AFA Protective Systems, Inc.

2013 Annual Report

Originally founded in 1873, AFA has provided uninterrupted central station alarm service to its customers for almost 141 years.

Corporate Profile

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

The Primary Scope of AFA's Services Includes:

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

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

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

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

Letter To Our Shareholders

As we look back at 2013, we see that the Company was able to largely remain on course and continue to position itself for a better short-term and intermediate future. Many of the important metrics we measure ourselves by showed meaningful improvement. However, we did experience some disappointments which tempered what would have otherwise been an exceptional year into a middle of the road performance.

By year end, management evaluated the Company's sales, operational and administrative performance over the past five years as it translated into results. For many years, the Company has endeavored to control its costs in order to maximize earnings and we believe that has been mostly achieved. Despite those efforts, earnings have not improved as fully as we had anticipated. Consequently, it has become more apparent that the road to marked improvement in the Company's earnings performance lies in significantly increasing top line sales as well as sales margins.

Last year I reported that we began to embrace the modern age of marketing. During 2013, the Company decided to experiment on a limited basis with various forms of marketing to increase our visibility to potential customers and in turn sales. The year end results in this regard were very encouraging. In fact, we traced new booked sales attributable to these efforts and learned that they were produced at a rate of ten to one in comparison to amount spent. Based on these results, the Company has decided to significantly increase its investment in marketing during 2014 in those arenas that provided the most positive results last year. As part of this initiative, we have engaged consultants to help us with a rebranding of the AFA image. The goal will be to bring our image and message up to the present day while at the same time leveraging our proud 140 plus year heritage.

Concurrently we will be doing more updating to our website to make it more user friendly and targeted more towards our principal markets to maximize potential customer usage from the internet. We have given our sales force modern day sales tools to work with and have engaged a firm to monitor the internet and insure that we get the maximum benefit from that fertile source of business. Finally, the Company is investing in the development of an all-encompassing lead tracking system to insure that our sales force follows up on all available sales opportunities. The goal of this approach is to reach as many potential subscribers as possible with the proper message and then to insure that we handle every lead we receive as professionally as possible. This should translate into a significant increase in booked sales. All of these initiatives should be fully operational by the second half of this year. While we expect even further benefit during 2014 from these new measures, we expect the full effect to be felt in 2015 and beyond.

Further augmenting our sales potential going forward was the Company's ability to gain approval from the Federal Government for a General Services Agreement (GSA) for various fire alarm services. Achieving this milestone after nearly ten years of arduous efforts now opens the door for the Company to bid on and receive a significant amount of government-backed business which was previously unavailable to the Company.

Management is optimistic that all of these developments have positioned the Company's sales to take off to new levels in the near future and will result in meaningful increases in the Company's recurring revenues and total sales going forward.

Net income in 2013 amounted to $1,678,000 or $10.36 per share as compared to $2,253,000 or $14.74 per share in 2012. Cash flow from operating activities in 2013 amounted to $4,068,000 or $25.12 per share as compared to $2,739,000 or $17.92 in 2012. Overall revenues rose from year to year: $75,815,000 in 2013 as compared to $73,870,000 in 2012.

Once again, the Company experienced year-to-year increases in booked sales and backlog. New booked sales in 2013 amounted to $38,203,000 an increase of 5% over 2012. At year end, our backlog had grown by 2% to $12,953,000. However, for the second straight year the Company fell short of its goal in controlling its gross attrition, which rose to an unacceptable rate of 9.4%. Although the Company's performance in retaining business was still superior to the industry norm, management was very displeased with this result. As a direct consequence of this result, despite the aforementioned increase in sales, the Company failed to organically grow its recurring revenue base for the first time in 15 years. Management has made improving this metric as one of the Company's top current priorities.

Our National Accounts Division rebounded with a 10% increase in booked sales as compared to the prior year. A welcome increase in sales to the Division's principal account was the catalyst for this improvement. In addition, the Division fortified its relationships with all of its key accounts in the form of executed contract extensions. In many cases, those extensions were accompanied with agreements to provide those accounts with additional services. On top of all this, the Division added four brand new accounts in 2013, and one more in early 2014.

Once again the flagship New York Branch led the way for the Company. In a difficult environment, it posted positive results in most categories. During 2013, the branch realized 10% gains in new booked sales and operating profits, and a 16% gain in year-end backlog as compared with 2012. Although the branch saw a slight increase in its attrition rate, it was still better than that of the rest of the Company and contributed to the branch being able to post a slight gain in its recurring revenue base.

The New England branch posted mixed results in 2013. Although its earnings were reduced, its overall sales and year-end backlog increased significantly. Moreover, during the second half of the year our sales force in the branch was upgraded, both in quantity and quality. Based on this transformation, management expects improved results in all metrics within this region during this year.

Our New Jersey branch was divided into two regions at the start of the year and had different results. The larger Northern New Jersey branch had a solid year with all of its results coming in at or near expectations. On the other hand, the Southern branch based near Philadelphia proved to be an underperformer in all financial categories. As a result, during the fourth quarter management decided to put the branch under the control of the Company's Midlantic manager who is currently supervising both offices.

Our Midlantic branch encountered a challenge stemming from its lack of an effective sales force, but changes have been made there over the past six months which should assist in restoring the growth trend that started there during the prior year.

Our Georgia branch had a solid year with earnings, booked sales and backlog in line with expectations. In addition, during the year the branch's management undertook the oversight of the entire AFA Southeast subsidiary operation, meaning that it is now responsible for the Company's North Carolina branch as well.

Despite an increase in National Accounts business, the North Carolina branch experienced a disappointing year across the board. In response, during the summer of 2013 upper management made the aforementioned restructuring which has served to steady the office going forward.

On the other hand, the Florida branch has undergone a positive rebirth. By mid-year, the branch had settled down to the point where management decided it was time to commence a growth mode again. Not only did it meet our modest expectations, but by year end the branch added some sales representatives and started to bring in new business. This has ramped up significantly during the first quarter to the point where we expect 2014 to be a welcome and markedly improved year for this branch.

During 2013, the Company also invested heavily in its operating systems. This investment, although not generating any immediate financial return, was necessary in order to keep the Company ahead of the curve as a state-of-the-art service provider in a very competitive industry and positions us as ready to handle anything operationally for the foreseeable future. In a related matter, we recently reorganized the Company's IT Department to be able to develop and/or streamline many Company procedures and protocol. Not only should this end up making us more efficient in the long run, but this Department will be of vital assistance with some of the aforementioned new sales initiatives, most notably with the lead tracking system.

Looking ahead, management is currently undertaking an examination of itself and the Company as a whole for the purpose of devising an intermediate and long-term plan for the Company's future. On a more immediate basis, we expect our overall performance in 2014 to surpass that achieved in 2013 in all categories.

Robert Kleinman

Robert D. Kleinman
Chairman and Chief Executive Officer

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31,	2013	2012
Assets		
Current assets		
Cash and cash equivalents	**$ 1,495,786**	$ 1,356,329
Accounts receivable, net of allowance for doubtful accounts	**14,751,055**	13,600,216
Inventories	**4,480,227**	4,656,379
Prepaid expenses and other current assets	**658,176**	573,106
Total current assets	**21,385,244**	20,186,030
Property, plant and equipment, net	**7,519,168**	7,447,871
Goodwill and intangible assets, net	**6,781,386**	7,363,741
Other assets	**125,985**	160,253
Total assets	**$35,811,783**	$35,157,895
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 1,320,296**	$ 4,790,821
Accounts payable	**4,144,047**	4,006,106
Accrued expenses and other current liabilities	**4,760,762**	4,084,806
Deferred revenues	**6,141,467**	5,975,659
Total current liabilities	**16,366,572**	18,857,392
Long-term debt	**6,210,327**	4,530,619
Deferred income taxes	**2,310,575**	2,090,052
Pension obligation	**1,021,388**	2,018,905
Obligation for postretirement benefits	**196,371**	246,964
Deferred revenues	**2,032,394**	1,572,963
Fair value of interest rate swaps	**145,874**	319,515
Total liabilities	**28,283,501**	29,636,410
Commitments and Contingencies (Note 16)		
Shareholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 161,868 shares issued and outstanding in 2013 and 163,080 in 2012	**161,868**	163,080
Additional paid-in capital	**3,055,349**	3,057,694
Accumulated other comprehensive loss	**(1,328,732)**	(1,968,710)
Retained earnings	**5,639,797**	4,269,421
Total shareholders' equity	**7,528,282**	5,521,485
Total liabilities & shareholders' equity	**$35,811,783**	$35,157,895

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

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31,	2013	2012
Revenues		
Sales	$44,175,705	$42,644,275
Service	31,639,529	31,225,229
	75,815,234	73,869,504
Costs and expenses		
Cost of sales	33,174,714	31,564,504
Cost of services, exclusive of depreciation and amortization	19,467,166	18,802,430
Depreciation and amortization	2,355,896	1,991,035
Selling, general, and administrative	17,819,560	17,345,577
	72,817,336	69,703,546
Income from operations	2,997,898	4,165,958
Interest and dividend income	77,821	19,882
Interest expense, net	(271,416)	(283,766)
Income before provision for income taxes	2,804,303	3,902,074
Provision for income taxes	1,126,000	1,649,000
Net income	$ 1,678,303	$ 2,253,074
Earnings per share	$ 10.36	$ 14.74
Weighted average number of shares outstanding	161,928	152,832
Dividends per share	$ –	$ 10.00
Comprehensive income		
Net income	$ 1,678,303	$ 2,253,074
Net actuarial gain arising during the year, net of taxes	599,433	245,882
Interest rate swap, net of taxes	40,545	14,311
Comprehensive income	$ 2,318,281	$ 2,513,267

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, 2013 and 2012

	Number of Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Balance at December 31, 2011	153,278	$ 153,278	$ 316,142	$(2,228,903)	$ 3,729,047	$ 1,969,564
Net income for the year	–	–	–	–	2,253,074	2,253,074
Cash dividends ($10.00 per share)	–	–	–	–	(1,525,741)	(1,525,741)
Purchase & retirement of common stock	(748)	(748)	(1,448)	–	(186,959)	(189,155)
Shares issued to purchase United Telephone Services, Inc.	10,550	10,550	2,743,000	–	–	2,753,550
Net actuarial gain arising during the year	–	–	–	245,882	–	245,882
Interest rate swap	–	–	–	14,311	–	14,311
Balance at December 31, 2012	163,080	$ 163,080	$ 3,057,694	$(1,968,710)	$ 4,269,421	$ 5,521,485
Net income for the year	–	–	–	–	1,678,303	1,678,303
Purchase & retirement of common stock	(1,212)	(1,212)	(2,345)	–	(307,927)	(311,484)
Net actuarial gain arising during the year	–	–	–	599,433	–	599,433
Interest rate swap	–	–	–	40,545	–	40,545
Balance at December 31, 2013	**161,868**	**$ 161,868**	**$3,055,349**	**$(1,328,732)**	**$ 5,639,797**	**$ 7,528,282**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	2013	2012
Cash flows from operating activities		
Net income	$ 1,678,303	$ 2,253,074
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,355,896	1,991,035
Deferred income taxes	220,523	64,700
Gain on interest rate swap	(133,096)	(79,908)
Changes in operating assets and liabilities		
Accounts receivable	(1,150,839)	1,066,487
Inventories	176,152	(476,441)
Prepaid expenses and other current assets	(85,070)	(23,677)
Other assets	16,011	(18,894)
Accounts payable	137,941	(1,053,612)
Accrued expenses and other current liabilities	675,956	(505,537)
Deferred revenues	625,239	(397,216)
Liability for postretirement benefits	(448,677)	(80,867)
Net cash provided by operating activities	4,068,339	2,739,144
Cash flows from investing activities		
Capital expenditures	(1,825,681)	(802,742)
Acquisitions of assets	(900)	(1,660,369)
Net cash used in investing activities	(1,826,581)	(2,463,111)
Cash flows from financing activities		
Dividends paid	–	(1,525,741)
Purchase and retirement of common stock	(311,484)	(189,155)
Proceeds from borrowings–lines of credit	–	3,900,000
Repayments of line of credit	(400,000)	(1,500,000)
Repayments of mortgage note	(290,817)	(273,790)
Repayments of term loan	(1,100,000)	(1,100,000)
Net cash used in financing activities	(2,102,301)	(688,686)
Net increase (decrease) in cash and cash equivalents	139,457	(412,653)
Cash and cash equivalents		
Beginning	1,356,329	1,768,982
Ending	$ 1,495,786	$ 1,356,329
Supplemental disclosures of cash flow information		
Cash paid for:		
Income taxes	$ 1,414,890	$ 1,543,144
Interest	345,713	334,086
Non-cash investing activities		
Assets acquired from United Telephone Services, Inc., net	–	2,753,550

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

Notes to Consolidated Financial Statements

1. Organization and Basis of Presentation

Description of the Business

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

Basis of Presentation

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

2. Summary of Significant Accounting Policies

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, 2013 and 2012, 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, 2013 and 2012 approximate fair value as interest rates approximate current market rates based on their variable nature. The Company believes its mortgage interest rate reflects current market rates. The Company's interest rate swaps have been measured at fair value under the same principles.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. At December 31, 2013 and 2012, cash and cash equivalents included money market funds of $90,900 and $90,800, respectively. Cash and cash equivalents held at financial institutions may at times exceed federally insured amounts. The Company believes it mitigates its risks by investing in or through major financial institutions.

Accounts Receivable

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

Inventories

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

Property, Plant and Equipment

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

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

Debt Issue Costs

Debt issue costs are being amortized using the interest method over the term of the related debt. Amortization of $18,257 has been recorded in interest expense in the consolidated statements of income and comprehensive income in each of the years ended December 31, 2013 and 2012, 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, 2013 and 2012 (Note 5). Identifiable intangible assets represent primarily alarm contracts arising from acquisitions and are amortized on a straight-line basis over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. In reviewing for impairment, the Company compares the carrying value of the assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and 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, 2013 and 2012.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, are primarily trade accounts receivable. Customers in the commercial real estate industry, principally commercial building properties, account for a substantial portion of trade receivables. Credit risk with respect to trade receivables is generally minimized due to the large corporations and other organizations the Company services. Accounts receivable due from a major customer amounted to approximately $4,194,000 and $2,468,000 at December 31, 2013 and 2012, respectively. Billings to this customer amounted to $15,508,000 and $14,555,000 for the years ended December 31, 2013 and 2012, respectively.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $126,000 and $150,000 for the years ended December 31, 2013 and 2012, respectively.

Earnings per Share

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

Income Taxes

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

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

Use of Estimates

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

Derivative Financial Instruments

The Company accounts for derivative instruments in accordance with ASC 815, "Derivatives and Hedging." ASC 815 requires that the Company recognize all derivatives as assets or liabilities and measure those instruments at fair value. The Company uses derivatives primarily for the purpose of hedging exposure to changes in interest rates. The Company recognized a gain on an interest rate swap that does not qualify for hedge accounting of $106,000 and $80,000 for the years ended December 31, 2013 and December 31, 2012, respectively. The fair value of the swap of $(145,874) and $(251,970) at December 31, 2013 and 2012, respectively, has been recorded based on current market rates. The Company terminated another interest rate swap in 2013 that qualified for hedge accounting and recorded a loss on the termination of the swap of $33,000 and reclassified it to interest expense out of accumulated other comprehensive income. The Company recorded a swap liability of $0 and $67,545 for the years ended December 31, 2013 and 2012, respectively, on the terminated hedge.

Comprehensive Income

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

Subsequent Events

The Company evaluated all events or transactions that occurred after the balance sheet date of December 31, 2013 through April 7, 2014, the date it issued these financial statements. Any subsequent events that required recognition or disclosure have been reflected in these financial statements.

Acquisitions

In 2012, the Company acquired certain assets, primarily customer alarm monitoring contracts, of SERA Security Services, Inc. for $1,660,369 funded principally through its unsecured line of credit with its primary bank.

In December 2012, the Company acquired United Telephone Services, Inc. ("United") in a tax-free transaction for a net distribution of 10,550 shares of AFA common stock with a value of $2,753,550. The purchase price was allocated primarily to contract intangibles of $5,300,000, net of deferred taxes. None of the intangibles related to the United acquisition are deductible for tax purposes. Intangibles and the corresponding deferred tax liability recorded are being amortized over 15 years.

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

December 31,	2013	2012
Trade receivables, including progress bills and amounts due on completed contracts	**$13,534,696**	$11,786,511
Costs and estimated earnings in excess of billings on uncompleted contracts	**1,366,359**	1,963,705
	14,901,055	13,750,216
Less: allowance for doubtful accounts	**(150,000)**	(150,000)
	$14,751,055	$13,600,216

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

December 31,	2013	2012
Costs incurred on uncompleted contracts	**$ 3,874,242**	$ 3,737,577
Estimated earnings	**886,453**	1,152,938
	4,760,695	4,890,515
Less: billings to date	**(3,968,746)**	(3,178,823)
	791,949	1,711,692
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(1,366,359)**	(1,963,705)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (574,410)**	$ (252,013)

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, 2013, 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, 2013	2012
Land		$ **242,000**	$ 242,000
Buildings	30	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25	**48,996,175**	47,945,854
Central station and other equipment	3-10	**17,862,386**	17,077,430
Leasehold improvements	Lesser of lease term or useful life	**380,120**	380,120
Installations in progress	*	**187,878**	197,474
		72,347,794	70,522,113
Less: accumulated depreciation		**(64,828,626)**	(63,074,242)
		$ **7,519,168**	$ 7,447,871

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

Depreciation expense was $1,754,384 and $1,833,639 for the years ended December 31, 2013 and 2012, respectively.

5. Goodwill and Intangible Assets, Net

Goodwill and intangible assets, net consists of the following:

	Estimated Lives	December 31, 2013	2012
Goodwill	–	$ **441,301**	$ 441,301
Alarm contracts and contract intangibles	4-15 years	**6,984,540**	7,005,057
Non compete and other agreements	5 years	**86,845**	86,845
Gross goodwill and intangibles		**7,512,686**	7,533,203
Less: accumulated amortization		**(731,300)**	(169,462)
Goodwill and intangible assets, net		**$6,781,386**	$7,363,741

Amortization of intangible assets was $583,255 and $139,139 during the years ended December 31, 2013 and 2012, respectively. Future estimated amortization expense for the next five years is as follows as of December 31, 2013:

Years ending December 31,	
2014	$ 582,904
2015	580,652
2016	577,478
2017	567,176
2018	559,680
	$2,867,890

6. Other Assets

Other assets consist of the following:

December 31,	**2013**	2012
Debt issue costs, net (Note 2)	**$ 29,063**	$ 47,320
Other	**96,922**	112,933
	$125,985	$160,253

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

December 31,	**2013**	2012
Salaries, wages and vacation	**$2,695,673**	$2,179,598
Employee benefit plan contribution	**263,532**	141,231
Current portion of liability for postretirement benefits	**28,500**	43,900
Income taxes payable	**169**	44,506
Billings in excess of costs	**566,531**	189,914
Healthcare costs payable	**500,000**	500,000
Refundable NYC Fire Department fees	**–**	372,746
Other	**706,357**	612,911
	$4,760,762	$4,084,806

8. Long-Term Debt

Long-term debt consists of the following:

December 31,	**2013**	2012
Line of credit	**$ 3,000,000**	$ 3,400,000
Term loan	**2,108,327**	3,208,323
Mortgage note	**2,422,296**	2,713,117
	7,530,623	9,321,440
Less: current portion	**(1,320,296)**	(4,790,821)
Long-term debt	**$ 6,210,327**	$ 4,530,619

Future maturities of long-term debt are as follows:

Years ending December 31,	
2014	$1,320,296
2015	3,116,722
2016	1,003,333
2017	1,003,333
2018	1,003,333
2019	83,606
	$7,530,623

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, 2013 and 2012 was approximately $1,096,000 and $1,252,000, 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 (.17% at December 31, 2013) plus 1.52%. The remaining principal balance of $1,924,393 will be due in full on July 15, 2015.

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

On January 31, 2014, the Company refinanced its term loan combining outstanding advances of $3,000,000 on its working capital line of credit with the balance due on its term loan. The new $5,108,307 five-year term loan maintains the same terms and conditions as the loan it superceded 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 Company's bank debt has been classified in accordance with the new financing terms.

In connection with the mortgage loan, the Company entered into an interest rate swap agreement, (the "Swap"), with its primary bank to effectively fix its variable interest rate at 6.05%. The fair value of the Swap of $(145,874) and $(251,970) at December 31, 2013 and 2012, respectively, has been recorded based on current market rates. This swap is not treated as a hedge.

The Company has available $3,600,000 in a line of credit with its primary bank collateralized by a blanket U.C.C. filing against its assets expiring July 31, 2014. Interest is payable at LIBOR plus 2.10%. Use of the funds are unrestricted. As of December 31, 2013, the Company had outstanding advances of $3,000,000 against its line of credit leaving $600,000 available for use. After refinancing its term loan on January 2014, the Company has $3,600,000 available for use.

9. Deferred Revenues

Deferred revenues consist of annual service and other charges and advance service charges. Annual service and other charges represent customer billings for services not yet rendered for which the maximum billing period is one year and have been reflected as a current liability. Advance service charges consist of nonrefundable charges billed to customers at the time of new installations. The portion of these charges expected to be recognized within one year has been classified as current on the balance sheet at December 31, 2013 and 2012. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
Balance at December 31, 2011	$ 4,799,079	$ 3,042,609	$ 7,841,688
Billings	30,053,208	878,955	30,932,163
Amortizations to income	(29,949,628)	(1,275,601)	(31,225,229)
Balance at December 31, 2012	4,902,659	2,645,963	7,548,622
Billings	**30,578,308**	**1,686,460**	**32,264,768**
Amortizations to income	**(30,417,500)**	**(1,222,029)**	**(31,639,529)**
Balance at December 31, 2013	**$ 5,063,467**	**$ 3,110,394**	**$ 8,173,861**

10. Common Stock

Issuance of Employee Stock Appreciation Rights

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

11. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	2013	2012
Current		
Federal	$1,052,381	$1,233,187
State and local	279,696	351,113
	1,332,077	1,584,300
Deferred		
Federal	(178,734)	23,600
State and local	(27,343)	41,100
	(206,077)	64,700
	$1,126,000	$1,649,000

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

	2013	2012
Federal statutory rate	34.0%	34.0%
State and local income taxes, net of federal income tax benefit	6.7%	6.3%
Other items	(0.6)%	1.9%
Effective rate	40.1%	42.2%

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

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

December 31,	2013	2012
Deferred Tax Assets		
Advance service revenue	$ 1,336,100	$ 1,181,300
Benefit plans	504,400	929,600
Other	179,700	228,700
Deferred tax assets	2,020,200	2,339,600
Deferred Tax Liabilities		
Intangibles	(1,705,175)	(1,811,853)
Depreciation	(2,535,100)	(2,562,000)
Other	(90,500)	(55,799)
Net deferred tax liabilities	$(2,310,575)	$(2,090,052)

Liabilities for uncertain tax positions reflected as of December 31, 2013 are not significant and it is not anticipated that they will materially change in the next 12 months. With limited exceptions, the Company is no longer subjected to tax audits by taxing authorities for years through 2010 for all jurisdictions. Although the outcome of tax audits is always uncertain, the Company believes that its tax positions will generally be sustained under audit.

Interest expense and penalties related to income tax matters are recognized as a component of interest expense. For the years ended December 31, 2013 and 2012, 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, 2013 and 2012, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	**2013**	2012
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$ 7,887,708**	$ 7,991,099	**$ 290,864**	$ 304,350
Service cost	**—**	—	**—**	—
Interest cost	**293,663**	307,179	**7,609**	9,778
Actuarial (gain) loss	**(850,762)**	(149,353)	**(34,349)**	28,548
Benefits paid	**(271,866)**	(261,217)	**(39,253)**	(51,812)
Benefit obligation at end of year	**$ 7,058,743**	$ 7,887,708	**$ 224,871**	$ 290,864
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$ 5,868,803**	$ 5,495,431	**$ —**	$ —
Actual return on plan assets	**200,000**	402,589	**—**	—
Employer contribution	**240,418**	232,000	**39,253**	51,812
Benefits paid	**(271,866)**	(261,217)	**(39,253)**	(51,812)
Fair value of plan assets at end of year	**$ 6,037,355**	$ 5,868,803	**$ —**	$ —
Benefit obligations in excess of fair value	**$(1,021,388)**	$(2,018,905)	**$(224,871)**	$(290,864)

Amounts recognized in the consolidated balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	**2013**	2012
Non-current pension liability	**$(1,021,388)**	$(2,018,905)	**$ —**	$ —
Current portion of liability for postretirement benefits	**—**	—	**(28,500)**	(43,900)
Non-current liability for postretirement benefits	**—**	—	**(196,371)**	(246,964)
Net amount recognized	**$(1,021,388)**	$(2,018,905)	**$(224,871)**	$(290,864)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	**2013**	2012
Actuarial loss	**$ 2,050,602**	$ 2,988,651	**$ 164,131**	$ 225,114
Total	**$ 2,050,602**	$ 2,988,651	**$ 164,131**	$ 225,114

The amounts shown in the preceding table have been recognized in accumulated other comprehensive loss totaling $1,328,840, net of deferred income tax assets of $885,893, at December 31, 2013 and accumulated other comprehensive loss totaling $1,928,065, net of deferred income tax assets of $1,285,700, at December 31, 2012.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2013			2013		
	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net of Tax Amount
Net actuarial gain arising during the year	$(794,727)	$(317,900)	$(476,827)	$(34,349)	$(13,700)	$(20,649)
Less: amortization included in net periodic pension cost	143,323	57,300	86,023	26,634	10,700	15,934
Net change during the year	$(938,050)	$(375,200)	$(562,850)	$(60,983)	$(24,400)	$(36,583)

Components of net periodic pension and other postretirement benefits cost:

	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
Interest cost	$ 293,663	$ 307,179	$ 7,609	$ 9,778
Expected return on plan assets	(296,453)	(297,850)	—	—
Amortization of net losses	143,323	160,464	26,634	23,873
Total	$ 140,533	$ 169,793	$34,243	$33,651

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2014 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$89,972	$19,245
Total	$89,972	$19,245

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	
	2013	2012	2013	2012
Discount rate used for net periodic cost	3.82%	4.16%	2.83%	3.38%
Discount rate used for benefit obligation	4.71%	3.82%	3.69%	2.83%
Expected return on plan assets	5.10%	5.40%	—	—

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 2013 was 8%, gradually decreasing to 5% by the year 2016 and thereafter and is expected to remain at that level thereafter. A one percentage point increase or decrease in these trend rates would not have a significant effect on the accumulated benefit obligation at December 31, 2013 and the net periodic pension and other postretirement benefits cost for 2013.

Plan Assets

Assets are primarily invested in the General Account of Principal Mutual Life Insurance Company, which provides the contract and cashout value of the account. The Company's defined benefit plan investment strategy is to invest the assets in a conservative portfolio that provides an acceptable return with low down-side risk. Preservation of capital is of primary importance. The funds are invested principally in guaranteed investment contracts which are reinvested in new contracts upon expiration. The General Investment Account is a low-risk fixed income investment, consistent with the defined benefit plan's strategy. The breakdown of the cashout value of the assets as of December 31, 2013 and 2012 is as follows:

	2013	2012
General Investment Account	**92.3%**	95.3%
Principal Financial Group		
Stock Separate Account	**7.7%**	4.7%

Cash Flows

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

Years ending December 31,	Pension Benefits	Other Postretirement Benefits
2014	$ 358,200	$ 28,500
2015	382,200	26,700
2016	406,300	24,800
2017	419,200	23,000
2018	435,400	21,100
2019–2023	2,210,700	81,200
	$4,212,000	$205,300

Substantially all non-union salaried employees of the Company were covered by a 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 401(k) Plan discussed in the following paragraph. Pension expense for this plan was $0 for the years ended December 31, 2013 and 2012, respectively.

In connection with the aforementioned curtailment of the defined benefit pension plan, effective December 1, 1996 and the curtailment of the defined contribution plan discussed above, the Company established a 401(k) savings plan covering all eligible employees. Under the plan, employees may contribute up to certain percentages of their pretax earnings, subject to the Internal Revenue Service annual contribution limit. The Company can make non-matching and matching contributions for all eligible employees. Company contributions to the plan amounted to approximately $480,000 and $471,000 for the years ended December 31, 2013 and 2012, 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 54% of the outstanding shares of the Company, are voted as directed by the Chairman.

The Company received approximately $142,000 in 2012, for central station protection services rendered to Ready's subscribers. As discussed in Note 2, the Company purchased the stock of United and its Ready Alarm subsidiary on December 31, 2012.

14. Fair Value of Financial Instruments

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

- *Level* 1—Observable inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- *Level* 2—Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term of the financial instrument; and
- *Level* 3—Unobservable inputs to the valuation methodology in which there is little or no market data and which are significant to the fair value measurement.

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

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and counterparty creditworthiness, among other things, as well as unobservable parameters.

Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

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

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

December 31, 2012	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Cash equivalents	$90,800	$ —	$ —	$ 90,800
Derivative liabilities	—	319,515	—	319,515

15. New York City Fire Department Litigation

In June 2008, the Company reached a settlement in an ongoing action against the New York City Fire Department. All disputed fees had been paid into an independent escrow fund pending resolution of the matter. The Company received approximately $3,860,000 of which approximately $2,559,000 was retained by the Company as a reimbursement of costs incurred since 1994, with the balance of approximately $1,301,000 to be returned to the Company's customers in the form of credits against future Fire Department fees. At December 31, 2013, all related credit against future Fire Department fees have been returned to customers. The Company has recorded a liability of $373,000 at December 31, 2012, in connection with credits issuable to its customers related to this matter.

16. Commitments and Contingencies

Leases

The Company is obligated under the terms of noncancellable operating leases for office, storage and operating facilities (real property) through 2017 for approximate aggregate minimum rentals of $2,454,000 as follows:

Years ending December 31,	
2014	$ 942,400
2015	836,400
2016	546,200
2017	129,000
	$2,454,000

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 $2,235,000 and $2,254,000 for the years ended December 31, 2013 and 2012, respectively.

Other

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

Report of Independent Auditors

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

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, 2013 and 2012, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AFA Protective Systems, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 7, 2014
Melville, New York

AFA Protective Systems, Inc. and Subsidiaries

Selected Financial Data

For Each of the Five Years in the Period Ended December 31, 2013.

	2013	2012	2011	2010	2009
Sales	**$44,175,705**	$42,644,275	$ 41,393,367	$42,443,870	$48,023,623
Service revenues	**$31,639,529**	$ 31,225,229	$ 30,126,903	$29,989,431	$30,049,342
Net income	**$ 1,678,303**	$ 2,253,074	$ 1,347,502	$ 997,350	$ 2,155,019
Earnings per share	**$ 10.36**	$ 14.74	$ 8.79	$ 6.51	$ 14.05
Cash dividends per share	**$ –**	$ 10.00(a)	$ 2.00	$ 52.00(b)	$ 2.00
Average number of shares outstanding	**161,928**	152,832	153,278	153,278	153,388
At year end:					
Deferred revenues	**$ 8,173,861**	$ 7,548,622	$ 7,841,688	$ 8,251,950	$ 9,551,039
Property, plant and equipment, net	**$ 7,519,168**	$ 7,447,871	$ 8,478,768	$ 8,672,565	$ 9,557,013
Total assets	**$35,811,783**	$ 35,157,895	$30,348,847	$ 29,137,357	$ 32,678,126
Shareholders' equity	**$ 7,528,282**	$ 5,521,485(a)	$ 1,969,564	$ 1,503,612(b)	$ 8,762,346
Number of shares outstanding	**161,868**	163,080	153,278	153,278	153,278
Book value per share	**$ 46.51**	$ 33.86(a)	$ 12.85	$ 9.81(b)	$ 57.17

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

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

AFA Protective Systems, Inc. and Subsidiaries

Market Prices and Dividend Information

The Company's Common Stock is traded in the over-the-counter market. The range of high and low bid quotations as provided by the National Association of Security Dealers qualified interdealer quotation medium and the amount of cash dividends paid per share for each of the quarters of the fiscal years ended December 31, 2013 and 2012 are as follows:

Year Ended December 31, 2013

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

Year Ended December 31, 2012

Quarter		Bid	Dividends
1	High	$242	$ .50
	Low	240	
2	High	253	.50
	Low	242	
3	High	260	.50
	Low	248	
4	High	257	8.50
	Low	255	
			$10.00

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Corporate Information

Board of Directors

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

Stephen Hess*
President, Hess Associates, Manhasset, NY

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

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

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

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

Fredric Mack
Partner, The Mack Company Fort Lee, NJ

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

*Members of Audit Committee

Officers

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

Richard D. Kleinman
President and Chief Operating Officer

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

Stephen P. Hyle
Vice President and Director of National Accounts

David M. Kleinman
Vice President and Secretary

Registrar and Transfer Agent

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 4 at 11:30 a.m. at the Company's Corporate Headquarters, 155 Michael Drive, Syosset, New York. All stockholders are invited to attend. A formal Notice of Meeting accompanies this report.

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