YOUR FIRE AND SECURITY SOLUTION

TAKING OFF

AFA PROTECTIVE SYSTEMS, INC.

2018 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, Digital 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 97 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

As expected, in 2018 the Company's steadfast dedication to its goals of growing both profitability and recurring revenue yielded positive results. In short, the Company realized meaningful increases in both overall and recurring revenues as well as earnings.

Net income in 2018 amounted to $1,101,000 or $6.81 per share, as compared to $260,000 or $1.61 per share in 2017. Overall revenues rose from the prior year: $77,742,000 in 2018 as compared to $73,220,000 in 2017.

Once again, the Company excelled in controlling its rate of attrition. In fact, 2018 was our best year in recent memory in this metric, posting a remarkable 6.0% gross attrition rate. This low attrition rate, combined with normal rate increases on existing business and the physical installation of new recurring revenue accounts, resulted in the Company easily eclipsing last year's then record recurring revenue base. During 2018, the Company's recurring revenue base grew another $1,306,000, or 4.1%, to $32,830,000, our highest year-end level ever. Total sales bookings were slightly lower than last year, down to $36,610,000. However, after full analysis this was not a true "decline." Rather, it was the result of certain work originally forecasted to be new sales in our National Accounts Division being handled instead as time and material services. Our year-end Company-wide backlog rose to another all-time high of $16,456,000. All of these key metrics continue to demonstrate the Company's improved overall performance, strength, and positioning going forward.

Our National Accounts Division's performance overall was positive. It continued to emphasize sales of recurring revenue and once again exceeded its previous year's high by over 20%. Technically, overall new sales were flat as compared to 2017, but as previously mentioned this was the result of a significant amount of revenues that were expected to be new sales ending up as service billings. During 2018, not only was this Division able to sign up some new accounts, it also saw some old business, previously lost, return to the fold. Finally, for the first time in many years this Division was able to retain all of its existing chain accounts. This all adds up to a well-founded confidence that our brand and ability to perform is well respected in the retail market.

The Northern branches continued to perform well in 2018. As usual, the flagship New York branch continued to lead the way, posting increases in total sales, earnings, and year-end recurring revenue. It also increased its backlog by 15% and was able to contain its gross attrition to a remarkable 4.4%.

The New England branch also had a good year. Although its new sales were down slightly, it did manage increases in earnings, recurring revenue base, and its backlog.

Results in our middle section branches were varied but positive overall. The larger Northern New Jersey branch experienced a down year in new sales but was able to grow its recurring revenue base and increase its profitability. Better was the Mt. Laurel branch which posted gains in all metrics, most notably posting an 80% improvement in earnings. Similarly, our Mid-Atlantic office posted modest gains in all important metrics.

Getting our Southern branches to maximize their potential continued to be a challenge in 2018. Although we addressed outstanding issues in these branches with a number of personnel changes, we did experience some short-term regression in this region. We had hoped the massive infrastructure changes made in our Georgia office would have yielded positive results earlier during the year, but that was not the case. While there does appear to be promise that our restructuring here will yield fruit in the near future, in the interim the branch suffered a sub-par and below expectations year in 2018.

After years of experiencing disappointing results in our Florida branch, we decided to split it into two branches; one based in Tampa and the other in Southeastern Florida. The reasons for this move were twofold. First, the sheer magnitude of the geography of the state made servicing out of one location too difficult. Second, the demographics of the two regions are decidedly different, meaning that we are better served with teams particularly suited to each region. By the fourth quarter we had our teams in place and expect a positive turnaround in the current year. However, the cost in doing this was a negative result in 2018.

One unexpected concern arising in 2018 was that during the year our gross margins on newly installed work fell slightly. This was contrary to our results in recent years and certainly to our goal of maintaining higher margins. We are hopeful that this anomaly was caused by our completion during the year of work sold in earlier years where margins were tighter. Now that older work is mostly completed, margins should return to more acceptable levels in 2019.

On the expense side, I am pleased to report that the changes I reported last year regarding the Company's healthcare plan were effective in reducing our net healthcare costs by 23% and that this cost is now more in line with national levels. In retrospect, it was the combination of our continued growth of the recurring revenue base and our ability to bring healthcare costs under control that enabled us to restore earnings growth.

On top of all of the positive news from 2018, I am pleased to report that in January 2019 the Company secured its largest recurring revenue contract ever; for the inspection of the fire alarm systems at JFK Airport in New York. In recent years the Company has experienced strong working relationships with a number of large airport facilities. There is no doubt that our positive experiences within this sector led to us being awarded this significant contract. Service under this multi-year contract commenced in March 2019, and will generate approximately $2.8 million in recurring annual revenues. In addition, the Company expects a meaningful amount of other ancillary revenues to flow from this contract in the form of service work, system upgrades and equipment replacements. We are particularly proud to note that with the addition of this large contract, the Company has realized a gain in its recurring revenue base over the past three years of a full 20%. It is truly symbolic that the airport sector has been a major impetus in our Company now "taking off."

After years of following our fundamental plan, we have now finally begun to reap the benefits with increased revenues and earnings. Our fundamentals, especially the continued preservation of and new growth in our recurring revenue base, give us reason to expect more positive results in the immediate future. The recent kick-start afforded the Company with the aforementioned JFK contract truly positions us to rise to even greater heights in 2019 and beyond. In short, absent any unforeseen events, we anticipate 2019 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,	2018	2017
Assets		
Current assets		
Cash and restricted cash	**$ 1,333,216**	$ 1,238,315
Accounts receivable, net	**16,316,578**	12,689,422
Inventories, net	**5,025,572**	4,860,414
Prepaid expenses and other current assets	**1,117,880**	937,116
Total current assets	**23,793,246**	19,725,267
Property, plant and equipment, net	**5,707,885**	5,811,691
Goodwill and intangible assets, net	**4,116,313**	4,732,589
Other assets	**413,556**	215,623
Total assets	**$34,031,000**	$30,485,170
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	**$ 3,004,815**	$ 1,335,523
Accounts payable	**4,744,287**	4,305,947
Accrued expenses and other current liabilities	**5,215,809**	5,111,104
Deferred revenues	**6,570,788**	5,585,286
Total current liabilities	**19,535,699**	16,337,860
Long-term debt	**833,184**	1,256,324
Deferred income taxes, net	**343,874**	399,618
Pension obligation, net	**2,162,471**	2,398,162
Accrued postretirement benefits	**73,448**	89,510
Deferred revenues	**1,876,558**	1,820,404
Total liabilities	**24,825,234**	22,301,878
Commitments and Contingencies		
Stockholders' equity		
Common stock, $1 par value; 1,500,000 shares authorized; 161,758 and 161,768 shares issued and outstanding in 2018 and 2017, respectively	**161,758**	161,768
Additional paid-in capital	**3,055,429**	3,055,449
Retained earnings	**8,398,367**	7,622,385
Accumulated other comprehensive loss	**(2,409,788)**	(2,656,310)
Total stockholders' equity	**9,205,766**	8,183,292
Total liabilities and stockholders' equity	**$34,031,000**	$30,485,170

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

Consolidated Statements of Income and Comprehensive Income

Years Ended December 31,	2018	2017
Revenues		
Sales	**$43,785,727**	$40,642,497
Service	**33,956,097**	32,577,618
	77,741,824	73,220,115
Costs and expenses		
Cost of sales	**32,939,721**	30,229,866
Cost of services, exclusive of depreciation and amortization	**20,489,769**	20,446,290
Depreciation and amortization	**1,953,498**	2,034,593
Selling, general, and administrative	**20,654,493**	20,073,538
	76,037,481	72,784,287
Income from operations	**1,704,343**	435,828
Interest income	**109,407**	71,142
Interest expense	**(99,317)**	(117,920)
Income before provision for income taxes	**1,714,433**	389,050
Provision for income taxes	**613,000**	129,000
Net income	**$ 1,101,433**	$ 260,050
Earnings per share	**$ 6.81**	$ 1.61
Weighted average number of shares outstanding	**161,758**	161,768
Dividends per share	**$ 2.00**	$ 2.00
Comprehensive income		
Net income	**$ 1,101,433**	$ 260,050
Unrealized gain on minimum pension and postretirement liability, net of taxes	**246,522**	122,757
Interest rate swap, net of taxes	**—**	10,588
Comprehensive income	**$ 1,347,955**	$ 393,395

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, 2018 and 2017

	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
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
Net income	**—**	**—**	**—**	**1,101,433**	**—**	**1,101,433**
Cash dividends	**—**	**—**	**—**	**(323,531)**	**—**	**(323,531)**
Unrealized gain on minimum pension and postretirement liability, net	**—**	**—**	**—**	**—**	**246,522**	**246,522**
Purchase and retirement of common stock	**(10)**	**(10)**	**(20)**	**(1,920)**	**—**	**(1,950)**
Balances at December 31, 2018	**161,758**	**$161,758**	**$3,055,429**	**$8,398,367**	**$(2,409,788)**	**$9,205,766**

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

AFA Protective Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,	2018	2017
Cash flows from operating activities		
Net income	**$ 1,101,433**	$ 260,050
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for accounts receivable allowances	**—**	100,000
Inventory reserves	**30,000**	(105,000)
Depreciation and amortization	**1,953,498**	2,034,593
Deferred income taxes	**(55,744)**	(182,795)
Foregiveness of promissary note	**(24,730)**	—
Gain on interest rate swap	**—**	(7,058)
Changes in operating assets and liabilities		
Accounts receivable	**(3,627,156)**	1,363,359
Inventories	**(195,158)**	(104,595)
Prepaid expenses and other current assets	**(180,764)**	442,851
Other assets	**19,067**	10,569
Accounts payable	**438,340**	(513,966)
Accrued expenses and other current liabilities	**104,705**	(787,009)
Deferred revenues	**1,041,656**	672,721
Accrued pension and postretirement benefits	**(5,231)**	(132,674)
Net cash provided by operating activities	**599,916**	3,051,046
Cash flows from investing activities		
Capital expenditures	**(1,219,526)**	(1,076,910)
Advanced deposit for computer servers	**(217,000)**	—
Acquisitions of alarm contracts	**(13,890)**	—
Net cash used in investing activities	**(1,450,416)**	(1,076,910)
Cash flows from financing activities		
Dividends paid	**(323,531)**	(323,536)
Purchase and retirement of common stock	**(1,950)**	—
Proceeds from borrowings under line of credit	**4,550,000**	1,000,000
Repayments of line of credit	**(1,950,000)**	(1,000,000)
Repayments of promissory note	**(40,070)**	(46,480)
Repayments of term loans	**(1,289,048)**	(1,289,041)
Net cash provided by (used in) financing activities	**945,401**	(1,659,057)
Net increase in cash and restricted cash	**94,901**	315,079
Cash and restricted cash		
Beginning of year	**1,238,315**	923,236
Ending of year	**$ 1,333,216**	$ 1,238,315
Supplemental disclosures of cash flow information		
Cash paid for		
Income taxes	**$ 491,990**	$ 602,798
Interest	**99,317**	117,920

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.

2. Summary of Significant Accounting Policies

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, 2018 and 2017, restricted cash amounted to $94,139 and $84,225, 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 net realizable value, with cost being determined on a standard cost basis. 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, 2018 and 2017.

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, 2018 and 2017, respectively.

Fair Value of Financial Instruments

In assessing the fair value of financial instruments at December 31, 2018 and 2017, 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, 2018 and 2017 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 was approximately $3,000 at December 31, 2018 and 2017.

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 was approximately $17,000 at December 31, 2018 and 2017.

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, 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. The Company periodically issues credit memos, which are recorded as a reduction in revenue and accounts receivable. These credits can relate to cancellations and price adjustments. Selling expenses in connection with obtaining new subscribers are expensed when incurred.

The percentage-of-completion method is used for the recognition of revenue from sales of security systems under long-term contracts in accordance with ASC 605-35 "Revenue Recognition—Construction Type and Production Type Contracts," and is based on the ratio of costs incurred to date on the contract to total estimated contract costs, after providing currently for all known or anticipated losses. Due to uncertainties inherent in the estimation process, it is possible that completion costs will be revised in the near term. Such revisions to costs and income are recognized in the period in which the revisions are determined.

Advertising Costs

Costs for advertising are expensed when incurred. Advertising expense was approximately $581,300 and $383,100 for the years ended December 31, 2018 and 2017, 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 approximately $1,812,600 and $1,188,400 at December 31, 2018 and 2017, respectively. Billings to this customer amounted to approximately $7,616,600 and $5,871,000 for the years ended December 31, 2018 and 2017, respectively.

New Accounting Pronouncements

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 which was recorded as of December 31, 2017.

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,	2018	2017
Trade receivables, including progress bills and amounts due on completed contracts	**$14,094,207**	$10,958,591
Costs and estimated earnings in excess of billings on uncompleted contracts	**2,502,371**	2,010,831
	16,596,578	12,969,422
Less: Allowance for doubtful accounts	**(280,000)**	(280,000)
	$16,316,578	$12,689,422

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

December 31,	2018	2017
Costs incurred on uncompleted contracts	**$ 6,834,588**	$ 5,009,637
Estimated earnings	**2,466,393**	1,859,609
	9,300,981	6,869,246
Less: Billings to date	**(7,069,515)**	(5,331,806)
	2,231,466	1,537,440
Costs and estimated earnings in excess of billings (included in accounts receivable)	**(2,502,371)**	(2,010,831)
Billings in excess of costs (included in accrued expenses and other current liabilities)	**$ (270,905)**	$(473,391)

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, 2018, 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, 2018	December 31, 2017
Land	—	**$ 242,000**	$ 242,000
Buildings and improvements	30 years	**4,679,235**	4,679,235
Equipment in subscribers' premises	10-25 years	**9,933,499**	10,494,494
Central station and other equipment	3-10 years	**3,057,060**	3,407,391
Installations in progress	*	**341,796**	287,096
		18,253,590	19,110,216
Less: Accumulated depreciation		**(12,545,705)**	(13,298,525)
		$ 5,707,885	$ 5,811,691

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

Depreciation expense was $1,323,332 and $1,398,318 for the years ended December 31, 2018 and 2017, respectively.

5. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill and intangible assets, net as of December 31, 2018 and December 31, 2017 consists of the following:

December 31,	2018	2017
Goodwill	**$ 441,301**	$ 441,301
Intangible assets	**3,675,012**	4,291,288
	$4,116,313	$4,732,589

The Company determined that there was no goodwill impairment in 2018 and 2017. Therefore, there have been no adjustments recorded to goodwill.

Intangible assets as of December 31, 2018 and December 31, 2017 are comprised of the following:

	Estimated Useful Lives	Remaining Average Useful Lives	2018 Gross Amount	2018 Accumulated Amortization	2018 Net
Alarm contracts and contract intangibles	5-15 years	8	**$7,256,439**	**$(3,599,844)**	**$3,656,595**
Non compete and other agreements	5 years	3	**32,500**	**(14,083)**	**18,417**
			$7,288,939	**$(3,613,927)**	**$3,675,012**

	Estimated Useful Lives	Remaining Average Useful Lives	2017 Gross Amount	2017 Accumulated Amortization	2017 Net
Alarm contracts and contract intangibles	5-15 years	9	$7,242,549	$(2,976,178)	$4,266,371
Non compete and other agreements	5 years	4	32,500	(7,583)	24,917
			$7,275,049	$(2,983,761)	$4,291,288

Amortization of intangible assets was $630,166 and $636,275 during the years ended December 31, 2018 and 2017, respectively. The Company determined that there was no impairment charge to intangible assets in 2018 and 2017. The changes in the carrying amount of intangible assets for the years ended December 31, 2018 and 2017 are as follows:

Balance at December 31, 2016	$4,927,563
Amortization	(636,275)
Balance at December 31, 2017	4,291,288
Addition resulting from acquisition	13,890
Amortization	(630,166)
Balance at December 31, 2018	**$3,675,012**

Future estimated amortization expense of intangible assets is as follows as of December 31, 2018:

Years Ending December 31,	
2019	$ 631,461
2020	509,094
2021	410,272
2022	356,105
2023	354,746
Thereafter	1,413,334
	$ 3,675,012

6. Long-Term Debt

Long-term debt consists of the following:

December 31,	2018	2017
Term loan	**$ 83,611**	$ 1,086,945
Second term loan	**1,095,238**	1,380,952
Line of credit	**2,600,000**	—
Promissory note	**59,150**	123,950
	3,837,999	2,591,847
Less: Current portion	**(3,004,815)**	(1,335,523)
	$ 833,184	$ 1,256,324

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, the Company obtained waivers from its lender for not meeting certain financial ratios. During 2018, the Company was in compliance with all covenants.

The Company has a $5,000,000 working capital line of credit with its primary bank. The line of credit is collateralized by a blanket U.C.C. filing against all its assets and expires July 31, 2019. On April 24, 2019 the Company amended its borrowing agreement to extend the expiration date to July 31, 2020. Interest is currently payable at the Prime Rate, which was 5.50% as of December 31, 2018. Use of the funds are unrestricted. The weighted average borrowing rate during 2018 was approximately 5.1%. As of December 31, 2018, the Company had $2,600,000 of outstanding borrowings.

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. Effective June 2018, pursuant to agreement between the Company and the seller, the outstanding note payable was reduced by $24,730 and the remaining monthly payments were lowered to $2,957.

Future maturities of long-term debt are as follows:

Years Ending December 31,	
2019	$3,004,815
2020	833,184
	$3,837,999

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, 2018 and 2017. An analysis of deferred revenues is as follows:

	Annual Service and Other Charges	Advance Service Charges	Total
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
Billings	**33,759,885**	**1,237,868**	**34,997,753**
Amortizations to income	**(32,778,585)**	**(1,177,512)**	**(33,956,097)**
Balances at December 31, 2018	**$ 5,553,088**	**$ 2,894,258**	**$ 8,447,346**

	Annual Service and Other Charges	Advance Service Charges	Total
Current	**$ 5,553,088**	**$ 1,017,700**	**$ 6,570,788**
Long-term	—	**1,876,558**	**1,876,558**
Balances at December 31, 2018	**$ 5,553,088**	**$ 2,894,258**	**$ 8,447,346**

8. Common Stock

Employee Stock Appreciation Rights

The Company periodically issues stock appreciation rights ("SARS") to employees which are only redeemable upon sale of the Company or change in its control, as defined. At December 31, 2018 and 2017, there are 12,250 SARS issued and outstanding. As the sale of the Company or change in its control, as defined, are contingent events, no compensation expense has been recorded until such events are probable.

9. Income Taxes

Components of the provision for income taxes are as follows:

December 31,	2018	2017
Current		
Federal	**$ 526,636**	$ 332,411
State and local	**247,760**	87,052
	774,396	419,463
Deferred		
Federal	**(119,953)**	(285,520)
State and local	**(41,443)**	(4,943)
	(161,396)	(290,463)
Total provision for income taxes	**$ 613,000**	$ 129,000

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

	2018	2017
Federal statutory rate	**21.0%**	34.0%
State and local income taxes, net of federal income tax benefit	**9.5**	17.2
Other items	**5.3**	(18.0)
Effective rate	**35.8%**	33.2%

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 liabilities 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,	2018	2017
Deferred Tax Assets		
Advance service revenue	**$ 797,777**	$ 778,577
Benefit plans	**716,508**	794,159
Other	**128,164**	119,265
Deferred tax assets	**1,642,449**	1,692,001
Deferred Tax Liabilities		
Intangibles	**(716,166)**	(856,862)
Depreciation	**(1,192,840)**	(1,160,040)
Other	**(77,317)**	(74,717)
Net deferred tax liabilities	**$ (343,874)**	$ (399,618)

The Company has not recorded any liabilities for uncertain tax positions as of December 31, 2018. With limited exceptions, the Company is no longer subjected to tax audits by taxing authorities for years through 2014 for all jurisdictions. Although the outcome of tax audits is always uncertain, the Company believes that its tax positions are all highly certain of being 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, 2018 and 2017, 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.

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, 2018 and 2017, respectively:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	**2018**	2017
Change in Benefit Obligation				
Benefit obligation at beginning of year	**$8,961,914**	$9,116,494	**$105,010**	$ 115,331
Service cost	**—**	—	**—**	—
Interest cost	**303,523**	352,834	**2,740**	3,529
Change in assumptions	**(676,923)**	204,765	**(4,633)**	1,650
Actuarial (gain) loss	**157,310**	(148,314)	**(2,756)**	(3,089)
Benefits paid	**(764,604)**	(563,865)	**(12,313)**	(12,411)
Benefit obligation at end of year	**7,981,220**	8,961,914	**88,048**	105,010
Change in Plan Assets				
Fair value of plan assets at beginning of year	**6,563,752**	6,473,222	**—**	—
Actual return on plan assets	**(280,399)**	354,395	**—**	—
Employer contribution	**300,000**	300,000	**12,313**	12,411
Benefits paid	**(764,604)**	(563,865)	**(12,313)**	(12,411)
Fair value of plan assets at end of year	**5,818,749**	6,563,752	**—**	—
Benefit obligations in excess of fair value	**$2,162,471**	$2,398,162	**$ 88,048**	$105,010

The change in actuarial assumptions for the pension benefits relates to the use of an updated mortality table and the change in discount rate in 2018 and 2017. The discount rate is updated annually for the determination of net periodic pension cost. In 2018, the Plan actuary reviewed and assessed a new mortality table, the scale MP-2017 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	
	2018	2017	**2018**	2017
Noncurrent pension liability	**$(2,162,471)**	$(2,398,162)	**$ —**	$ —
Current portion of liability for postretirement benefits included in accrued expenses and other current liabilities	**—**	—	**(14,600)**	(15,500)
Noncurrent liability for postretirement benefits	**—**	—	**(73,448)**	(89,510)
Net amount recognized	**$(2,162,471)**	$(2,398,162)	**$(88,048)**	$(105,010)

Amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Other Postretirement Benefits	
	2018	2017	**2018**	2017
Actuarial loss	**$3,445,504**	$3,787,139	**$28,399**	$38,937

The amounts shown above have been recognized in accumulated other comprehensive loss totaling $2,431,732 net of deferred income tax assets of $1,042,171 at December 31, 2018, and accumulated other comprehensive loss totaling $2,668,230, net of deferred income tax assets of $1,157,846, at December 31, 2017.

Amounts recorded in other comprehensive loss consist of:

	Pension Benefits			Other Postretirement Benefits		
	2018			**2018**		
	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	**$ 89,417**	**$ 26,825**	**$ 62,592**	**$ (7,388)**	**$(2,216)**	**$(5,172)**
Less: Amortization included in net periodic pension cost	**274,622**	**82,386**	**192,236**	**3,150**	**945**	**2,205**
Expense from lump sum settlements	**156,430**	**46,929**	**109,501**	**—**	**—**	**—**
Net change during the year	**$(341,635)**	**$(102,490)**	**$(239,145)**	**$(10,538)**	**$(3,161)**	**$(7,377)**

	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	
	2018	2017	**2018**	2017
Interest cost	**$ 303,523**	$ 352,834	**$2,740**	$3,529
Expected return on plan assets	**(328,631)**	(324,576)	**—**	—
Amortization of net losses	**274,622**	195,744	**3,150**	4,818
	$ 249,514	$ 224,002	**$5,890**	$8,347

Amounts recorded in accumulated other comprehensive loss expected to be recognized as a component of net periodic pension cost in 2019 are as follows:

	Pension Benefits	Other Postretirement Benefits
Actuarial loss	$266,345	$2,759

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	
	2018	2017	**2018**	2017
Discount rate used for net periodic cost	**3.48%**	3.97%	**3.01%**	3.28%
Discount rate used for benefit obligation	**4.14%**	3.48%	**3.74%**	3.01%
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 the health care cost trend rate at the end of 2018 was 6%, and was decreased to 5% for 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, 2018 and the net periodic pension and other postretirement benefits cost for 2018.

Plan Assets

Assets are primarily invested in the General Account of Principal Mutual Life Insurance Company, which provides the contract and cashout value of the account. The Company's defined benefit plan investment strategy is to invest the assets in a conservative portfolio that provides an acceptable return with low down-side risk. Preservation of capital is of primary importance. The funds are invested principally in guaranteed investment contracts which are reinvested in new contracts upon expiration and stock in the Principal Financial Group, Inc. Such investments are deemed Level 3 and NAV financial instruments, respectively, as defined in Note 11. Management believes that General Investment Account is a low-risk fixed income investment, consistent with the defined benefit plan's strategy. The breakdown of the cashout value of the assets as of December 31, 2018 and 2017 is as follows:

	2018	2017
General investment account	**92.2%**	89.4%
Stock separate account	**7.8%**	10.6%

Cash Flows

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

Years Ending December 31,	Pension Benefits	Other Postretirement Benefits
2019	$ 486,000	$14,600
2020	488,000	13,000
2021	503,000	11,500
2022	503,000	10,100
2023	517,000	8,800
Thereafter	2,611,000	29,500
	$5,108,000	$87,500

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, 2018 and 2017.

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 $553,774 and $499,955 for the years ended December 31, 2018 and 2017, 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, 2018	Level 1	Level 2	Level 3	NAV	Total
General investment account	$ —	$ —	**$5,363,594**	$ —	**$5,363,594**
Stock separate account	—	—	—	**455,154**	**455,154**
Interest rate swap	—	**19,720**	—	—	**19,720**

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

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, 2018 and 2017:

	2018	2017
Balances at January 1,	**$ 5,868,148**	$5,914,194
Deposits	**300,000**	300,000
Investment return	**(39,950)**	217,819
Benefit payments and credits	**(764,604)**	(563,865)
Balances at December 31,	**$ 5,363,594**	$5,868,148

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 2023 for approximate aggregate minimum rentals as follows:

Years Ending December 31,	
2019	$1,092,805
2020	953,064
2021	548,128
2022	111,664
2023	24,493
	$2,730,154

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 $2,301,000 and $2,254,000 for the years ended December 31, 2018 and 2017, 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 29, 2019, 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.

AFA Protective Systems, Inc. and Subsidiaries

Report of Independent Auditors

To the Board of Directors of
AFA Protective Systems, Inc.

We have audited the accompanying consolidated financial statements of AFA Protective Systems, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, 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, 2018 and 2017, 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

Melville, New York
April 29, 2019

AFA Protective Systems, Inc. and Subsidiaries

Selected Financial Data

For Each of the Five Years in the Period Ended December 31, 2018.

	2018	2017	2016	2015	2014
Sales	**$43,785,727**	$40,642,497	$43,372,292	$45,337,695	$48,330,463
Service revenues	**$33,956,097**	$32,577,618	$31,657,893	$31,016,879	$31,496,073
Net income	**$ 1,101,433**	$ 260,050	$ 325,714	$ 537,745	$ 1,532,257
Earnings per share	**$ 6.81**	$ 1.61	$ 2.01	$ 3.32	$ 9.47
Cash dividends per share	**$ 2.00**	$ 2.00	$ 2.00	$ 2.00	$ 2.00
Average number of shares outstanding	**161,758**	161,768	161,768	161,768	161,868
At year end:					
Deferred revenues	**$ 8,447,346**	$ 7,405,690	$ 6,732,969	$ 6,831,881	$ 8,099,817
Property, plant and equipment, net	**$ 5,707,885**	$ 5,811,691	$ 6,133,099	$ 7,026,045	$ 7,225,051
Total assets	**$34,031,000**	$30,485,170	$32,817,312	$31,656,080	$36,893,006
Stockholders' equity	**$ 9,205,766**	$ 8,183,292	$ 8,113,433	$ 8,386,557	$ 8,143,827
Number of shares outstanding	**161,758**	161,768	161,768	161,768	161,868
Book value per share	**$ 56.91**	$ 50.59	$ 50.15	$ 51.84	$ 50.31

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, 2018 and 2017 are as follows:

Year Ended December 31, 2018

Quarter		Bid	Dividends
1	High	**$283**	**$ .50**
	Low	**177**	
2	High	**177**	**.50**
	Low	**177**	
3	High	**185**	**.50**
	Low	**155**	
4	High	**184**	**.50**
	Low	**178**	
			$ 2.00

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

AFA Protective Systems, Inc. and Subsidiaries

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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

**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

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
Vice President and 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 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.

AFA Protective Systems, Inc.
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Syosset, NY 11791
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