AFA

YOUR FIRE AND SECURITY SOLUTION

FOCUSED ON CREATING VALUE

STABLE
RELIABLE
HISTORY OF INNOVATION
PARTNERSHIP APPROACH
TRANSPARENT
TECHNOLOGICALLY ADVANCED
RESULTS-DRIVEN
RESPECTFUL
THOUGHTFUL
PROFESSIONAL
INDUSTRY LEADER
INNOVATIVE SOLUTIONS
PROACTIVE
TURNKEY SERVICE SOLUTIONS
FAIR PRICING
SUPERIOR SERVICE
RESPONSIVE
INTEGRITY
GROWING RECURRING REVENUE
EFFICIENT OPERATIONS
CUSTOMER SATISFACTION

2017
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 99 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.

Letter To Our Stockholders

In 2017, the Company continued to follow its plan to improve profitability and grow recurring revenue and was able to make headway on both. Moreover, we have recently implemented other initiatives that should result in more significant improvement in our overall performance in 2018 and beyond.

Last year, we revamped sales compensation to incentivize sales involving recurring revenue and discourage lower margin sales. This proved to be successful as our sales of recurring revenue increased Company-wide by 20% while our overall margins on outright sales increased for the third straight year. While helpful in 2017, these recurring revenue sales will have an even greater benefit in 2018 and beyond when we will realize their full year's benefit.

Company earnings from operations did improve in 2017. However, some non-operational items offset this improvement and caused overall earnings to end up slightly lower year to year. The primary drain in this regard was the Company's healthcare costs which grew to their highest level ever. This has been addressed going forward and should be less of a drain in 2018. Most important was that our good news, including higher quality sales, very low attrition, and our continued meaningful growth in recurring revenue have provided us with a solid base with which to move forward.

Net income in 2017 amounted to $260,000 or $1.61 per share as compared to $326,000 or $2.01 per share in 2016. Cash flow from operating activities in 2017 amounted to $3,051,000 or $18.86 per share as compared to $756,000 or $4.67 per share in 2016. Overall revenues fell slightly from the prior year: $73,220,000 in 2017 as compared to $75,030,000 in 2016.

Always one of the industry leaders in the metric of attrition, the Company had one of its best years ever in 2017 with a stellar gross attrition rate of only 6.5%. This even better than usual achievement was attributable to significantly fewer losses due to competition. As a result of this extremely low attrition rate, coupled with the aforementioned increase in sales of recurring revenues, the Company's recurring revenue base grew during the year by $1,012,000 or nearly 3.5% to $31,526,000, our highest year-end level ever. Total sales bookings were slightly lower than last year, down to $37,281,000. This decline was entirely attributable to an outright sales falloff in our National Accounts Division as total sales at the branches increased in 2017. Our year-end Company-wide backlog rose to another all-time high of $16,318,000, almost 5.5% higher than at the end of 2016. Taken together, these factors all demonstrate that we entered 2018 even stronger than we were a year earlier and are still on the upswing.

Our National Accounts Division's performance was handicapped early on by losses of two long-standing accounts at the end of 2016. This led to a year of mixed results. The highlight of the year for this Division was its highest ever recurring revenue sales, a full 60% higher than the previous high set one year earlier. It also continued to reduce its reliance on its largest account. Unfortunately, part of the reason for this development was a reduction in sales to that account. This reduction, coupled with the aforementioned two other losses, resulted in overall sales for the Division to decline some in 2017. This decline was felt by some of our branches that were relying on this Division for support. But it appears this decline will be short lived as in the first quarter of 2018 we have been pleased to see sales are moving back up with our largest account, the Division's positive momentum with other existing accounts has continued, and that brand-new accounts have been added.

The Northern branches, buoyed by a continuing strong economy in their respective commercial sectors, had another strong year. The flagship New York branch continued to lead the way, hitting almost all of its ambitious targets. As was the case in the prior year, it excelled in new sales of recurring revenues, earnings and a 4.7% gross attrition rate.

The New England branch also kept pace with its positive prior year performance, posting similar results in sales and recurring revenue growth. While earnings were slightly lower than the year before, the branch ended up the year with a 50% increase in backlog to bolster its 2018 outlook.

Results in our middle section branches improved. Both New Jersey branches and our Mid-Atlantic office continued to be positive contributors and were able to reverse the downward trend they had been mired in during recent years. Of particular note, our Northern New Jersey branch's performance improved significantly, with double-digit percentage increases in all metrics.

Our infrastructure and culture changes in our Southern branches began to yield some positive results in 2017. Most important, all of these branches were profitable on their own, albeit small. Nevertheless, this represented a marked improvement from the recent years' drain we were experiencing in this region. The larger Georgia office endured multiple changes in personnel during the year which provided the opportunity to refocus the branch's efforts to concentrate on being more in line with traditional AFA type of business, namely the commercial sector. Indeed, that has been our emphasis for all of our branches throughout the Company.

Our stated Company goals for the past two years, better margins on outright sales and growing our recurring revenue base, were both achieved in 2017. Our gross margin percentage on all sales improved for the third straight year. Clearly, this result was made possible by our more recent sales which followed our newly established minimum required margin threshholds. As noted earlier, our recurring revenue base enjoyed noticeable organic growth during the year, thereby rewarding our focus and investment in developing these sales and controlling attrition. Our sales force is still enthused by our new programs in this regard and consequently we expect further gains in this area. In fact, as we are now well into the new fiscal year I note that our recurring revenue base has already grown during the first quarter by another $766,000, or another 2.4%. This continued progress can be directly attributed to three things: our ongoing enhanced incentive compensation for recurring revenue sales, our maintaining control of attrition, and a robust economy in the commercial sector.

We are focused on creating value for our shareholders and our subscribers. To achieve this, we recognize that our future success depends upon maintaining and adding satisfied customers. In this regard, we have always strived to provide superior service with the latest technical innovations. In so doing, we are able to enhance shareholder value as well. Our recent historic rise in recurring revenue and drop in attrition are evidence we are on the right track for creating both.

At the end of 2017, we addressed our most serious issue: our exorbitant employee health care costs. Last year the Company's net cost of providing health care benefits for its employees rose to its highest level ever. As promised, by year-end we took action and made significant adjustments to the employee cost sharing to be more in line with the country as a whole going forward. We are hopeful these changes will meaningfully reduce our ongoing net cost in this category. As a side note, I want to recognize that while no employee could have been expected to embrace these changes, all of our employees uniformly understood the Company's need to make them and accepted them. It was gratifying to see that our employees recognized the need to do this for the health of the Company and that in the current environment they still have a superior health plan.

On the marketing front, we decided to make a drastic change and disband our disappointing in-house team. During 2017, we embarked on an extensive search to enlist an outside firm to do this work for us and retained one in November. Our approach going forward will initially be focused on our strongest area of expertise, meaning the commercial fire alarm market in the Northeast where we can best handle the hoped for incremental work seamlessly. This campaign will be launched momentarily. Down the road, we hope to expand our marketing efforts in scope, both substantively and geographically. In the meantime, our outside firm will also track the level of success our various marketing efforts produce.

Going into 2018, we made some important changes at the Executive level. Of note, the Company promoted Michael Slattery to the position of Vice President of Branch Operations. Mr. Slattery has been with the Company for 28 years in sales and managerial capacities, most recently as Regional Manager of our New England branch. His technical ability and experience, along with his familiarity with our Company procedures, culture and personnel make him well suited to succeed in his new position. In addition, Mark LaBua has been promoted to the position of Chief Information Officer. Mr. LaBua, a 21-year veteran of the Company, has held numerous operations positions with us including supervising our main central station and more recently physical operations, purchasing and all IT functions.

We are now poised to capitalize on all of the recent moves we have made. It appears that our higher recurring revenue base is on solid footing and should continue to experience meaningful growth, thereby providing an ever-expanding base from which to generate higher earnings. Moreover, we are now seeing significant increases in service requests from our existing and new National Accounts which should further enhance both our top and bottom lines. In short, absent any unforeseen event(s), we anticipate 2018 will be an excellent year for the Company.

Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	2017	2016
Assets		
Current assets		
Cash and restricted cash	**$ 1,238,315**	$ 923,236
Accounts receivable, net	**12,689,422**	14,152,781
Inventories, net	**4,860,414**	4,650,819
Prepaid expenses and other current assets	**937,116**	1,379,967
Total current assets	**19,725,267**	21,106,803
Property, plant and equipment, net	**5,811,691**	6,133,099
Goodwill and intangible assets, net	**4,732,589**	5,368,864
Other assets	**215,623**	208,546
Total assets	**$30,485,170**	$32,817,312
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 1,335,523**	$ 1,335,523
Accounts payable	**4,305,947**	4,819,913
Accrued expenses and other current liabilities	**5,111,104**	5,898,113
Deferred revenues	**5,585,286**	4,931,085
Total current liabilities	**16,337,860**	16,984,634
Long-term debt	**1,256,324**	2,591,845
Deferred income taxes, net	**399,618**	582,413
Pension obligation, net	**2,398,162**	2,643,272
Accrued postretirement benefits	**89,510**	99,831
Deferred revenues	**1,820,404**	1,801,884
Total liabilities	**22,301,878**	24,703,879
Commitments and Contingencies		
Stockholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 161,768 shares issued and outstanding in 2017 and 2016	**161,768**	161,768
Additional paid-in capital	**3,055,449**	3,055,449
Retained earnings	**7,622,385**	7,295,596
Accumulated other comprehensive loss	**(2,656,310)**	(2,399,380)
Total stockholders' equity	**8,183,292**	8,113,433
Total liabilities and stockholders' equity	**$30,485,170**	$32,817,312

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,	2017	2016
Revenues		
Sales	$40,642,497	$43,372,292
Service	32,577,618	31,657,893
	73,220,115	75,030,185
Costs and expenses		
Cost of sales	30,229,866	32,339,768
Cost of services, exclusive of depreciation and amortization	20,446,290	21,069,967
Depreciation and amortization	2,034,593	2,188,854
Selling, general, and administrative	20,073,538	18,744,862
	72,784,287	74,343,451
Income from operations	435,828	686,734
Interest income	71,142	139,291
Interest expense	(117,920)	(153,311)
Income before provision for income taxes	389,050	672,714
Provision for income taxes	129,000	347,000
Net income	$ 260,050	$ 325,714
Earnings per share	$ 1.61	$ 2.01
Weighted average number of shares outstanding	161,768	161,768
Dividends per share	$ 2.00	$ 2.00
Comprehensive income		
Net income	$ 260,050	$ 325,714
Unrealized gain (loss) on minimum pension and postretirement liability, net of taxes	122,757	(284,304)
Interest rate swap, net of taxes	10,588	9,002
Comprehensive income	$ 393,395	$ 50,412

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

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2017 and 2016

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2015	161,768	$161,768	$3,055,449	$7,293,418	$ (2,124,078)	$8,386,557
Net income	–	–	–	325,714	–	325,714
Cash dividends	–	–	–	(323,536)	–	(323,536)
Unrealized loss on minimum pension and postretirement liability, net	–	–	–	–	(284,304)	(284,304)
Interest rate swap, net	–	–	–	–	9,002	9,002
Balances at December 31, 2016	161,768	161,768	3,055,449	7,295,596	(2,399,380)	8,113,433
Net income	–	–	–	260,050	–	260,050
Cash dividends	–	–	–	(323,536)	–	(323,536)
Unrealized gain on minimum pension and postretirement liability, net	–	–	–	–	122,757	122,757
Interest rate swap, net	–	–	–	–	10,588	10,588
Reclassification due to the adoption of ASU 2018-02	–	–	–	390,275	(390,275)	–
Balances at December 31, 2017	**161,768**	**$161,768**	**$3,055,449**	**$7,622,385**	**$(2,656,310)**	**$8,183,292**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	2017	2016
Cash flows from operating activities		
Net income	**$ 260,050**	$ 325,714
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for accounts receivable allowances	**100,000**	30,000
Inventory reserves	**(105,000)**	150,000
Depreciation and amortization	**2,034,593**	2,188,854
Deferred income taxes	**(182,795)**	(499,413)
Gain on interest rate swap	**(7,058)**	(5,998)
Changes in operating assets and liabilities		
Accounts receivable	**1,363,359**	(3,320,640)
Inventories	**(104,595)**	(500,082)
Prepaid expenses and other current assets	**442,851**	(276,660)
Other assets	**10,569**	(116,849)
Accounts payable	**(513,966)**	1,381,993
Accrued expenses and other current liabilities	**(787,009)**	1,400,715
Deferred revenues	**672,721**	(98,912)
Accrued pension and postretirement benefits	**(132,674)**	97,217
Net cash provided by operating activities	**3,051,046**	755,939
Cash flows from investing activities		
Capital expenditures	**(1,076,910)**	(703,500)
Acquisitions of alarm contracts	**–**	(150,696)
Net cash used in investing activities	**(1,076,910)**	(854,196)
Cash flows from financing activities		
Dividends paid	**(323,536)**	(323,536)
Proceeds from borrowings–line of credit	**1,000,000**	–
Repayments of line of credit	**(1,000,000)**	–
Repayments of promissory note	**(46,480)**	(3,874)
Repayments of term loans	**(1,289,041)**	(1,289,049)
Net cash used in financing activities	**(1,659,057)**	(1,616,459)
Net increase (decrease) in cash and restricted cash	**315,079**	(1,714,716)
Cash and restricted cash		
Beginning of year	**923,236**	2,637,952
Ending of year	**$ 1,238,315**	$ 923,236
Supplemental disclosures of cash flow information		
Cash paid for		
Income taxes	**$ 602,798**	$ 481,055
Interest	**117,920**	153,311

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 its 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 accompanying consolidated 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.

Organizational Changes

In November 2016, the Company acquired certain assets, primarily customer alarm maintenance and monitoring contracts, of Pro-Tech Security Ltd. for $325,000 funded through an initial $100,000 payment, customer payments of $50,696, and the balance in the form of a promissory note (see Note 6). The purchase price was allocated primarily to alarm contract intangibles and is being amortized over five years.

2. Summary of Significant Accounting Policies

Revision

During 2017, the Company identified an error related to an overstatement in the deferred income tax liability for certain property, plant and equipment. The Company has evaluated the impact of this error and has concluded that the error is not material to the previously issued consolidated financial statements.

The Company has revised the 2016 amounts in these consolidated financial statements. On the consolidated balance sheet, the correction decreased deferred income taxes and increased retained earnings by $230,940, resulting in revised balances for deferred income taxes of $582,413, total liabilities of $24,703,879, retained earnings of $7,295,596 and total stockholders' equity of $8,113,433. The Company has also increased retained earnings as of December 31, 2015 by $230,940, resulting in a revised balance of $7,293,418.

The corrections to the remaining consolidated financial statements were made to reflect these amounts and the Company has also revised Note 9.

Use of Estimates

The preparation of the accompanying consolidated 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 consolidated 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, intangible assets, certain accruals, pension and postretirement benefits and income taxes.

Cash and Restricted Cash

Cash held at financial institutions may at times exceed federally insured amounts. Restricted cash is comprised of cash withheld from employees to fund flexible spending accounts that are maintained for the employee healthcare plan. At December 31, 2017 and 2016, restricted cash amounted to $84,225 and $81,085, respectively. The Company believes it mitigates its risks by investing in or through major financial institutions.

Accounts Receivable

Accounts receivable which consists of accounts receivable and unbilled receivables are carried at original invoice amounts less an estimate made for uncollectible 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 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.

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, 2017 and 2016.

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. Identifiable intangible assets represent primarily alarm contracts arising from acquisitions and are amortized over their estimated useful lives. Goodwill is not amortized but instead is 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 may not be recoverable or at least annually at December 31 of each year. In the event that the Company determines that the value has 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, 2017 and 2016, respectively.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2017 and 2016, 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 restricted cash, 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, 2017 and 2016 approximates fair value as interest rates approximate current market rates. The Company's interest rate swaps have been measured at fair value.

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.

On February 5, 2014, the Company entered into an interest rate swap that qualifies for hedge accounting. The fair value of the swap asset (liability) is $2,978 and ($3,296) at December 31, 2017 and 2016, 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 asset is $16,740 and $5,368 at December 31, 2017 and 2016, respectively.

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 the respective term of the contract. 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 fire and security systems 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 $383,100 and $441,700 for the years ended December 31, 2017 and 2016, 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.

Management's judgment is required in determining the realizability of the deferred tax assets and liabilities, and any valuation allowances recorded. The net deferred tax assets may need to be adjusted in the event that tax rates are modified, or management's estimates of future taxable income change, such that deferred tax assets or liabilities are expected to be recovered or settled at a different tax rate than currently estimated. In addition, valuation allowances may need to be adjusted in the event that management's estimate of future taxable income changes from the amounts currently estimated.

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.

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 $1,188,427 and $1,707,909 at December 31, 2017 and 2016, respectively. Billings to this customer amounted to $5,871,008 and $6,547,943 for the years ended December 31, 2017 and 2016, respectively.

New Accounting Pronouncements

In July 2015, the FASB issued ASU 2015-11, Inventory. The amendments in this update require an entity to record its inventory at the lower of cost and net realizable value rather than at the lower of cost or market. The amendment is effective for the Company in 2017 and is to be applied prospectively. The adoption of this amendment did not have a significant impact on the Company's consolidated financial statements.

In February 2018, the FASB issued ASU 2018-2, Income Statement—Reporting Comprehensive Income—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this update provide an entity with the option to reclassify from accumulated other comprehensive income to retained earnings for the stranded tax effects resulting from the Tax Cuts and Jobs Act. The amount of the reclassification would be the difference between the historical federal corporate rate of 34% and the newly enacted federal corporate income tax rate of 21%. As permitted, the Company elected to early adopt this guidance effective for the year ending December 31, 2017. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements, other than the reclassification of $390,275 from accumulated other comprehensive loss to retained earnings.

On January 1, 2017, the Company early adopted guidance relating to the Fair Value Measurement and Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). This guidance, which requires the Company to show investments that use net asset value (NAV) as a practical expedient for valuation purposes separately from other investments categorized in the fair value hierarchy. The Company adopted the guidance on January 1, 2017 and it has been applied at all periods presented.

3. Accounts Receivable, Net

Accounts receivable consists of the following:

December 31,	**2017**	2016
Trade receivables, including progress bills and amounts due on completed contracts	**$10,958,591**	$12,351,293
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,010,831**	1,981,488
	12,969,422	14,332,781
Less: Allowance for doubtful accounts	**(280,000)**	(180,000)
	$12,689,422	$14,152,781

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

December 31,	2017	2016
Costs incurred on uncompleted contracts	**$ 5,009,637**	$ 6,789,823
Estimated earnings	**1,859,609**	2,159,614
	6,869,246	8,949,437
Less: Billings to date	**(5,331,806)**	(7,244,789)
	1,537,440	1,704,648
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(2,010,831)**	(1,981,488)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (473,391)**	$ (276,840)

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, 2017, 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 Useful Lives	December 31, 2017	2016
Land	–	**$ 242,000**	$ 242,000
Buildings and improvements	30 years	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25 years	**10,494,494**	10,818,948
Central station and other equipment	3-10 years	**3,407,391**	3,476,072
Installations in progress	*	**287,096**	154,008
		19,110,216	19,370,263
Less: Accumulated depreciation		**(13,298,525)**	(13,237,164)
		$ 5,811,691	$ 6,133,099

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

Depreciation expense was $1,398,318 and $1,596,445 for the years ended December 31, 2017 and 2016, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net consists of the following:

	Estimated Useful Lives	Remaining Average Useful Lives	December 31, 2017	2016
Goodwill	–	–	**$ 441,301**	$ 441,301
Alarm contracts and contract intangibles	5-15 years	9	**7,242,549**	7,242,550
Non compete and other agreements	5 years	4	**32,500**	119,344
Gross goodwill and intangibles			**7,716,350**	7,803,195
Less: Accumulated amortization			**(2,983,761)**	(2,434,331)
			$ 4,732,589	$ 5,368,864

Amortization of intangible assets was $636,275 and $592,409 during the years ended December 31, 2017 and 2016, respectively. Future estimated amortization expense of intangible assets is as follows as of December 31, 2017:

Years Ending December 31,	
2018	$ 628,778
2019	628,688
2020	506,323
2021	407,500
2022	353,333
Thereafter	1,766,666
	$ 4,291,288

6. Long-Term Debt

Long-term debt consists of the following:

December 31,	2017	2016
Term loan	**$ 1,380,952**	$ 2,090,271
Second term loan	**1,086,945**	1,666,667
Promissory note	**123,950**	170,430
	2,591,847	3,927,368
Less: Current portion	**(1,335,523)**	(1,335,523)
	$ 1,256,324	$ 2,591,845

On December 1, 2010, the Company entered into a $5,500,000 five-year term loan from its primary bank collateralized by a blanket U.C.C. filing against its assets. On January 31, 2014, the Company refinanced its term loan combining outstanding advances of $3,000,000 on its working capital line of credit with the balance due on the 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. The interest rate 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 entered into 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. The interest rate 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 2017 and 2016, the Company obtained waivers from its lender for not meeting certain financial ratios.

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, 2018. Interest is payable at the Prime Rate. Use of the funds are unrestricted. During 2017, the Company borrowed $1,000,000 and repaid $1,000,000 on its line of credit. As of December 31, 2017, the Company had no outstanding advances against its line of credit.

In November 2016, the Company acquired certain assets, primarily customer alarm maintenance and monitoring contracts, of Pro-Tech Security Ltd. for $325,000 of which $174,341 was in the form of a promissory note to the seller, with repayment to be made in 45 monthly principal installments of $3,874.

Future maturities of long-term debt are as follows:

Years Ending December 31,	
2018	$1,335,523
2019	415,806
2020	840,518
	$2,591,847

7. 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, 2017 and 2016. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balances at December 31, 2015	$ 3,650,231	$ 3,181,650	$ 6,831,881
Billings	30,680,626	878,354	31,558,980
Amortizations to income	(30,462,172)	(1,195,720)	(31,657,892)
Balances at December 31, 2016	3,868,685	2,864,284	6,732,969
Billings	**32,123,100**	**1,127,239**	**33,250,339**
Amortizations to income	**(31,419,997)**	**(1,157,621)**	**(32,577,618)**
Balances at December 31, 2017	**$ 4,571,788**	**$2,833,902**	**$ 7,405,690**

	Annual Service and Other Charges	Advance Service Charges	Total
Current	**$ 4,571,788**	**$ 1,013,498**	**$ 5,585,286**
Long-term	**–**	**1,820,404**	**1,820,404**
Balances at December 31, 2017	**$ 4,571,788**	**$2,833,902**	**$ 7,405,690**

8. Common Stock

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.

9. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	2017	2016
Current		
Federal	**$ 332,411**	$ 520,165
State and local	**87,052**	142,712
	419,463	662,877
Deferred		
Federal	**(285,520)**	(268,934)
State and local	**(4,943)**	(46,943)
	(290,463)	(315,877)
Total provision for income taxes	**$ 129,000**	$ 347,000

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

	2017	2016
Federal statutory rate	**34.0%**	34.0%
State and local income taxes, net of federal income tax benefit	**17.2**	8.6
Other items	**(18.0)**	9.0
Effective rate	**33.2%**	51.6%

The effective tax rate differed from the federal statutory tax rate primarily as result of state income taxes, tax credits and certain expenses not deductible for income tax purposes.

On December 22, 2017, the Tax Cuts and Jobs Act of 2018 (the "Tax Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 34% to 21% effective for tax years beginning after December 31, 2017. FASB Accounting Standards Codification Topic 740, Income Taxes ("ASC 740") requires that the effects of changes in tax laws or tax rates be recognized in the financial statements in the period in which such changes were enacted. During the year ended December 31, 2017, the Company recorded a deferred income tax benefit of approximately $245,000 due to the write-down of net deferred tax liability related to the reduction of the corporate income tax rate per The Act.

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

December 31,	2017	2016
Deferred Tax Assets		
Advance service revenue	**$ 778,577**	$ 1,249,200
Benefit plans	**794,159**	1,110,432
Other	**119,265**	211,000
Deferred tax assets	**1,692,001**	2,570,632
Deferred Tax Liabilities		
Intangibles	**(856,862)**	(1,212,185)
Depreciation	**(1,160,040)**	(1,840,760)
Other	**(74,717)**	(100,100)
Net deferred tax liabilities	**$ (399,618)**	$ (582,413)

Liabilities for uncertain tax positions reflected as of December 31, 2017 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 2013 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, 2017 and 2016, the Company did not record any liabilities or expenses related to tax penalties and related interest.

10. Pension and Postretirement Benefits

The Company maintains a noncontributory defined benefit pension plan for its hourly union employees who met 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.

In accordance with ASC 715, Defined Benefit Plans, the Company recognized the funded status of the plan, measured as the difference between the fair value of the plan assets and the projected benefit obligation of its benefit plan as an asset or liability in the consolidated balance sheet dates, with a corresponding adjustment to accumulated other comprehensive loss, net of taxes.

Prior to December 31, 1996, the Company provided certain health care and life insurance benefits to retired employees who had attained age 62 or 20 years of service at the date of retirement, whichever was later. Eligible retirees under age 65 were 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 became 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. For the retired employees still receiving benefits, 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, 2017 and 2016, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	**2017**	2016
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$9,116,494**	$8,507,953	**$115,331**	$ 125,596
Service cost	**–**	–	**–**	–
Interest cost	**352,834**	355,059	**3,529**	3,916
Change in assumptions	**204,765**	237,377	**1,650**	391
Actuarial (gain) loss	**(148,314)**	366,007	**(3,089)**	2,701
Benefits paid	**(563,865)**	(349,902)	**(12,411)**	(17,273)
Benefit obligation at end of year	**8,961,914**	9,116,494	**105,010**	115,331
Change in Plan Assets				
Fair value of plan assets at beginning of year	**6,473,222**	6,255,267	**–**	–
Actual return on plan assets	**354,395**	267,857	**–**	–
Employer contribution	**300,000**	300,000	**12,411**	17,273
Benefits paid	**(563,865)**	(349,902)	**(12,411)**	(17,273)
Fair value of plan assets at end of year	**6,563,752**	6,473,222	**–**	–
Benefit obligations in excess of fair value	**$2,398,162**	$2,643,272	**$105,010**	$115,331

The change in actuarial assumptions for the pension benefits relates to the use of an updated mortality table in 2015 and the change in discount rate in 2017 and 2016. The discount rate is updated annually for the determination of net periodic pension cost. In 2015, the Plan actuary reviewed and assessed a new mortality table, the scale MP-2015 table, in determining the actuarial present value of accumulated plan benefits.

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	**2017**	2016
Noncurrent pension liability	**$(2,398,162)**	$(2,643,272)	**$ –**	$ –
Current portion of liability for postretirement benefits included in accrued expenses and other current liabilities	**–**	–	**(15,500)**	(15,500)
Noncurrent liability for postretirement benefits	**–**	–	**(89,510)**	(99,831)
Net amount recognized	**$(2,398,162)**	$(2,643,272)	**$(105,010)**	$(115,331)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	**2017**	2016
Actuarial loss	**$3,787,139**	$3,956,251	**$38,937**	$45,193

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $2,668,230, net of deferred income tax assets of $1,157,846 at December 31, 2017, and accumulated other comprehensive loss totaling $2,400,866, net of deferred income tax assets of $1,600,578, at December 31, 2016.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2017			2017		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial loss (gain) arising during the year	$ 26,631	$ 7,989	$ 18,642	$(1,438)	$ (431)	$(1,007)
Less: Amortization included in net periodic pension cost	195,744	58,725	137,019	4,818	1,445	3,373
Net change during the year	$(169,113)	$(50,736)	$(118,377)	$(6,256)	$(1,876)	$(4,380)

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
Interest cost	$ 352,834	$ 355,059	$3,529	$ 3,916
Expected return on plan assets	(324,576)	(314,327)	–	–
Amortization of net losses	195,744	174,340	4,818	4,766
	$ 224,002	$ 215,072	$8,347	$8,682

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2018 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$185,865	$4,070

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	
	2017	2016	2017	2016
Discount rate used for net periodic cost	3.97%	4.19%	3.28%	3.34%
Discount rate used for benefit obligation	3.48%	3.97%	3.01%	3.28%
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 2017 was 7%, 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, 2017 and the net periodic pension and other postretirement benefits cost for 2017.

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 2 and Level 3 financial instruments, respectively, as defined in Note 11. Management believes 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, 2017 and 2016 is as follows:

	2017	2016
General investment account	**89.4%**	91.2%
Stock separate account	**10.6%**	8.8%

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
2018	$ 479,000	$15,500
2019	491,000	14,100
2020	492,000	12,700
2021	505,000	11,400
2022	505,000	10,100
Thereafter	2,620,000	35,100
	$5,092,000	$98,900

Substantially all non-union salaried employees of the Company were covered by another defined contribution pension plan. Contributions under the plan were based on specified percentages of the compensation of covered employees less forfeitures, if any. There is no unfunded past service cost for this plan. In January 2010, the Company terminated the plan and offered its employees covered by this plan to fully participate in the Company's 401K Plan discussed in the following paragraph. There was no pension expense for this plan for either of the years ended December 31, 2017 and 2016.

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 $499,955 and $526,780 for the years ended December 31, 2017 and 2016, respectively.

11. 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.

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, as determined by the Company using the NAV practical expedient. 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.

	Inputs				
December 31, 2017	Level 1	Level 2	Level 3	NAV	Total
General investment account	**$ –**	**$ –**	**$ 5,868,148**	**$ –**	**$5,868,148**
Srock separate account	**–**	**–**	**–**	**695,604**	**695,604**
Interest rate swap	**–**	**19,720**	**–**	**–**	**19,720**

	Inputs				
December 31, 2016	Level 1	Level 2	Level 3	NAV	Total
General investment account	$ –	$ –	$ 5,914,194	$ –	$ 5,914,194
Stock separate account	–	–	–	559,028	559,028
Interest rate swap	–	2,072	–	–	2,072

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, 2017 and 2016:

	2017	2016
Balances at January 1,	**$ 5,914,194**	$ 5,831,083
Deposits	**300,000**	300,000
Investment return	**217,819**	133,013
Benefit payments and credits	**(563,865)**	(349,902)
Balances at December 31,	**$ 5,868,148**	$5,914,194

12. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancelable operating leases for office, storage and operating facilities (real property) through 2022 for approximate aggregate minimum rentals as follows:

Years Ending December 31,	
2018	$ 969,235
2019	928,091
2020	743,815
2021	415,057
2022	28,029
	$3,084,227

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 $2,254,000 and $2,251,000 for the years ended December 31, 2017 and 2016, 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.

13. Subsequent Events

The Company evaluated all events or transactions that occurred through April 23, 2018, the date these consolidated financial statements were available to be issued. The Company did not identify any other subsequent events that would have required adjustment for further disclosure in these consolidated financial statements.

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, 2017 and 2016, and the related consolidated statements of income and comprehensive income, of stockholders' 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 control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 control 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 control. 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 as of December 31, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, the Company has adopted ASU 2018-2, *Income Statement — Reporting Comprehensive Income—Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* for the year ended December 31, 2017. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

Melville, New York
April 23, 2018

AFA Protective Systems, Inc. and Subsidiaries

Selected Financial Data

For Each of the Five Years in the Period Ended December 31, 2017.

	2017	2016	2015	2014	2013
Sales	**$40,642,497**	$43,372,292	$45,337,695	$48,330,463	$44,175,705
Service revenues	**$ 32,577,618**	$31,657,893	$ 31,016,879	$ 31,496,073	$ 31,639,529
Net income	**$ 260,050**	$ 325,714	$ 537,745	$ 1,532,257	$ 1,678,303
Earnings per share	**$ 1.61**	$ 2.01	$ 3.32	$ 9.47	$ 10.36
Cash dividends per share	**$ 2.00**	$ 2.00	$ 2.00	$ 2.00	$ –
Average number of shares outstanding	**161,768**	161,768	161,768	161,868	161,928
At year end:					
Deferred revenues	**$ 7,405,690**	$ 6,732,969	$ 6,831,881	$ 8,099,817	$ 8,173,861
Property, plant and equipment, net	**$ 5,811,691**	$ 6,133,099	$ 7,026,045	$ 7,225,051	$ 7,519,168
Total assets	**$ 30,485,170**	$32,817,312	$ 31,656,080	$36,893,006	$ 35,811,783
Stockholders' equity	**$ 8,183,292**	$ 8,113,433	$ 8,386,557	$ 8,143,827	$ 7,759,222
Number of shares outstanding	**161,768**	161,768	161,768	161,868	161,868
Book value per share	**$ 50.59**	$ 50.15	$ 51.84	$ 50.31	$ 47.94

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, 2017 and 2016 are as follows:

Year Ended December 31, 2017

Quarter		Bid	Dividends
1	High	**$285**	**$ .50**
	Low	**271**	
2	High	**270**	**.50**
	Low	**240**	
3	High	**245**	**.50**
	Low	**227**	
4	High	**245**	**.50**
	Low	**227**	
			$ 2.00

Year Ended December 31, 2016

Quarter		Bid	Dividends
1	High	$283	$ .50
	Low	283	
2	High	288	.50
	Low	283	
3	High	288	.50
	Low	283	
4	High	283	.50
	Low	283	
			$ 2.00

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Suite 1234
Altamonte Springs, FL 32714
(407) 812-9200

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

Georgia

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

Metropolitan New York

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

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

570 Taxter Road
Suite 120
Elmsford, NY 10523
(914) 347-5481

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
Executive 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

Officers

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

Richard D. Kleinman
President and Chief Operating Officer

David M. Kleinman
Executive Vice President and Secretary

Stephen P. Hyle
Vice President and Director of National Accounts

Michael J. Slattery
Vice President of Branch Operations

Joseph H. Goren
Vice President, Chief Financial Officer and Treasurer

Jared D. Kleinman
Vice President

Mark A. LaBua
Chief Information Officer

Registrar and Transfer Agent

Computershare Inc.
Meidinger Tower
462 S. 4th Street
Louisville, KY 40202

Independent Auditors

PricewaterhouseCoopers LLP
401 Broad Hollow Road
Melville, NY 11747

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, June 5 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*

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Syosset, NY 11791
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Fax: 516-496-2848
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