and local	**380,148**	436,100
	1,393,600	1,910,400
Deferred		
Federal	**203,400**	(99,300)
State and local	**38,000**	(19,100)
	241,400	(118,400)
	$1,635,000	$1,792,000

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

	2009	2008
Federal statutory rate	**34.0%**	34.0%
State and local income taxes, net of federal income tax benefit	**7.6%**	7.0%
Other items	**1.5%**	0.0%
Effective rate	**43.1%**	41.0%

The effective tax rate differed from the federal statutory tax rate primarily as a result of state income taxes, tax credits, 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,	2009	2008
Deferred Tax Assets		
Advance service revenue	**$ 1,620,600**	$ 1,650,600
Intangibles	**540,500**	738,200
Net operating loss carryforwards (state)	**—**	5,300
Benefit plans	**513,900**	148,200
Other	**236,600**	329,700
	2,911,600	2,872,000
Less: valuation allowance	**—**	(5,300)
Deferred tax assets	**2,911,600**	2,866,700
Deferred Tax Liabilities		
Depreciation	**(2,947,600)**	(2,912,700)
Other	**(118,600)**	(124,200)
Net deferred tax liabilities	**$ (154,600)**	$ (170,200)

As of December 31, 2009 and 2008, the Company recorded a valuation allowance of $0 and $5,300, 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 decreases of $5,300 and $56,200 during the years ended December 31, 2009 and 2008, respectively.

Liabilities for uncertain tax positions reflected as of December 31, 2009 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 2006 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, 2009 and 2008, 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, 2009 and 2008, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	**2009**	2008
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$5,501,696**	$5,121,408	**$ 265,275**	$ 292,834
Service cost	**—**	2,817	**—**	—
Interest cost	**336,988**	325,843	**20,606**	17,878
Actuarial loss	**341,602**	268,205	**124,179**	6,404
Benefits paid	**(233,848)**	(216,577)	**(52,249)**	(51,841)
Benefit obligation at end of year	**$5,946,438**	$5,501,696	**$ 357,811**	$ 265,275
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$5,266,220**	$5,253,022	**$ —**	$ —
Actual return on plan assets	**171,140**	229,775	**—**	—
Employer contribution	**—**	—	**52,249**	51,841
Benefits paid	**(382,629)**	(216,577)	**(52,249)**	(51,841)
Fair value of plan assets at end of year	**$5,054,731**	$5,266,220	**$ —**	$ —
Net amount recognized	**$ (891,707)**	$ (235,476)	**$(357,811)**	$(265,275)

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	**2009**	2008
Accrued pension liability ($110,826 in accrued liability in 2008)	**$(891,707)**	$(235,476)	**$ —**	$ —
Current portion of liability for postretirement benefits	**—**	—	**(55,385)**	(46,004)
Non-current liability for postretirement benefits	**—**	—	**(302,426)**	(219,271)
Net amount recognized	**$(891,707)**	$(235,476)	**$(357,811)**	$(265,275)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	**2009**	2008
Actuarial loss	**$1,993,886**	$1,144,527	**$286,794**	$192,617
Prior service cost	**—**	—	**—**	—
Transition obligation	**—**	—	**—**	—
	$1,993,886	$1,144,527	**$286,794**	$192,617

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $1,368,280, net of deferred income tax assets of $912,400, at December 31, 2009 and accumulated other comprehensive loss totaling $802,144, net of deferred income tax assets of $535,000, at December 31, 2008.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits 2009			Other Postretirement Benefits 2009		
	Before Tax Amount	Tax Benefit	Net of Tax Amount	Before Tax Amount	Tax Benefit	Net of Tax Amount
Net actuarial loss arising during the year	**$909,172**	**$363,700**	**$545,472**	**$124,179**	**$49,700**	**$74,479**
Less: amortization included in net periodic pension cost	**59,813**	**24,000**	**35,813**	**30,002**	**12,000**	**18,002**
Net change during the year	**$849,359**	**$339,700**	**$509,659**	**$ 94,177**	**$37,700**	**$56,477**

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2009	2008	**2009**	**2008**
Service cost	**$ —**	$ 2,817	**$ —**	$ —
Interest cost	**336,988**	325,843	**20,606**	17,878
Expected return on plan assets	**(418,789)**	(411,579)	**—**	—
Amortization of prior service cost	**—**	751	**—**	—
Amortization of net transition obligation	**—**	1,295	**—**	—
Amortization of net losses	**59,813**	60,406	**30,002**	20,542
Curtailment	**—**	131,293	**—**	—
	$ (21,988)	$ 110,826	**$50,608**	$38,420

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2010 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$127,647	$28,741
Total	$127,647	$28,741

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	
	2009	2008	**2009**	2008
Discount rate	**6.18%**	6.00%	**5.00%**	6.00%
Expected return on plan assets	**8.00%**	8.00%	**—**	—
Rate of compensation increase	**5.00%**	5.00%	**—**	—

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 2009 was 8%, gradually decreasing to 4.5% by the year 2023 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, 2009 and the net periodic pension and other postretirement benefits cost for 2009.

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 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, 2009 and 2008 is as follows:

	2009	2008
General Investment Account	**96.0%**	96.5%
Principal Financial Group Stock Separate Account	**4.0%**	3.5%

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
2010	$ 346,072	$ 55,385
2011	356,179	47,679
2012	372,868	41,448
2013	394,209	36,440
2014	412,351	32,417
2015-2019	2,168,994	121,291
	$4,050,673	$334,660

In connection with the aforementioned curtailment of the defined benefit pension plan, effective December 1, 1996, 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 who are not participants in the defined contribution pension plan discussed in the following paragraph. Company contributions to the plan amounted to approximately $273,000 and $277,000 for the years ended December 31, 2009 and 2008, respectively.

Substantially all non-union salaried employees of the Company are covered by another defined contribution pension plan. Contributions under the plan are based on specified percentages of the compensation of covered employees less forfeitures, if any. Pension expense for this plan was approximately $997,000 and $1,026,000 for the years ended December 31, 2009 and 2008, 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 50% of the outstanding shares of the Company, are voted as directed by the Chairman.

The Company received approximately $137,000 and $139,000 in 2009 and 2008, respectively, for central station protection services rendered to Ready's subscribers under a contract expiring in June 2010.

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 $1,262,000 and $1,362,000 in 2009 and 2008, 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 estimate 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.

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	$1,040,010	$ —	$ —	$1,040,010
Derivative liabilities	$ —	$249,606	$ —	$ 249,606

15. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancellable operating leases for office, storage and operating facilities (real property) through 2014 for approximate aggregate minimum rentals of $2,264,000 as follows:

Years Ending December 31,	
2010	$1,104,000
2011	825,000
2012	225,000
2013	83,000
2014	27,000
	$2,264,000

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 $2,383,000 and $2,434,000 for the years ended December 31, 2009 and 2008, 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.

16. 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 $1,073,000 and $1,080,000 at December 31, 2009 and 2008, respectively, in connection with credits issuable to its customers related to this matter.

AFA Protective Systems, Inc. and Subsidiaries

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, 2009 and 2008, 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.

PricewaterhouseCoopers LLP

March 31, 2010
Melville, New York

AFA Protective Systems, Inc. and Subsidiaries

SELECTED FINANCIAL DATA

For Each of the Five Years in the Period Ended December 31, 2009:

	2009	2008	2007	2006	2005
Sales	**$48,023,623**	$52,683,340	$48,465,616	$40,189,627	$38,978,172
Service revenues	**$30,049,342**	$29,123,167	$28,129,317	$26,966,472	$26,342,278
Net income	**$ 2,155,019**	$ 2,577,452	$ 1,624,457	$ 893,906	$ 249,850(a)
Earnings per share	**$ 14.05**	$ 16.80	$ 10.57	$ 5.81	$ 1.62(a)
Cash dividends per share	**$ 2.00**	$ 22.00(c)	$ 2.00	$ 2.00	$ 62.00(b)
Average number of shares outstanding	**153,388**	153,435	153,617	153,959	153,959
At year end:					
Deferred revenues	**$ 9,551,039**	$ 9,380,806	$ 8,587,602	$ 8,860,950	$ 9,264,119
Property, plant and equipment, net	**$ 9,557,013**	$10,096,607	$10,967,918	$11,558,288	$12,072,500
Total assets	**$32,678,126**	$33,485,536	$34,180,409	$33,001,671	$34,915,384
Shareholders' equity	**$ 8,762,346**	$ 7,515,736(c)	$ 8,481,849	$ 7,350,835	$ 7,368,068(b)
Number of shares outstanding	**153,278**	153,420	153,497	153,959	153,959
Book value per share	**$ 57.17**	$ 48.99	$ 55.26	$ 47.75	$ 47.86

(a) Net income and earnings per share in 2005 were adversely affected by $1,521,000 and $9.88, respectively, representing the purchase and retirement of 6,800 Stock Appreciation Rights.
(b) The Board of Directors approved a special dividend of $60 per share to shareholders of record on April 22, 2005 and paid on June 8, 2005.
(c) 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, 2009 and 2008 are as follows:

Year Ended December 31, 2009

Quarter		Bid	Dividends
1	High	**$302**	**$ .50**
	Low	**205**	
2	High	**250**	**.50**
	Low	**250**	
3	High	**275**	**.50**
	Low	**275**	
4	High	**350**	**.50**
	Low	**255**	
			$2.00

Year Ended December 31, 2008

Quarter		Bid	Dividends
1	High	$301	$ .50
	Low	300	
2	High	305	.50
	Low	300	
3	High	302	.50
	Low	300	
4	High	302	20.50
	Low	300	
			$22.00

Corporate Information

Board of Directors

Asher Bernstein
President, Bernstein Management Corp., 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, Chief Executive Officer 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, Chief Executive Officer 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 Wednesday, June 9 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

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(516) 496-2322

Regional Offices

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Clearwater, FL 33760
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Davie, FL 33314
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Marietta, GA 30067
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Mid Atlantic
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Baltimore, MD 21227
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