

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

PROTECTION ONE INC

CIK: **916230** | IRS No.: **931063818** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-K** | Act: **34** | File No.: **000-24780** | Film No.: **96688388**
SIC: **7380** Miscellaneous business services

Mailing Address
3900 SW MURRAY BLVD
BEAVERTON OR 97005

Business Address
6011 BRISTOL PARKWAY
CULVER CITY CA 90230
3103386930

PROTECTION ONE ALARM MONITORING INC

CIK: **916310** | IRS No.: **931064579** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10-K** | Act: **34** | File No.: **001-12181** | Film No.: **96688389**
SIC: **7380** Miscellaneous business services

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 30, 1996

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

0-24780

(Commission File Number)

Protection One, Inc.

(Exact Name of Registrant as
Specified in its Charter)

Delaware

(State or Other Jurisdiction
of Incorporation or Organization)

93-1063818

(I.R.S. Employee Identification No.)

6011 Bristol Parkway,
Culver City, California 90230

(Address of Principal Executive
Offices, Including Zip Code)

(310) 338-6930

(Registrant's Telephone Number,
Including Area Code)

33-73002-01

(Commission File Number)

Protection One Alarm
Monitoring, Inc.

(Exact Name of Registrant as
Specified in its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

93-1065479

(I.R.S. Employee Identification No.)

6011 Bristol Parkway,
Culver City, California 90230

(Address of Principal Executive
Offices, Including Zip Code)

(310) 338-6930

(Registrant's Telephone Number,
Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
6 3/4% Convertible Senior Subordinated Notes Due 2003 of Protection One Alarm Monitoring, Inc. Guaranteed by Protection One, Inc.	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$0.01 per share of Protection One, Inc.

(Title of Class)

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period as that such registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the common stock of Protection One, Inc. held by nonaffiliates on December 27, 1996 (based on the last sale price of such shares) on the Nasdaq National Market was \$100,293,182.

As of December 27, 1996, Protection One, Inc. had outstanding 13,466,671 shares of Common Stock, par value \$0.01 per share. As of such date, Protection One Alarm Monitoring, Inc. had outstanding 110 shares of Common Stock, par value \$0.10 per share, all of which shares were owned by Protection

One, Inc. Protection One Alarm Monitoring, Inc. meets the conditions set forth in General Instructions J(1)(a) and (b) for Form 10-K and is therefore filing this form with the reduced disclosure format set forth therein.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of Protection One, Inc.'s Proxy Statement for the Annual Meeting of the Shareholders to be held on January 29, 1997 are incorporated by reference in Part III.

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INTRODUCTORY NOTE

COMPANY STRUCTURE. Unless the context otherwise indicates, all references in this Annual Report on Form 10-K to "the Company" or "Protection One" are to Protection One, Inc. ("POI"), and its direct wholly owned subsidiary, Protection One Alarm Monitoring, Inc. ("Monitoring"). Each of POI and Monitoring is sometimes referred to herein as "Registrant." POI's sole asset is, and POI operates solely through, its investment in Monitoring. Each of POI and Monitoring is a Delaware corporation organized in September 1991.

MRR AND EBITDA. As used in this Annual Report on Form 10-K, "MRR" means monthly recurring revenue (excluding revenues from patrol services) that the Company is entitled to receive under contracts in effect at the end of the period and "EBITDA" means earnings before interest, taxes, depreciation and amortization (excluding adjustments of purchase accounting accruals, losses or gains on disposition of fixed assets, loss on assets held for sale, loss on abandoned acquisitions and extraordinary items). MRR is a term commonly used in the security alarm industry as a measure of the size of a company, but not as a measure of profitability or performance, and does not include any allowance for future attrition or allowance for doubtful accounts. EBITDA is derived by adding to loss before income taxes, extraordinary items and cumulative effect of change in accounting method--net of taxes, the sum of (i) loss on sales of assets, (ii) loss on assets held for sale, (iii) amortization of debt issuance costs and original issue discount ("OID"), (iv) interest expense, net, (v) amortization of subscriber accounts and goodwill, (vi) depreciation expense, (vii) performance warrants compensation expense, (viii) adjustment of purchase accounting accruals, net and (ix) loss on acquisition terminations. EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles, should not be construed as an alternative to net income and is indicative neither of the Company's operating performance nor of cash flows available to fund the Company's cash needs. Items excluded from EBITDA are significant components in understanding and assessing the Company's financial performance. Management believes presentation of EBITDA enhances an understanding of the Company's financial condition, results of operations and cash flows because EBITDA is used by the Company to satisfy its debt service obligations and its capital expenditure and other operational needs as well as to provide funds for growth. In addition, EBITDA has been used by senior lenders and subordinated creditors and the investment community to determine the current borrowing capacity and to estimate the long-term value of companies with recurring cash flows from operations and net losses.

FORWARD-LOOKING STATEMENT. Certain matters discussed in Item 1, Business and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, included in this Annual Report on Form 10-K are "forward-looking statements" intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified as such because the context of the statement includes words such as the Company or its management "believes," "expects," "anticipates" or other words of similar import. Similarly, statements herein that describe the Company's objectives, plans or goals also are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Information with respect to these risks and uncertainties is contained in Item 5(d) of the Current Report on Form 8-K filed by POI and Monitoring dated September 20, 1996, which information is incorporated herein by reference. Stockholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Annual Report on Form 10-K and the Company undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

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PART I

The information contained below includes statements of the Company's or management's beliefs, expectations, hopes, goals and plans that are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a description of such risks and uncertainties, see the information set forth and incorporated by reference in the Introductory Note to this Annual Report on Form 10-K under the caption "Forward-Looking Statements," which information is incorporated in this Item by reference.

Protection One provides security alarm monitoring services for residential and small business subscribers. Based on its 196,531 subscribers as of September 30, 1996 (approximately 80% of which are residential), Protection One believes it is the fourth largest residential security alarm monitoring company in the United States and the largest in the seven western states of Arizona, California, Nevada, New Mexico, Oregon, Utah and Washington.

The Company's revenues consist primarily of recurring payments under written contracts for the monitoring and servicing of security systems and the provision of additional enhanced security services. For the year ended September 30, 1996 ("fiscal 1996"), monitoring and service revenues represented 89.7% of total revenues. The Company monitors digital signals arising from burglaries, fires and other events through security systems installed at subscribers' premises. Most of these signals are received and processed at the Company's state-of-the-art central monitoring station located in Portland, Oregon, which, as currently configured, has the capacity to support up to 250,000 subscribers. The Company also sells enhanced security services, patrol and alarm response services and alarm systems and provides local field repair services through 13 branch offices. Enhanced security services provided by the Company include, among others, two-way voice communication, supervised monitoring services, pager service, medical identification card, wireless backup service and extended service protection.

From the Company's inception, the Company's growth has come primarily through the acquisition of portfolios of subscriber accounts. Between September 30, 1991 and September 30, 1996, the Company acquired 117 subscriber portfolios, representing an aggregate of approximately 168,000 subscribers. Management believes that numerous acquisition opportunities continue to be available, and the Company is pursuing, and intends to continue to pursue, acquisitions of portfolios of subscriber accounts, some of which may be significant. Since the beginning of fiscal 1995, the Company has increased its emphasis on the Dealer Program, which has become a more significant source of growth than in prior years. In fiscal 1996, for instance, subscribers generated by the Dealer Program comprised 38% of the Company's total subscriber additions, compared to 17% in fiscal 1995. The Company plans to continue its emphasis on the Dealer Program because of the greater predictability, expected lower attrition and relatively lower cost of adding subscribers through its dealers as compared with acquisitions of larger portfolios of subscriber accounts. In addition, the Dealer Program generates a comparatively steady flow of new subscribers spread more evenly over the Company's branch offices, making it easier for the Company's branch operations to successfully assimilate these accounts. See "--The Dealer Program."

MARKET OVERVIEW AND TRENDS

The Company's target market consists of owners of single family residences and small businesses. According to the most recent U.S. Census Bureau data, there are over 10 million single-family residences and over 800,000 businesses with 100 or fewer employees in the seven states in which the Company operates.

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The security alarm industry is characterized by the following attributes:

- HIGH DEGREE OF FRAGMENTATION. The security alarm industry is currently comprised mostly of a large number of small providers of alarm systems and services. According to certain data concerning the residential security alarm market prepared in December 1995 by the J. P. Freeman Co. (the "Freeman Data"), there are approximately 12,700 security alarm companies nationally, and the Company estimates that approximately 3,000 operate in the seven states the Company currently serves. A survey published by SDM Magazine (formerly Security Distributing and Marketing) in May 1996 reported that in 1995, based upon information provided by the respondents, the 100 largest companies in the industry accounted for approximately 23% of alarm industry revenues. Based on its acquisition experience, the Company believes that many smaller alarm service companies, because of their size, have higher overhead expenses as a percentage of revenues than

the Company and lack access to capital on terms as attractive as those available to the Company. Due to a decline in security system installation prices over the last two years, security alarm companies participating in market growth are required today to make a substantial investment in each new subscriber. As a result, access to capital has become an increasingly important factor in a security alarm company's success.

- RAPID GROWTH AND LOW PENETRATION. The residential security alarm market is growing rapidly but is still characterized by a low level of market penetration. The Freeman Data indicate that residential security alarm monitoring revenues grew at a compounded annual rate of 9.9% between 1989 and 1995. The Company believes that several factors, including increased concern about crime and favorable demographic trends, have contributed to the increased demand for residential security alarm services. In addition, based on the Freeman Data, the Company estimates that at November 1995, the percentage of total households in the United States with monitored security alarm systems was approximately 10.9%.
- ADVANCES IN DIGITAL COMMUNICATIONS TECHNOLOGY. Prior to the development of digital communications technology, alarm monitoring required a dedicated telephone line, which made long-distance monitoring uneconomic. Consequently, in order to achieve a national or regional presence, alarm monitoring companies were required to maintain a large number of geographically dispersed monitoring stations. The development of digital communications technology eliminated the need for dedicated telephone lines, reducing the cost of monitoring services to the subscriber and permitting the monitoring of subscriber accounts over a wide geographic area from a central monitoring station. The elimination of local monitoring stations has decreased the cost of providing alarm monitoring services and has substantially increased the economies of scale for larger alarm service companies. In addition, the concurrent development of microprocessor-based control panels has substantially reduced the cost of the equipment available to subscribers in the residential and small business markets. Digital technology has also enabled equipment manufacturers to build more features into security systems (i.e., remote user interface, lighting and heating controls, user programming features.)
- INCREASING FALSE ALARMS. According to American City & County Magazine, police officers respond to more than 13.7 million alarm activations annually, 94% to 98% of which are false. The magazine reports that while alarm ownership is increasing by 11% annually, police department budgets are rising by 3% annually. Municipalities have responded to increasing false alarms by implementing alarm permit and fine systems and by limiting police response to private alarms until further verified by another response entity. The Company believes this trend will continue in the future.
- ENTRANCE OF TELECOMMUNICATIONS COMPANIES AND UTILITIES. Large, consumer oriented companies in industries facing deregulation, including long distance and local telephone companies and electric and gas utilities, have demonstrated an increased interest in the security alarm industry over the last several years. For instance, in October 1995, the Ameritech Corporation, a regional bell operating

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company, completed the acquisition of National Guardian Corp., and in December 1996, Western Resources, an electric utility, announced an agreement to acquire Westinghouse Security Systems. These two acquisitions are the largest in the security industry as of the date of this Annual Report on Form 10-K. The Company believes telecommunication and utility companies are interested in offering their customers additional services, including security services, as a means of enhancing customer loyalty and reducing future risk of losing customers in a fully competitive environment.

The Company believes that several factors contribute to a favorable market for security alarm services both generally in the United States and specifically in the western portion of the country:

- INCREASE IN CRIME RATES. According to the Uniform Crime Report published by the Federal Bureau of Investigation in 1996 (the "UCR"), between 1986 and 1995 the number of violent crimes reported in the United States increased by 20.8% and the total number of reported criminal offenses increased by 5.0%. The UCR also reported that although the number of reported criminal offenses decreased on a

nationwide basis from 1994 to 1995 by 0.9%, a property crime was committed in the United States in 1995 once every three seconds. In the states in which the Company operates, the property crime rate in 1995 was 28.1% higher than the nation as a whole, averaging approximately 5,885 property crimes per 100,000 residents. In California, Protection One's largest market, the 1995 property crime and overall crimes rates were 5.9% and 10.5%, respectively, above the national averages.

- HIGH LEVEL OF CONCERN ABOUT CRIME. As violent crime and the reporting of crime by the news media has increased, the perception by Americans that crime is a significant problem has also grown. In a December 1996 poll conducted by the Wall Street Journal, survey participants ranked reducing crime as one of the two highest priorities for Congress.
- PER CAPITA POLICE PROTECTION. The UCR reported that urban areas in the western region of the United States had the lowest ratio of law enforcement employees per capita of the four reporting regions in 1995, the most recent period for which a UCR has been published. According to population and law enforcement employee data presented in the UCR, in 1995 Los Angeles had 3.2 law enforcement employees per 1,000 citizens, while New York had 6.4 and Chicago had 5.7. The number of law enforcement employees per 1,000 citizens was 3.0 for Las Vegas, 2.8 for Phoenix, 2.8 for Portland, 3.0 for Salt Lake City, 2.3 for San Diego, 3.3 for San Francisco, 3.3 for Seattle and 2.4 for Tucson.
- DEMOGRAPHIC TRENDS. According to the United States Census Bureau, from 1989 to 1994 the rate of population growth in the states in which the Company operates was approximately twice the national average. According to the United States Department of Commerce, median income in California has been above the national average since 1989. Other recent trends that are favorable to the residential security alarm business include: the increase in women in the workforce resulting in more children being left at home alone and creating increased demand for security alarm services; the aging of the population in general, as older people tend to be more concerned about security; and the increase in people working at home, resulting in increasing demand for security services to protect home office equipment.
- INSURANCE DISCOUNTS. The increase in demand for security systems may also be attributable in part to the granting by insurance companies of discounts to homeowners who purchase alarm systems, and such discounts are typically greater when systems are monitored by a central station. In addition, insurance companies may require that businesses install an alarm system as a condition of insurance coverage.

BUSINESS STRATEGY

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The Company's strategy is to enhance its position as the largest residential security alarm monitoring company in the seven western states in which it operates by pursuing a balanced growth plan incorporating the Dealer Program, acquisitions of portfolios of subscribers, joint ventures and other strategic alliances and the sale of enhanced services and new alarm systems.

The Company's historical growth has enabled it to realize economies of scale in its central monitoring station, branch operations and corporate offices. As the number of subscribers monitored by the Company has increased, the fixed costs of the central monitoring station have been spread over a larger base, improving monitoring gross margins. Additionally, subscribers have been added in areas surrounding the Company's branch offices (i.e., increasing the density of the Company's subscriber base), allowing the Company to spread the branch office fixed costs over a larger base and increasing the productivity of field service technicians through more efficient scheduling and dispatching. Based on the Company's subscriber base at September 30, 1996, the Company services an average of over 15,000 subscribers per branch, which it believes to be among the highest averages in the security industry. Finally, the Company's revenue growth has exceeded the growth of its selling, general and administrative expenses, as the Company has realized management efficiencies and has spread additional revenue over its fixed corporate expenses. Such economies of scale have allowed the Company to add subscriber accounts at attractive purchase prices.

The principal components of the Company's business strategy are as follows:

- THE DEALER PROGRAM. The Company participates in the growth of the residential security alarm market by providing monitoring and field repair services to subscriber accounts generated on a monthly basis

through exclusive purchase agreements with independent alarm companies specializing in the sale and installation of new alarm systems. The Company added approximately 36,000 subscriber accounts through its Dealer Program in fiscal 1996, an increase of approximately 220% over the approximately 11,000 subscribers added through the Dealer Program in fiscal 1995. As of September 30, 1996, the Company had 45 active participants in the Dealer Program. The Company believes that participation in the Dealer Program will expand due to: (i) the Company's concentrated presence in areas surrounding its branch offices, which enhances the Company's name recognition and therefore the marketability of the Company's services; (ii) the Company's ability to obtain volume purchase discounts on security system equipment on behalf of its dealers; (iii) the Company's support services provided to dealers in the areas of administration, marketing and employee training; and (iv) the Company's ability to generate new customer leads through affinity programs and strategic alliances.

- ACQUISITIONS OF PORTFOLIOS OF SUBSCRIBER ACCOUNTS. The Company also grows by acquiring subscriber accounts from smaller alarm companies. These acquisitions represented approximately 51,000, 53,000 and 55,000 subscribers in fiscal 1994, 1995 and 1996, respectively. The Company typically acquires only the subscriber accounts, and not the facilities or liabilities, of such companies. As a result, the Company is able to obtain gross margins on the monitoring of acquired subscriber accounts that are similar to those the Company currently generates on the monitoring of its existing subscriber base. In addition, the Company institutes price increases over time for acquired subscriber accounts where the Company determines that the charges previously paid by those subscribers do not appropriately reflect the higher quality of services to be provided by the Company.
- JOINT VENTURES AND OTHER STRATEGIC ALLIANCES. To evaluate other potential sources of subscriber growth, the Company analyzes companies in other industries that may have an interest in entering the residential security alarm market. In addition, as mentioned above, certain companies in industries facing deregulation (such as the telecommunications and electric utility industries) have expressed to the Company an interest in offering security alarm services to develop more comprehensive relationships with their customers. The Company has entered into a co-branding arrangement with PacifiCorp, a Portland, Oregon-based utility holding company, and an affinity

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marketing relationship with Kaufman & Broad Home Corporation, the largest homebuilder in the Company's markets. In addition, the Company is discussing with certain other companies, and intends to continue to explore, additional joint ventures, co-marketing arrangements and other strategic alliances as a method of enhancing its subscriber growth and reducing its costs of generating new subscribers. As of the filing of this Annual Report on Form 10-K, the Company does not believe that any such joint venture or other strategic alliance is probable.

- SALE OF ENHANCED SERVICES; PATROL AND ALARM RESPONSE SERVICES. The Company seeks to increase revenues from current and newly added subscribers by actively marketing enhanced services to such subscribers. Such services include extended service protection, two-way voice communication, supervised monitoring services, pager service, medical identification card and wireless back-up. The Company also offers patrol and alarm response services, principally in southern California and Las Vegas.
- CONVERSIONS, NEW OWNERS AND NEW ALARM SYSTEMS. The Company seeks to convert subscribers from competitors' services to the Company's services, particularly in areas in which the Company's patrol and alarm response services enhance the Company's presence and name recognition. The Company also generates new subscriber accounts by signing monitoring contracts with new owners of residences previously occupied by Protection One subscribers and through sales of alarm systems by its own personnel.

The Company believes the successful execution of its growth strategy will lead to increases in subscribers and high margin monitoring revenues in excess of the growth in selling, general and administrative expenses. For instance, in fiscal 1996, monitoring and service revenues increased by 42.2% while selling, general and administrative expenses increased by 19.3%. (See "Selected Consolidated Financial Data" in Item 6.) In addition, the Company intends to continue to grow primarily in the areas surrounding its branch offices. As the density of its subscriber account base in such areas increases,

the Company expects to achieve further economies of scale in the scheduling and dispatching of field service technicians and alarm response officers.

THE DEALER PROGRAM

The dealers the Company selects for the Dealer Program are small alarm companies that specialize in selling and installing alarm systems for residential or small business subscribers, as well as specialized direct sales companies. Such companies often cannot profitably provide monitoring and repair services because they lack a sufficient number of subscribers to support the fixed operating expenses associated with such services. Also, many dealers do not have access to capital on attractive terms, a key factor that the Company believes is necessary to finance the investment required to grow rapidly. The Company enters into exclusive contracts with such dealers that provide for the purchase by the Company of the dealers' subscriber accounts on an ongoing basis. The dealers install alarm systems (which have a Protection One logo on the keypad), arrange for subscribers to enter into Protection One alarm monitoring agreements, and install Protection One yard signs and window decals. All of these subscribers are contacted individually by Company personnel, at the time of the purchase of the accounts from the dealers, to facilitate subscriber satisfaction and quality control. In addition, the Company requires dealers to evaluate the credit history of prospective new subscribers. The Company strives to provide quality, responsive field service to accounts purchased from dealers; the Company's principal competitors often subcontract the field service of subscriber accounts they purchase, which the Company believes increases attrition rates and may dissuade dealers from selling their subscriber accounts to such competitors.

The Company believes that its increased market share in the areas surrounding its branch offices has enhanced both the Company's ability to attract dealers and the ability of such dealers to attract new subscribers. To further attract high quality dealers, the Company enables them to obtain volume purchase

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discounts on security systems, coordinates cooperative dealer advertising, and provides administrative, marketing and employee training support services.

The Company's dealers employ a variety of marketing methods to identify and create sales leads, including telemarketing, direct mail and door-to-door solicitation. In addition, in certain markets, the Company has organized a cooperative television advertising effort through which dealers make voluntary contributions to an advertising fund in exchange for sales leads generated by such advertising. The majority of the Company's dealers sell and install a hard-wired, low-cost security system manufactured by Ademco, a subsidiary of Pittway Corporation. The typical system includes protection of the front and back doors of a home, one interior motion detection device, a central processing unit with the ability to communicate signals to the Company's central monitoring station, a siren, window decals and a lawn sign. This basic system often will be offered for little or no up-front price, but will be sold to a subscriber with additional equipment customized to a subscriber's specific needs. Such equipment add-ons encompass additional perimeter protection, fire protection devices (heat and smoke detectors), environmental protection devices (freeze sensors and water detectors), panic buttons and home automation devices (lighting or appliance controls). Typically, dealers sign subscribers to alarm monitoring contracts that include a bundled monthly charge for monitoring and extended service protection. Extended service protection covers the normal costs of repair of the security system by the Company's service technicians at the subscriber's premises during normal business hours after the expiration of the security system's initial warranty period. Although a customer may elect to sign an alarm monitoring contract that excludes extended service protection, few customers choose to do so, and the Company believes the bundling of monitoring and extended service protection provides additional value to subscribers and allows the Company to more efficiently provide field repair services. Dealers also sell the Company's enhanced services.

THE ACQUISITION PROGRAM

The Company also seeks to grow by acquiring portfolios of subscriber accounts from other alarm companies. The Company focuses on acquisitions that allow it to "infill" areas surrounding branch operations, which in turn leads to greater field maintenance, repair and patrol efficiencies. The Company estimates there are approximately 3,000 alarm companies in its markets, substantially all of which are independently owned and may, from time to time, become acquisition targets. The Company believes that it is an effective competitor in the acquisition market because of the substantial experience of its management in acquiring alarm companies and subscriber accounts, both as a result of the 117 acquisitions made by the Company between September 30, 1991

and September 30, 1996 and acquisitions made by members of management when they were employed by other alarm service companies. The Company also believes that, through its acquisition activities, it has developed a reputation in the alarm service industry as an active purchaser of subscriber accounts. Although most acquisitions add subscribers in the Company's existing market areas to achieve greater account density, the Company may also make acquisitions outside these areas.

Because the Company's primary consideration in making an acquisition is the amount of cash flow that can be derived from the MRR associated with the purchased accounts, the price paid by the Company is customarily based upon such MRR. To protect the Company against the loss of acquired accounts and to encourage the seller of such accounts to facilitate the transfer of subscribers, management typically requires the seller to provide guarantees against account cancellations for a period following the acquisition. The Company usually holds back from the seller a portion of the acquisition price, and has the contractual right to utilize such holdback to recapture a portion of the purchase price based on the lost MRR arising from the cancellation of acquired accounts.

In evaluating the quality of the accounts acquired, the Company relies primarily on management's knowledge of the industry, its due diligence procedures, its experience integrating accounts into the Company's operations, its assumptions as to attrition rates for the acquired accounts, and the representations and warranties of the sellers.

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THE ACQUISITION MANAGEMENT SYSTEM

The Company employs a comprehensive acquisition management system to identify, evaluate, and assimilate acquisitions of new subscriber accounts that includes three components: (i) the identification and negotiation stage; (ii) the due diligence stage; and (iii) the assimilation stage.

The Company actively seeks to identify prospective companies and dealers with targeted direct mail, trade magazine advertising, trade show participation, membership in key alarm industry trade organizations, and contacts through various prominent vendors and other industry participants. Management's extensive experience in identifying and negotiating previous acquisitions, and the Company's use of standard form agreements, help to facilitate the successful negotiation and execution of acquisitions in a timely manner.

The Company conducts an extensive pre-closing review and analysis of all facets of the seller's operations. The process includes a combination of selective field equipment inspections, individual review of substantially all of the subscriber contracts, an analysis of the rights and obligations under such contracts and other types of verification of the seller's operations.

The Company develops a specific assimilation program, in conjunction with the seller, for each acquisition. Assimilation efforts typically include a letter, approved by the Company, from the seller to its subscribers, explaining the sale and transition, followed by one or more letters and packages that include the Company's subscriber service brochures, field service and monitoring phone number stickers, yard signs and window decals. Thereafter, each new subscriber is contacted individually by telephone by a member of the Company's customer service group for the purpose of soliciting certain information and addressing the subscriber's questions or concerns. Finally, the subscriber receives a follow-up telephone call after six months and periodically thereafter. The acquisition management system's goal is to enhance new subscriber identification with Protection One as the service provider and to maintain subscriber satisfaction, and thus realize a higher portion of the potential value of the MRR generated by purchased subscriber accounts.

DESCRIPTION OF OPERATIONS

The Company's operations consist principally of alarm monitoring services, enhanced security services, field repair services and patrol and alarm response services.

ALARM MONITORING SERVICES

Subscriber Security Alarm Systems. Security alarm systems include devices installed at the subscribers' premises designed to detect or react to various occurrences or conditions, such as intrusion or the presence of fire or smoke. These devices are connected to a computerized control panel that communicates through telephone lines to a central monitoring station. Subscribers may also initiate an emergency signal from a device such as a "panic button." In most systems, control panels can identify the nature of the

alarm and the areas within a building where the sensor was activated, and can transmit that information to the central monitoring station.

The Central Monitoring Station. The Company monitors substantially all of its subscriber accounts at its central monitoring station in Portland, Oregon. In addition, in connection with certain acquisitions, the monitoring of certain subscriber accounts is subcontracted to independent monitoring companies to comply with certain state regulations. However, it is the Company's policy to transfer all monitoring services for its acquired subscriber accounts to its central monitoring station as soon as practicable.

The central monitoring station incorporates the use of advanced communications and computer systems that route incoming alarm signals and telephone calls to operators. Each operator sits before a

computer monitor that provides immediate information concerning the nature of the alarm signal, the subscriber whose alarm has been activated, and the premises on which such alarm is located. All telephone conversations are automatically recorded.

The central monitoring station has the capacity to monitor up to 250,000 subscribers and its capacity can be increased to 500,000 subscribers for a cost of approximately \$500,000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" included in Item 7. The equipment at the central monitoring station includes: sophisticated phone switching equipment; digital receivers that process the incoming signals; two computers with built-in redundancy; a network of "smart" computer terminals; a multi-channel, voice-activated recording system; uninterruptable power supply; and dual backup generators supplied by different fuel sources.

The Company's central monitoring station is listed by Underwriters Laboratories Inc. ("UL") as a protective signaling services station. UL specifications for central monitoring stations include building integrity, back-up systems, staffing and standard operating procedures. In many jurisdictions, applicable law requires that security alarms for certain buildings be monitored by UL-listed facilities. In addition, such listing is required by certain commercial subscribers' insurance companies as a condition to insurance coverage.

Operation of the Central Monitoring Station. Depending upon the type of service for which the subscriber has contracted, central monitoring station personnel respond to alarms by relaying information to the local fire or police departments, notifying the subscriber, or taking other appropriate action, such as dispatching alarm response personnel to the subscriber's premises where this service is available. The Company also provides a substantial number of subscribers with remote audio verification capability that enables the central monitoring station to listen and speak directly into the subscriber's premises in the event of an alarm activation. This feature allows the Company's personnel to verify that an emergency exists, to reassure the subscriber, and to expedite emergency response, even if the subscriber is unable to reach a telephone. Remote audio verification capability also assists the Company in quickly determining if the alarm was activated inadvertently, and thus whether a response is required.

The Company's central monitoring station operates 24 hours per day, seven days a week, including all holidays. Each operator receives training that includes familiarization with substantially every type of alarm system in the Company's subscriber base. This enables the operator to tell subscribers how to turn off their systems in the event of a false alarm, thus reducing the instances in which a field service person must be dispatched. Other non-emergency administrative signals are generated by low battery status, deactivation and reactivation of the alarm monitoring system, and test signals, and are processed automatically by computer.

Subscriber Contracts. The Company's alarm monitoring subscriber contracts generally have initial terms ranging from one to five years in duration, and provide for automatic renewal for a fixed period (typically one year) unless the Company or the subscriber elects to cancel the contract at the end of its term. The Company maintains an individual file with a signed copy of the contract for each of its subscribers and a computerized customer data base.

Substantially all of the Company's alarm monitoring agreements for the Company's residential subscribers (which constitute approximately 80% of the Company's total accounts) provide for subscriber payments of between \$20 and \$40 per month. The Company's commercial subscribers typically pay from \$25 to \$45 per month.

In the normal course of its business, the Company experiences customer cancellations of monitoring and related services as a result of subscribers relocating, the cancellation of purchased accounts in the process of assimilation into the Company's operations, unfavorable economic conditions, dissatisfaction with field maintenance services and other reasons. This attrition is offset to a certain extent by revenues from the sale of additional services to existing subscribers, price increases, the reconnection of premises

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previously occupied by subscribers, conversions of accounts previously monitored by other alarm companies and guarantees provided by the sellers of such accounts. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview -- Subscriber Attrition" included in Item 7.

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ENHANCED SECURITY SERVICES

Additional MRR is generated by the provision of enhanced security services that the Company offers to both its existing subscribers and in conjunction with the sales of new systems. These enhanced security services include:

Extended Service Protection, which covers the normal costs of repair and maintenance of the system during normal business hours, after the expiration of the initial warranty period.

Two-Way Voice Communication (Remote Audio Verification), which consists of the ability, in the event of an alarm activation, to listen and talk to persons at the monitored premises from the central monitoring station through speakers and microphones located within the premises. Among other things, such remote audio verification helps the Company to determine whether an alarm activation is a false alarm.

Supervised Monitoring Service, which allows the alarm system to send various types of signals containing information on the use of the system, such as what users armed or disarmed the system and at what time of the day. This information is supplied to subscribers for use in connection with the management of their households or businesses. Supervised monitoring service can also include a daily automatic test feature.

Pager Service, which provides the subscriber, at discounted rates, with standard pager services that also enable the Company to reach the subscriber in the event of an alarm activation.

Medical Identification Card, which enables medical personnel in the event of a medical emergency to access a subscriber's medical information (i.e., allergies, medications and family history), emergency contacts and doctors by calling the Company's central monitoring station.

Wireless Back-Up, which permits the alarm system to send signals over a cellular telephone or dedicated radio system, in the event that regular telephone service is interrupted.

FIELD REPAIR SERVICES

The Company believes one of the most effective ways of improving customer retention is the provision of quality, responsive field repair service by Company employees. Field service personnel are trained by the Company to provide repair services for the various types of security systems owned by the Company's subscribers. Field service personnel also inspect installations performed by the Company's installation subcontractors.

Repair services generate revenues primarily through billable field service calls and contractual payments under the Company's extended service program. The increasing density of the Company's subscriber base, as a result of the Company's continuing effort to infill areas surrounding its branch operations with new subscribers, permits more efficient scheduling and routing of field service technicians, and results in economies of scale at the branch level. The increased efficiency in scheduling and routing also allows the Company to provide faster field service response and support, which leads to a higher level of subscriber satisfaction.

ALARM RESPONSE AND PATROL SERVICES; PROPAC(R)

The Company offers its subscribers in southern California and Las Vegas a patrol and alarm response enhanced service in addition to its other security services, and employs over 100 alarm response and patrol officers operating in 25 regular patrol "beats," or designated neighborhoods to provide such service. These armed officers supplement the Company's alarm monitoring service by providing "alarm response service" to alarm system activations, "patrol service" consisting of routine patrol of subscribers' premises

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and neighborhoods and, in a few cases, "special watch" services, such as picking up mail and newspapers and increased surveillance when the subscriber is traveling. Alarm response service requires the Company's patrol officers to observe and report to police or other emergency agencies any potential criminal activity at a subscriber's home.

The Company has begun to offer a new bundle of services under the Propac(R) brand name in Las Vegas. Propac consists of alarm monitoring, field repair and alarm response services billed to the subscriber as a flat monthly charge regardless of the number of service calls or responses to alarm activations. The Company believes this service package is attractive to current and prospective subscribers because it (i) enables the Company to offer a reliable and timely alarm response service and (ii) eliminates subscriber uncertainty arising from "per response" charges. The Company intends to expand the offering of Propac to other areas within its markets over the next several years.

Patrol officers are dispatched by a 24-hour central radio dispatch office located in the local dispatch office. An alarm activation signal from a subscriber to alarm response service is automatically processed by computer at the central monitoring station in Portland and sent electronically to the local dispatch office. If the patrol officer dispatched observes potential criminal activity, the officer will report the activity to the dispatch office, which will in turn notify local law enforcement. The patrol officer will then maintain surveillance until law enforcement officers arrive. If a patrol officer does not detect criminal activity, he will report his conclusion to the dispatch office, which will cancel police response and thereby reduce the potential for a false alarm fine.

The Company also offers "dedicated" patrol service to homeowners' associations in selected markets, for which the Company provides a Company-marked car for patrol exclusively in such association's neighborhood. A significant percentage of the homeowners in such associations purchase the Company's alarm monitoring services.

The Company's patrol officers are subject to extensive pre-employment screening. Officers are subject to background checks and drug screening before being hired, and are required to have gun and baton permits and state and city guard licenses. Officers also must be licensed by the state to carry firearms and to provide patrol services. The Company's training program includes arrest procedures, criminal law, weaponless defense, firearms and baton usage, patrol tactics, and first-aid and CPR. This training program exceeds state-mandated training requirements. However, the provision of patrol and alarm response services subjects the Company to greater risks, relating to accidents or employee behavior, than other types of businesses.

The cost of providing patrol and alarm response services presently exceeds the revenues generated by such services. However, the Company believes that its ability to provide these services gives the Company a competitive advantage in marketing its monitoring services over alarm service companies

that do not have these capabilities. Additionally, the Company believes such services are an effective impediment to subscriber attrition.

The Company believes that demand for alarm response and patrol services is likely to increase as a result of a trend on the part of local police departments to limit their response to alarm activations and other factors that may lead to a decrease of police presence. Although the Company currently incurs a loss in its patrol and alarm response operations, the Company believes further demand for such services would allow the Company to increase subscriber density in its patrol routes, thereby reducing losses. In addition, the Company's provision of alarm response and patrol services is a sales method used to convert subscribers of other alarm monitoring companies that do not provide such services. To the extent that further demand develops for alarm response and patrol services, the Company believes its current presence will enable it to increase its conversions of competitors' subscribers to the Company's services.

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SALES AND MARKETING

Each of the Company's 13 branch offices includes sales representatives who sell new systems, equipment add-ons and upgrades and enhanced services to subscribers. Although the Company does not actively use outbound marketing methods to sell new security alarm systems, the Company receives in-bound telephone requests for such systems, primarily as a result of subscriber referrals, local crime activity and responses to yellow pages advertising. Such leads are pursued by one of the Company's sales representatives. Alarm sales are made at the subscriber's home, typically in a single visit by a sales representative. The Company markets additional services through both its account sales representatives and through a centralized telephone sales force in the Company's corporate offices.

The Company believes that the increasing density of the Company's subscriber base has increased the overall presence and visibility of the Company. Both in the Dealer Program and in Company sales, new subscribers are provided with highly visible reflective yard signs placed prominently in front of their homes or businesses. The presence of these signs develops greater awareness in a neighborhood and leads to more inbound and referral business. The Company encourages referrals from existing subscribers through an incentive program promoted through newsletters, billing inserts and employee contacts. Alarm response service, which uses marked patrol cars, also increases the Company's visibility.

COMPETITION

The security alarm industry is highly competitive and highly fragmented. The Company competes with major firms with substantial financial resources, including ADT Operations Inc.; the Protection Securities Division of Honeywell, Inc.; The National Guardian Corporation, a subsidiary of the Ameritech Corporation; Brinks Home Security Inc., a subsidiary of The Pittston Company; and Westinghouse Security, currently a division of Westinghouse Electric Corporation. Other alarm service companies have adopted a strategy similar to the Company's that entails the aggressive purchase of alarm monitoring accounts both through acquisitions of account portfolios and through dealer programs. Some of such competitors have greater financial resources than the Company, or may be willing to offer higher prices than the Company is prepared to offer to purchase subscriber accounts.

Competition in the security alarm industry is based primarily on reliability of equipment, market visibility, services offered, reputation for quality of service and price. The Company believes it competes effectively with other national, regional and local security alarm companies in the western United States because of the Company's reputation for reliable equipment and services, its concentrated presence in the areas surrounding its branch offices, its ability to bundle monitoring, maintenance and repair and enhanced services and its low cost structure.

REGULATORY MATTERS

A number of local governmental authorities have adopted or are considering various measures aimed at reducing the number of false alarms. Such measures include (i) subjecting alarm monitoring companies to fines or penalties for transmitting false alarms, (ii) licensing individual alarm systems and the revocation of such licenses following a specified number of false alarms, (iii) imposing fines on alarm subscribers for false alarms, (iv) imposing limitations on the number of times the police will respond to alarms at a particular location after a specified number of false alarms, and (v) requiring further verification of an alarm signal before the police will respond.

The Company's operations are subject to a variety of other laws, regulations and licensing requirements of federal, state, and local authorities. In certain jurisdictions, the Company is required to obtain licenses or permits, to comply with standards governing employee selection and training, and to meet certain standards in the conduct of its business. Many jurisdictions also require certain of the Company's employees to obtain licenses or permits. Those employees who serve as patrol officers are often

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subject to additional licensing requirements, including firearm licensing and training requirements in jurisdictions in which they carry firearms.

The alarm industry is also subject to requirements imposed by various insurance, approval, listing and standards organizations. Depending upon the type of subscriber served, the type of security service provided, and the requirements of the applicable local governmental jurisdiction, adherence to the requirements and standards of such organizations is mandatory in some instances and voluntary in others.

The Company's advertising and sales practices are regulated by both the Federal Trade Commission and state consumer protection laws. Such laws and regulations include restrictions on the manner in which the Company promotes the sale of its security alarm systems and the obligation of the Company to provide purchasers of its alarm systems with certain rescission rights. From time to time subscribers have submitted complaints to state and local authorities regarding the Company's sales and billing practices. Such complaints can result in regulatory action against the Company, including civil complaints seeking monetary and injunctive remedies.

The Company's alarm monitoring business utilizes telephone lines and radio frequencies to transmit alarm signals. The cost of telephone lines, and the type of equipment which may be used in telephone line transmission, are currently regulated by both federal and state governments. The operation and utilization of radio frequencies are regulated by the Federal Communications Commission and state public utilities commissions.

RISK MANAGEMENT

The nature of the services provided by the Company potentially exposes it to greater risks of liability for employee acts or omissions, or system failure, than may be inherent in other businesses. Substantially all of the Company's alarm monitoring agreements, and other agreements pursuant to which it sells its products and services contain provisions limiting liability to subscribers in an attempt to reduce this risk.

The Company's alarm response and patrol services require Company personnel to respond to emergencies that may entail risk of harm to such employees and to others. In most cities in which the Company provides such services, the Company's patrol officers carry firearms, which may increase such risk. Although the Company conducts extensive screening and training of its employees, the provision of patrol and alarm response service subjects it to greater risks related to accidents or employee behavior than other types of businesses.

The Company carries insurance of various types, including general liability and errors and omissions insurance. The loss experience of the Company, and other security service companies, may affect the availability and cost of such insurance. Certain of the Company's insurance policies, and the laws of some states, may limit or prohibit insurance coverage for punitive or certain other types of damages, or liability arising from gross negligence.

EMPLOYEES

At September 30, 1996, the Company employed 814 individuals on a full-time basis. Currently, none of the Company's employees is represented by a labor union or covered by a collective bargaining agreement. The Company believes that its relations with its employees are good.

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16 ITEM 2. FACILITIES

The Company's executive offices are located at 6011 Bristol Parkway,

Culver City, California, and its central monitoring station and administrative office are located in the Portland, Oregon metropolitan area at 3900 S.W. Murray Boulevard, Beaverton, Oregon. The offices at both locations are leased by the Company. The Culver City lease expires in 1998, but can be renewed by the Company for an additional term of five years. The Beaverton lease expires in 2005, but can be renewed by the Company for two additional terms of five years each. The Company also leases office space in Bullhead City, Arizona; Tempe, Arizona; Las Vegas, Nevada; Albuquerque, New Mexico; Salt Lake City, Utah; Kent, Washington; Riverside, California; Irvine, California; Bakersfield, California; San Leandro, California; San Diego, California; Santa Clara, California; and Van Nuys, California. The leases for these properties expire on various dates through 2005, and in some cases are renewable at the option of the Company.

ITEM 3. LEGAL PROCEEDINGS

Each of POI and Monitoring experiences routine litigation in the normal course of its business. Neither of the Registrants believes that any of such pending litigation will have a material adverse effect on the financial condition or results of operations of that Registrant.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

POI's Common Stock, par value \$.01 per share ("Common Stock"), has been traded on the Nasdaq National Market since September 29, 1994 under the symbol "ALRM." The following table sets forth the range of high and low closing sales prices of the Common Stock on the Nasdaq National Market for the periods indicated.

<TABLE>
<CAPTION>

	HIGH	LOW
	-----	---
<S>	<C>	<C>
September 29-30, 1994	\$6 5/8	\$6 7/32
Fiscal 1995:		
First Quarter	7	4 7/8
Second Quarter	6 7/8	5
Third Quarter	7	4 7/16
Fourth Quarter	9 3/4	6 1/8
Fiscal 1996:		
First Quarter	10 1/2	7 9/32
Second Quarter	14 9/16	9
Third Quarter	17 5/16	13 3/8
Fourth Quarter	16 5/8	12 3/8

</TABLE>

As of December 17, 1996, there were 37 holders of record of the Common Stock.

POI has never paid any cash dividends on the Common Stock and does not intend to pay any cash dividends in the foreseeable future. The Company intends to retain its cash flows for the operation and expansion of its business. Monitoring's \$100.0 million revolving credit facility (the "Revolving Credit Facility"), the indenture (the "Discount Note Indenture") pursuant to which Monitoring's 13 5/8% Senior Subordinated Discount Notes due 2005 (the "Discount Notes") were issued and the indenture (the "Convertible Note Indenture") pursuant to which Monitoring's 6 3/4% Convertible Senior Subordinated Notes due 2003 (the "Convertible Notes") were issued restrict POI's ability to declare or pay any dividend on, or make any other distribution in respect of, POI's capital stock.

Pursuant to the terms of the credit agreement (the "Credit Agreement") governing the Revolving Credit Facility, Monitoring is restricted from making dividend payments on its common stock. The Discount Note Indenture contains

restrictions on dividends paid by Monitoring that are similar to the restrictions summarized above. During each of fiscal 1994, 1995 and 1996, Monitoring paid dividends to POI of approximately \$0.7 million, \$0.7 million and \$0.2 million, respectively.

13 5/8% Senior Subordinated Discount Notes due 2005; Warrants to Purchase Common Stock. On May 17, 1995, Monitoring and POI issued and sold to Morgan Stanley & Co. Incorporated and Montgomery Securities (the "Placement Agents") \$166 million aggregate principle amount of 13 5/8% Senior Subordinated Discount Notes due 2005 (the "Original Discount Notes") and 531,200 warrants to purchase shares of Common Stock at a price of \$6.60 per share (the "1995 Warrants" and together with the Discount Notes, the "Units"). The Discount Notes are fully and unconditionally guaranteed by POI and, as of October 1996, Monitoring's subsidiary Security Holdings, Inc. ("Security Holdings"). POI and Monitoring received gross proceeds from the sale of the Units of approximately \$110 million. The Placement Agents resold the Units to 17 "qualified institutional buyers" (as such term is defined in Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), at prices not disclosed to POI or Monitoring. In November 1995, the Original Discount Notes were exchanged by the holders thereof for a like principal amount of 13 5/8% Senior Subordinated Discount Notes due 2005 also issued by

Monitoring, the principal terms of which were identical to those of the Original Discount Notes, which exchange was registered under the Securities Act pursuant to a Registration Statement on Form S-4 (Registration Statement No. 33-94684) declared effective by the Securities Exchange Commission on October 11, 1995.

Common Stock. On June 28, 1996, Monitoring acquired all of the outstanding capital stock of Metrol Security Services, Inc. a Delaware corporation ("Metrol" and such acquisition the "Metrol Acquisition"), from the Buckley Family Trust and the 10 other stockholders of Metrol. In consideration of such acquisition, Monitoring paid approximately \$15.7 million of Metrol's bank and third party indebtedness, paid to the Metrol stockholders an aggregate of approximately \$9.1 million in cash and delivered to the Metrol stockholders an aggregate of 417,885 shares of Common Stock. Of the cash portion of the purchase price, \$3.0 million was placed in an escrow account to secure the Metrol stockholders' obligation to indemnify Monitoring against certain liabilities and obligations relating to Metrol, including certain tax claims. Prior to the Metrol Acquisition, Metrol and its subsidiaries sold, installed, serviced and monitored security alarm systems and provided guard and patrol services to residential and commercial subscribers in Arizona and New Mexico.

On September 30, 1996, Monitoring acquired the security alarm accounts, accounts receivable, telephone lines and certain other assets of Sequence Systems, Inc., an Oregon corporation d/b/a Alltec ("Alltec" and such acquisition the "Alltec Acquisition"). In consideration of the Alltec Acquisition, Monitoring paid an aggregate of \$0.7 million of Alltec's indebtedness, assumed certain operating obligations of Alltec and delivered to Alltec an aggregate of 167,647 shares of Common Stock; in addition, Monitoring agreed to deliver to Alltec (i) up to an 24,765 additional shares of Common Stock in October 1997, depending upon the actual postclosing attrition rate for the acquired accounts, and (ii) up to 9,500 additional shares of Common Stock if Monitoring acquires from Alltec prior to January 30, 1997 certain subscriber accounts generated after the closing of the Alltec Acquisition.

On October 4, 1996, Monitoring acquired all of the outstanding shares of capital stock of Security Holdings (such acquisition the "Security Holdings Acquisition"). In consideration of the Security Holdings Acquisition, Monitoring delivered an aggregate of 482,903 shares of Common Stock to the four stockholders of Security Holdings. An additional 68,985 shares of Common Stock have been placed in an escrow account and will be delivered to the former shareholders of Security Holdings in June 1997 if the actual postclosing attrition rate of the Security Holdings alarm accounts does not exceed an assumed rate reflected in the purchase agreement for the acquisition. Prior to the Security Holdings Acquisition, Security Holdings was engaged in the business of providing security alarm monitoring services to residential and commercial subscribers located primarily in Washington and Oregon.

The offer and sale from time to time of the shares of Common Stock issued and issuable in connection with the above-described acquisitions by the holders of such shares has been registered under the Securities Act pursuant to two Registration Statements on Form S-3 (the "Registration Statements"). The Registration Statement relating to the shares of Common Stock issued in connection with the Metrol Acquisition (Registration No. 333-05849) was declared effective by the Securities and Exchange Commission (the "SEC") on July 1, 1996; the Registration Statement relating to the shares of Common Stock issued and issuable in connection with the Alltec and Security Holdings Acquisitions (Registration No. 333-13733) was declared effective by the SEC on October 16, 1996.

Exemptions; Underwriters. The offer, sale and distribution of the Units and the offer and sale of the shares of Common Stock to the stockholders of Metrol, the stockholders of Security Holdings and Alltec were not registered under the Securities Act in reliance on Section 4(2) thereof and Rule 506 (and, in the case of the distribution of the Units, Rule 144A) thereunder. The Units were distributed pursuant to an offering memorandum only to persons that were established pursuant to an investor letter to be qualified institutional buyers, and the Original Discount Notes were, and the 1995 Warrants are, subject to legends, stop transfer orders and other restrictions on transfer. Each person to whom such shares of Common Stock were issued (i) certified to POI that such person was an "accredited investor" as such term is defined

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in Rule 501 under the Securities Act and was otherwise able to bear the economic risk of the investment, (ii) was provided with registration statements and reports of, and access to other information concerning, the Company and (iii) warranted to POI that the shares were acquired for investment purposes and not with a view to distribution thereof, and agreed to restrictions on transfer of such securities pending the registration of such securities as described below. Except as set forth above with respect to the Units, no underwriter participated in the offer or sale of any of these securities and no underwriter's fees or commissions were paid.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (IN THOUSANDS, EXCEPT PER SHARE AND SUBSCRIBER DATA)

The selected consolidated financial data for fiscal 1992, 1993, 1994, 1995 and 1996 are derived from the consolidated financial statements of the Company that have been audited by Coopers & Lybrand L.L.P. The selected consolidated financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, and the related notes thereto, included elsewhere in this Annual Report on Form 10-K.

<TABLE>
<CAPTION>

	YEARS ENDED SEPTEMBER 30,				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Monitoring and service	\$12,408	\$14,850	\$27,109	\$46,308	\$65,860
Other	5,190	7,040	7,371	9,574	7,597
Total revenues	17,598	21,890	34,480	55,882	73,457
Cost of revenues:					
Monitoring and service	3,784	3,547	6,520	11,795	17,770
Other	3,013	3,914	5,804	7,424	6,323
Total cost of revenues	6,797	7,461	12,324	19,219	24,093
Gross profit	10,801	14,429	22,156	36,663	49,364
Selling, general and administrative expenses	10,239	12,084	10,380	12,409	14,809
Loss on acquisition terminations	--	--	26	208	--
Performance warrants compensation expense	--	--	4,504	--	--
Adjustment of purchase accounting accruals, net	--	(742)	--	--	--
Acquisition and transition expenses	--	--	--	3,090	4,219
Amortization of subscriber accounts and goodwill	2,525	3,864	8,772	15,460	23,275
Operating income (loss)	(1,963)	(777)	(1,526)	5,496	7,061
Interest expense, net(a)	1,941	1,564	6,932	7,626	4,885
Amortization of debt issuance cost and OID	49	185	891	6,797	17,812
Loss before income taxes, extraordinary items and					

cumulative effect of change in accounting method -- net of taxes	\$ (3,953)	\$ (2,526)	\$ (9,349)	\$ (9,432)	\$ (15,744)
Extraordinary item -- loss on early extinguishment of debt -- net (b)	--	(281)	(1,174)	(8,906)	--
Cumulative effect of change in accounting method -- net (c)	--	--	--	(1,955)	--
Net loss	\$ (3,953)	\$ (2,807)	\$ (7,660)	\$ (16,698)	\$ (15,497)
Loss attributable to common stock	\$ (5,033)	\$ (4,635)	\$ (9,161)	\$ (18,453)	\$ (15,745)
Loss per common share:					
Before extraordinary items and cumulative effect of change in accounting method	\$ (48.40)	\$ (41.86)	\$ (27.11)	\$ (0.87)	\$ (1.40)
Net loss per share	\$ (48.40)	\$ (44.57)	\$ (31.10)	\$ (2.12)	\$ (1.40)

</TABLE>

<TABLE>
<CAPTION>

	SEPTEMBER 30,				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
CONSOLIDATED BALANCE SHEET DATA:					
Working capital (deficit)	\$ (3,112)	\$ (1,632)	\$ (11,505)	\$ (9,159)	\$ (13,193)
Subscriber accounts and intangibles	31,561	37,204	114,620	162,239	257,354
Total assets	39,071	44,472	126,085	178,669	290,075
Long-term debt	20,923	23,591	86,842	146,023	225,650
Redeemable preferred stock	15,371	22,957	22,210	6,127	--
Total stockholders' equity (deficit)	(4,195)	(8,796)	(6,084)	6,347	28,827

</TABLE>

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<TABLE>
<CAPTION>

	YEARS ENDED SEPTEMBER 30,				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
OTHER DATA:					
MRR(d)	\$ 1,015	\$ 1,208	\$ 2,737	\$ 3,924	\$ 6,187
Number of subscribers at end of period	35,538	39,527	85,269	129,420	196,531
EBITDA(e)	\$ 1,043	\$ 3,609	\$ 12,294	\$ 22,247	\$ 32,181

</TABLE>

- (a) Includes interest expense to related parties of \$1.2 million in fiscal 1992 and \$0.3 million in fiscal 1993.
- (b) In connection with the early extinguishment of the \$50.0 million principal amount of the Company's 12% Senior Subordinated Notes, the Company incurred an extraordinary loss of approximately \$8.9 million, net of the effect of taxes of \$0.9 million, in fiscal 1995.
- (c) For information regarding this change, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Overview -- Recent Change in Accounting Method" included in Item 7 and Note 2 of Notes to Consolidated Financial Statements included in Item 8.
- (d) MRR means monthly recurring revenue (excluding revenues from patrol services) that the Company is entitled to receive under contracts in effect at the end of the period. MRR is a term commonly used in the security alarm industry as a measure of the size of a company, but not as a measure of profitability or performance, and does not include any allowance for future attrition or allowance for doubtful accounts. The Company does not have sufficient information as to the attrition of acquired subscriber accounts to predict the amount of acquired MRR that will be realized in future periods or the impact of the attrition of acquired accounts on the Company's overall rate of attrition.
- (e) EBITDA does not represent cash flow from operations as defined by generally accepted accounting principles, should not be construed as an alternative to net income and is indicative neither of the Company's operating performance nor of cash flows available to fund all the Company's cash needs. Items excluded from EBITDA are significant components in understanding and assessing the Company's financial performance. Management believes presentation of EBITDA enhances an understanding of the Company's financial condition, results of operations and cash flows because EBITDA is used by the Company to satisfy its debt service obligations and its capital

expenditure and other operational needs as well as to provide funds for growth. In addition, EBITDA has been used by senior lenders and subordinated creditors and the investment community to determine the current borrowing capacity and to estimate the long-term value of companies with recurring cash flows from operations and net losses. The following table provides a calculation of EBITDA for each of the periods presented above:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,				
	1992	1993	1994	1995	1996
<S>	<C>	<C>	<C>	<C>	<C>
Loss before income taxes, extraordinary items and cumulative effect of change in accounting method-net of taxes (a).....	\$ (3,953)	\$ (2,526)	\$ (9,349)	\$ (9,432)	\$ (15,744)
Plus:					
Loss on sales of assets	--	--	--	505	19
Loss on assets held for sale	--	--	--	--	89
Amortization of debt issuance costs and OID	49	185	891	6,797	17,812
Interest expense, net	1,941	1,564	6,932	7,626	4,885
Amortization of subscriber accounts and goodwill	2,525	3,864	8,772	15,460	23,275
Depreciation expense	481	522	518	1,083	1,845
Performance warrants compensation expense	--	--	4,504	--	--
Loss on acquisition terminations	--	--	26	208	--
EBITDA	\$ 1,043	\$ 3,609	\$ 12,294	\$ 22,247	\$ 32,181

</TABLE>

(a) Such amount reflects a reduction of \$0.7 million for adjustment of purchase accounting accruals, net in fiscal 1993.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained below includes statements of the Company's or management's beliefs, expectations, hopes, goals and plans that are forward-looking statements subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. For a description of such risks and uncertainties, see the information set forth and incorporated by reference in the Introductory Note to this Annual Report on Form 10-K under the caption "Forward-Looking Statements," which information is incorporated in this Item by reference. As described in "Introductory Note - Company Structure," POI's sole asset is, and all of POI's operations are conducted through, POI's investment in Monitoring; in addition, all of Monitoring's long-term debt has been guaranteed on a full and unconditional basis by POI. (See Note 8 of Notes to Consolidated Financial Statements included in Item 8 hereof.) Accordingly, no separate analysis of the results of operations of Monitoring has been included herein.

OVERVIEW

A majority of the Company's revenues are derived from recurring payments for the monitoring and servicing of security systems and additional security services, pursuant to contracts with initial terms ranging from one to five years. Service revenues are derived from payments under extended service contracts and for service calls performed on a time and materials basis. The remainder of the Company's revenues are derived from revenues from the sale and installation of security systems, add-ons and upgrades. Payment for monitoring services is typically required in advance. Monitoring and service revenues are recognized as the service is provided. Installation, add-on and upgrade revenue is recognized when the required work is completed. All direct installation costs, which include materials, labor and installation overhead, and selling and marketing costs are expensed in the period incurred.

Alarm monitoring services generate a significantly higher gross margin than do the other services provided by the Company. In fact, the cost of providing patrol and alarm response services exceeds the revenues generated by patrol services and, while sales and installation services contribute to the Company's gross profits, the total expenses associated with alarm system installations (including not only the direct costs of providing such services but also the expenses associated with the sales and marketing of alarm systems) also exceed the revenues generated by such services. The Company's strategy, however, is to provide patrol and alarm response services and to invest in

system sales and installation because the Company believes that such services and products contribute to the generation and retention of alarm monitoring subscribers.

Accounting Differences for Account Purchases and New Installations. A difference between the accounting treatment of the purchase of subscriber accounts and the accounting treatment of the generation of subscriber accounts through direct sales by the Company's sales force has a significant impact on the Company's results of operations. All direct external costs associated with purchases of subscriber accounts (either through the Dealer Program or through acquisitions of subscriber account portfolios) are capitalized and amortized over 10 years on a straight-line basis. Company personnel and related support and duplicate costs incurred solely in connection with subscriber account acquisitions and transitions are expensed as incurred. Other acquisition transition costs that reflect the Company's estimate of costs associated with incorporating the purchased subscriber accounts into its operations, including costs incurred by the Company in fulfilling the seller's pre-acquisition warranty repair service and other obligations to the acquired subscribers are capitalized and amortized as described above. In contrast, all of the Company's costs related to the sales, marketing and installation of new alarm monitoring systems generated by the Company's sales force are expensed in the period in which incurred.

The Company's purchase activity increased significantly in fiscal 1995 and 1996. In addition, beginning in fiscal 1994, the Company adopted a strategy of reducing its sales of new systems and related marketing expenditures. As a result of the difference in the methods by which such activities are

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accounted for, the combined effect of these two factors was to improve operating results during fiscal 1995 and 1996. The Company does not expect to further reduce sales of new systems by Company personnel and related marketing expenditures.

Change in Accounting Method. In the third quarter of fiscal 1995, the Company changed its method of accounting for certain subscriber account acquisition and transition costs, effective as of October 1, 1994. The acquisition and transition costs previously capitalized, which under the new method are expensed as incurred, are the Company personnel and related support and duplicate costs incurred solely in connection with acquisitions and transitions.

The new method is consistent with the guidelines published on July 21, 1995 by the Emerging Issue Task Force of the Financial Accounting Standards Board. See "--Accounting for Account Purchases and New Installations" and Note 2 of Notes to Consolidated Financial Statements included in Item 8.

As a result of the change in accounting policy: (i) in the quarter ended December 31, 1994, the Company recorded a non-cash, non-recurring charge of approximately \$2.0 million, which amount represents the cumulative effect (net of income tax benefit of approximately \$1.2 million) of the accounting change on prior years' results of operations; and (ii) the Company's statements of operations include an expense item captioned "acquisition and transition expenses". The expense was approximately \$3.1 million for fiscal 1995 and \$4.2 million for fiscal 1996 (in each case before associated tax benefit). The foregoing non-recurring charge and expenses are reflected in the financial information presented in this report. Such expenses will fluctuate from quarter to quarter based primarily on the amount of the Company's acquisition activity and its ability to require sellers to bear certain of such acquisition-related expenses.

Acquisition and Dealer Program Activity. As described in this Annual Report on Form 10-K, a significant portion of the Company's growth has been generated by the acquisition of portfolios of subscriber accounts from other alarm companies. Because the Company typically acquires only the subscriber accounts (and not the accounts receivable or other assets) of the sellers, the Company focuses its pre-acquisition review and analysis on the quality and stability of the subscriber accounts to verify the MRR represented by such accounts. If the subscriber accounts to be purchased pass such due diligence scrutiny, the Company then applies its monitoring costs to such MRR as a basis for determining the purchase price to be paid by the Company. To protect the Company against the loss of acquired accounts, the Company typically seeks to obtain from the seller a guarantee against the subscriber account cancellation for a period following the acquisition and the right to retain a portion of the acquisition price (a "purchase price holdback") against the MRR lost due to subscriber account cancellations during the specified period.

During fiscal 1996, the Company added (through acquisitions of 30 portfolios of subscriber accounts and through its Dealer Program) an aggregate

of approximately 91,000 subscriber accounts for a total purchase price of approximately \$119.6 million (including assumed liabilities of approximately \$27.2 million). The MRR of the acquired accounts ranged from approximately \$10.00 to \$40.00, with an average of \$31.20. Of the acquisitions completed during fiscal 1996 by the Company, the substantial majority included purchase price holdbacks in amounts that ranged from 5% to 20% of the initial purchase price (and averaged 13% of the initial purchase price) and attrition guarantees for periods that ranged from six months to 12 months (and averaged 8.8 months).

Two of the Company's acquisitions during fiscal 1996 involved portfolios representing MRR that exceeded 5% of the Company's MRR at the time of the acquisition, as set forth below:

<TABLE>
<CAPTION>

SELLER	NUMBER OF ACCOUNTS	AVERAGE MRR PER ACCOUNT	RANGE OF MRR PER ACCOUNT	PERCENTAGE OF RESIDENTIAL SUBSCRIBERS
<S>	<C>	<C>	<C>	<C>
InterCap Funds Joint Venture ...	9,975	\$27.39	\$18.00-45.00	80%
Metrol Security Services	18,500	27.03	\$15.00-80.00	70

</TABLE>

Subscriber Attrition. Subscriber attrition has a direct impact on the Company's results of operations, since it affects both the Company's revenues and its amortization expense. Attrition can be measured in terms of canceled subscriber accounts and in terms of decreased MRR resulting from canceled subscriber accounts. Gross subscriber attrition is defined by the Company for a particular period as a quotient, the numerator of which is equal to the number of subscribers who disconnect service during such period and the denominator of which is the average of the number of subscribers at each month end during such period. Net MRR attrition is defined by the Company for a particular period as a quotient, the numerator of which is an amount equal to gross MRR lost as the result of canceled subscriber accounts or services during such period, net of (i) MRR generated during such period by the sale of additional services and increases in rates to existing subscribers, (ii) MRR generated during such period from the connection of subscribers who move into premises previously occupied by subscribers and in which existing systems are installed and from conversion of accounts that were previously monitored by other companies to the Company's monitoring service (i.e., "reconnects" and "conversions"); and (iii) MRR attributable to canceled accounts that, by virtue of a purchase holdback are "put" back to the seller of such accounts during such period (i.e., "guaranteed accounts"); and the denominator of which is the average month-end MRR in effect during such period. While the Company reduces the gross MRR lost during a period by the amount of guaranteed accounts provided for in purchase agreements with sellers, in some cases the Company may not collect all or any of the reimbursement due it from the seller. The following table sets forth the Company's gross subscriber attrition and net MRR attrition for the periods indicated:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30		
	1994	1995	1996
<S>	<C>	<C>	<C>
Gross subscriber attrition	19.6%	19.3%	18.3%
Net MRR attrition	5.3	6.6	7.0

</TABLE>

MRR represents the monthly recurring revenue the Company is entitled to receive under subscriber contracts in effect at the end of the period. Included in MRR and the number of subscribers are amounts associated with subscribers with past due balances. It is the policy and practice of the Company that every effort be made to preserve the revenue stream associated with these contractual obligations. To this end, the Company actively works to both collect amounts owed and to retain the subscriber. In certain instances, this collection and evaluation period may exceed six months in length. When, in the judgment of the Company's collection personnel, all reasonable efforts have been made to collect balances due, subscribers are disconnected from the Company's monitoring center and are included in the calculation of gross subscriber and net MRR attrition.

Because the Company determines payments to sellers under purchase price holdbacks subsequent to the periods to which such holdbacks apply, and because holdbacks are not allocated to specific guaranteed accounts or specific fiscal

periods, the Company reduces gross MRR lost during a period by the amount of guaranteed accounts provided for in purchase agreements with sellers. However, in some cases, the Company has not retained the full amount of such holdback to which the Company is contractually entitled. If guaranteed accounts for which the Company was not compensated by the seller were taken into account in calculating net MRR attrition, net MRR attrition would have been higher in each period presented in the table above.

Generally, net MRR attrition is less than actual "net account attrition," which the Company defines as canceled subscriber accounts net of reconnects, conversions and guaranteed accounts. Estimated net account attrition is the basis upon which the Company determines the period over which it amortizes its

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investment in subscriber accounts. The Company amortizes such investment over 10 years based on current estimates. If actual subscriber account attrition were to exceed such estimated attrition, the Company could be required to amortize its investment in subscriber accounts over a shorter period, thus increasing amortization expense in the period in which such adjustment is made and in future periods. Since the majority of the subscriber accounts acquired by the Company since its formation were purchased recently, there can be no assurance that the actual attrition rates for such accounts will not be greater than the rate assumed by the Company. See " -- Results of Operations -- Fiscal 1996 Compared to Fiscal 1995 -- Amortization of subscriber accounts and goodwill" and Note 7 of Notes to Consolidated Financial Statements included in Item 8.

The table below sets forth the change in the Company's subscriber base over fiscal years 1994-1996:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Number of subscribers:			
Beginning of period	39,527	85,269	129,420
Additions through portfolio acquisitions and Dealer Program, net of sales of subscriber accounts	54,211	60,909	91,325
Installations by Company personnel	1,646	1,502	881
Reconnects and conversions	3,060	3,585	4,633
Gross subscriber attrition	(13,175)	(21,845)	(29,728)
	-----	-----	-----
End of period	85,269	129,420	196,531
	=====	=====	=====

</TABLE>

Impact of SFAS 121. In March of 1995, the Financial Accounting Standards Board issued SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," effective for financial statements for fiscal years beginning after December 15, 1995. This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company determines the value of its "Subscriber Accounts and Intangibles, net" based on the undiscounted cash flows from the MRR stream using the most recent historical attrition rate and aggregate MRR. At September 30, 1996, the undiscounted cash flows from the MRR stream were significantly in excess of the carrying value of "Subscriber Accounts and Intangibles, net." The Company does not anticipate a material impact on its financial statements resulting from the adoption of this standard.

Restrictions on Dividends. POI has never paid any cash dividends on the Common Stock and does not intend to pay any cash dividends in the foreseeable future. The Revolving Credit Facility and the Discount Note Indenture restrict POI's ability to declare or pay any dividend on, or make any other distribution in respect of, POI's capital stock. See Item 5 for information as to restrictions on dividends payable by Monitoring.

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The following table sets forth certain operating data as a percentage of total revenues for the periods indicated.

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Revenues:			
Monitoring and service	78.6%	82.9%	89.7%
Other	21.4	17.1	10.3
Total revenues	100.0%	100.0%	100.0%
Cost of revenues:			
Monitoring and service	18.9%	21.1%	24.2%
Other	16.8	13.3	8.6
Total cost of revenues	35.7	34.4	32.8
Gross profit	64.3	65.6	67.2
Selling, general and administrative expenses ..	30.1	22.2	20.2
Loss on acquisition terminations	0.1	0.4	--
Acquisition and transition expenses	--	5.5	5.7
Performance warrants compensation expense	13.1	--	--
Amortization of subscriber accounts and goodwill	25.4	27.7	31.7
Operating income (loss)	(4.4)%	9.8%	9.6%
	=====	=====	=====

</TABLE>

FISCAL 1996 COMPARED TO FISCAL 1995

Revenues for fiscal 1996 increased by \$17.6 million, or 31.5%, to \$73.5 million from \$55.9 million for fiscal 1995. Monitoring and service revenues increased by \$19.6 million, or 42.2%, substantially all of which resulted from the addition of approximately 55,000 subscribers from the acquisition of portfolios of subscriber accounts and approximately 36,000 subscribers from the Dealer Program. Other revenues declined by 20.6% to \$7.6 million in fiscal 1996 from \$9.6 million in fiscal 1995. The decline in other revenues reflects a decrease in installation revenues of \$1.4 million and a net decrease in patrol, alarm response and lock revenues of \$0.6 million. The decline in installation revenues resulted from the Company's continued emphasis on growth through acquisitions and the Dealer Program, rather than through sales of new alarm systems by Company personnel.

Cost of revenues for fiscal 1996 increased by \$4.9 million, or 25.4%, to \$24.1 million. Cost of revenues as a percentage of total revenues declined to 32.8% during fiscal 1996 from 34.4% during fiscal 1995. Monitoring and service expenses increased by \$6.0 million, or 50.7%, primarily due to increased activity at the Company's central monitoring station and field service branches due to a substantially larger subscriber base. Monitoring and service expenses as a percentage of monitoring and service revenues increased to 27.0% from 25.5% during fiscal 1995. Such increase reflects a higher level of staffing at the Company's central monitoring station as well as a lower MRR per subscriber in fiscal 1996, due primarily to the acquisition of portfolios of subscriber accounts that had a lower average MRR per subscriber than the Company's average. See "-- Overview -- Acquisition and Dealer Program Activity". Other expenses declined by \$1.1 million to \$6.3 million in fiscal 1996 from \$7.4 million in fiscal 1995, reflecting the decline in installation activities.

Gross profit for fiscal 1996 was \$49.4 million, which represents an increase of \$12.7 million, or 34.6%, over the \$36.7 million of gross profit recognized in fiscal 1995. Such increase was caused primarily by an increase in monitoring and service activities, which reflected the increase in the Company's subscriber base from 129,420 at September 30, 1995 to 196,531 at September 30, 1996. Gross profit as a percentage of total revenues was 67.2% for fiscal 1996 compared to 65.6% for fiscal 1995. This increase was caused primarily by an increase in monitoring and service revenues as a percentage of total revenues.

Selling, general and administrative expenses rose to \$14.8 million in fiscal 1996, an increase of \$2.4 million, or 19.3%, over such expenses in fiscal 1995, but declined as a percentage of total revenues from 22.2% in fiscal 1995 to 20.2% in fiscal 1996. Sales and marketing expense declined 29.5% (or \$0.8 million) and general and administrative expenses increased 32.2% (or \$3.2

million). Sales and marketing expenses declined due to the Company's continued emphasis on growth through acquisitions and the Dealer Program, rather than through sales of new alarm systems by Company personnel. The increase in general and administrative expenses was caused by increases in corporate and branch overhead expenses incurred to supervise a larger employee base associated with a larger subscriber base. Advertising and marketing expenses are expensed as incurred and comprised 1% of revenues in each of fiscal 1995 and 1996. The provision for doubtful accounts increased to \$2.6 million in fiscal 1996 from \$1.8 million in fiscal 1995, reflecting the 51.8% increase in the Company's average subscriber base from fiscal 1995 to fiscal 1996.

Acquisition and transition expenses for fiscal 1996 totaled \$4.2 million compared to \$3.1 million for fiscal 1995. Such expenses will fluctuate from quarter to quarter based primarily on the Company's acquisition activity and the extent sellers bear certain of the related expenses.

Amortization of subscriber accounts and goodwill for fiscal 1996 increased by \$7.8 million, or 50.6%, to \$23.3 million. This increase is the result of the Company's purchase of approximately 91,000 subscriber accounts through the acquisition of portfolios of subscriber accounts and the Dealer Program in fiscal 1996.

Operating income for fiscal 1996 was \$7.1 million, compared to operating income of \$5.5 million in fiscal 1995. Operating income as a percentage of revenue was 9.6% in fiscal 1996, compared to 9.8% in fiscal 1995.

Interest expense, net and amortization of debt issuance costs and OID increased by \$8.3 million, or 57.4%, to \$22.7 million in fiscal 1996. This increase reflects the Company's continued use of debt to finance a substantial portion of its subscriber account growth, including the issuance of the Discount Notes in May 1995. See "-- Liquidity and Capital Resources."

Balance sheet data. At September 30, 1996, the Company's working capital deficit was \$13.2 million, as compared to a working capital deficit of \$9.2 million at September 30, 1995. Significant changes in working capital items include a \$6.9 million increase in accounts receivable offset by increases in purchase holdbacks (\$5.0 million), acquisition and transition costs (\$3.4 million) and deferred revenue (\$4.7 million). Subscriber accounts and intangibles, net increased to \$257.4 million at September 30, 1996 from \$162.2 million at September 30, 1995. This increase of \$95.1 million, or 58.6%, was caused by the acquisition of new subscribers, net of amortization expense. Total stockholders' equity increased to \$28.8 million at September 30, 1996 from \$6.3 million at September 30, 1995 reflecting the conversion of redeemable preferred stock to common stock, the issuance of common stock in the Company's February 1996 public offering, the issuance of \$6.0 million of common stock in the acquisition of Metrol Security Services and a loss of \$15.7 million for fiscal 1996.

FISCAL 1995 COMPARED TO FISCAL 1994

Revenues for fiscal 1995 increased by \$21.4 million, or 62.1%, to \$55.9 million from \$34.5 million for fiscal 1994. Monitoring and service revenues increased by \$19.2 million, or 70.8%, a substantial majority of which resulted from the addition of approximately 53,000 subscribers from the acquisition of portfolios of subscriber accounts and approximately 10,000 subscribers from the Dealer Program. The sale of enhanced services and new subscribers generated by Company personnel comprised the remainder of revenue growth. Other revenue increased by 29.9% to approximately \$9.6 million in fiscal 1995 from \$7.4 million in fiscal 1994. The increase in other revenue was generated by an increase in lock revenue of \$1.4 million, as fiscal 1995 included twelve months of lock revenues and fiscal 1994 included two months of such revenues and by an increase in patrol and alarm response revenues of 18.9%, or \$0.4 million, offset

by a decline in installation revenues of \$1.1 million. The decline in installation revenues resulted from the Company's increased emphasis on growth through acquisitions and the Dealer Program, rather than through sales of new alarm systems by Company personnel. In addition, the Company recognized \$1.6 million of other revenue arising from the sales of security alarm equipment received from a vendor.

Cost of revenues for fiscal 1995 increased by \$6.9 million, or 56.0%, to \$19.2 million. Cost of revenues as a percentage of total revenues declined to 34.4% during fiscal 1995 from 35.7% during fiscal 1994. Monitoring and service expenses increased by \$5.3 million, or 80.9%, primarily due to increased activity at the Company's central monitoring station and field service branches due to a substantially larger subscriber base. Monitoring and service expenses as a percentage of monitoring and service revenues increased to 25.5% from 24.1% during fiscal 1994. Such increase reflects a higher level of staffing at the

Company's central monitoring station. MRR per subscriber was lower in fiscal 1995, due primarily to the acquisition of portfolios of subscriber accounts that had a lower average MRR per subscriber than the Company's average. See "-- Overview -- Acquisition and Dealer Program Activity". Other expenses increased by \$1.6 million, or 27.9%, to \$7.4 million in fiscal 1995 from \$5.8 million in fiscal 1994. The increase primarily was caused by a 32.8% increase in patrol and alarm response expenses, or approximately \$0.8 million, and an increase in lock expenses of approximately \$0.8 million.

Gross profit for fiscal 1995 was \$36.7 million, an increase of \$14.5 million, or 65.5%, over the \$22.2 million of gross profit in fiscal 1994. Such increase was caused primarily by an increase in monitoring and service activities, which paralleled the increase in the Company's subscriber base from 85,269 at September 30, 1994 to 129,420 at September 30, 1995. Gross profit as a percentage of total revenues was 65.6% for fiscal 1995 compared to 64.3% for fiscal 1994. This increase was caused primarily by an increase in monitoring and service revenues as a percentage of total revenues.

Selling, general and administrative expenses rose to \$12.4 million in fiscal 1995, which represents an increase of \$2.0 million, or 19.6%, over selling, general and administrative expenses in fiscal 1994. Such figure as a percentage of total revenues declined from 30.1% in fiscal 1994 to 22.2% in fiscal 1995, due primarily to a decline in sales and marketing expense of 34.0% (or \$1.3 million) and an increase of 52.1% (or \$3.4 million) in general and administrative expenses. Sales and marketing expenses declined due to the Company's increased emphasis on growth through acquisitions and the Dealer Program, rather than through sales of new alarm systems by Company personnel. The increase in general and administrative expenses was caused by increases in corporate and branch overhead expenses incurred to supervise a larger employee base associated with a larger subscriber base. The percentage increase in general and administrative expenses from fiscal 1994 to fiscal 1995 was lower than the 62.1% increase in total revenues between the comparable periods, reflecting economies of scale and efficiencies realized in the Company's branch and corporate offices. Advertising and marketing expenses are expensed as incurred and comprised 1% of revenues in each of fiscal 1994 and 1995. The provision for doubtful accounts increased to approximately \$1.8 million in fiscal 1995 from \$0.8 million in fiscal 1994, reflecting an increase in the Company's average subscriber base of approximately 72.1% and the Company's willingness to work with subscribers experiencing credit difficulties in order to maintain long-term subscriber relationships.

Acquisition and transition expenses for fiscal 1995 totaled \$3.1 million, reflecting the Company's change in its method of accounting for certain expenses, effective as of October 1, 1994. See "-- Overview -- Recent Change in Accounting Method." Had the Company enacted the change in accounting method on October 1, 1993, acquisition and transition expenses would have been \$2.4 million for fiscal 1994. Such expenses will fluctuate from quarter to quarter based primarily on the amount of the Company's acquisition activity and its ability to require sellers to bear certain of such acquisition-related expenses.

Amortization of subscriber accounts and goodwill for fiscal 1995 increased by \$6.7 million, or 76.2%, to \$15.5 million. This increase is the result of the Company's purchase of approximately 63,000 subscriber accounts through the acquisition of portfolios of subscriber accounts and through the Dealer Program in fiscal 1995.

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Operating income for fiscal 1995 was \$5.7 million, compared to an operating loss of \$1.5 million in fiscal 1994. The operating loss in fiscal 1994 included a non-recurring charge for performance warrants compensation expense of \$4.5 million. Operating income as a percentage of revenue was 9.8% in fiscal 1995, compared to 8.7% in fiscal 1994 (excluding the non-recurring charge). Comparisons of this figure for fiscal 1995 and 1994 are impacted by the change in accounting method adopted by the Company effective as of the beginning of fiscal 1995. The increase in such figure over fiscal 1994 reflects the increase in gross profit and efficiencies realized in branch office and corporate general and administrative expenses noted above.

Interest expense, net and amortization of debt issuance costs and OID increased by \$6.6 million, or 84.4%, to \$14.4 million in fiscal 1995, reflecting the Company's use of debt to finance a substantial portion of its subscriber account growth.

Extraordinary item. During fiscal 1995, the Company recorded an extraordinary charge of \$8.9 million (net of a tax benefit of \$0.9 million) due to the loss on early extinguishment of debt. The loss, which arose from the purchase of the Company's \$50.0 million principal amount of 12% Senior Subordinated Notes issued in November 1993, included the write-off of the remaining unamortized portions of the OID (\$4.1 million) and the capitalized

fees and expenses associated with the November 1993 note offering (\$3.0 million), a 5% premium paid in the tender offer for the notes (\$2.5 million) and certain fees incurred in the tender offer.

Balance sheet data. At September 30, 1995, the Company's working capital deficit was \$9.2 million, as compared to a working capital deficit of \$11.5 million at September 30, 1994. The decline in the working capital deficit was caused primarily by an increase in accounts receivable and inventory and a decline in accrued interest. Subscriber accounts and intangibles, net increased to \$162.2 million at September 30, 1995 from \$114.6 million at September 30, 1994. This increase of \$47.6 million, or 41.6%, was caused by the addition of new subscribers, net of amortization expense. Total stockholders' equity (deficit) increased to \$6.3 million at September 30, 1995 from a deficit of \$6.1 million at September 30, 1994. The increase in such figure reflects the conversion of redeemable preferred stock to common stock and the issuance of common stock in the Company's initial public offering (the "Initial Public Offering") completed in October 1994, offset by a loss of \$18.5 million for fiscal 1995.

LIQUIDITY AND CAPITAL RESOURCES

General. Since September 1991, the Company has financed its operations and growth from a combination of capital raised through debt and equity offerings and, to a lesser extent, cash flow from operations. During the fiscal 1994-1996 period, the Company completed three long-term debt offerings, including the issuances of \$50.0 million principal amount of Senior Subordinated Notes issued in November 1993 (which notes were retired in fiscal 1995), \$166.0 million principal amount (\$105.2 million net proceeds) of Discount Notes issued in May 1995 and \$103.5 million principal amount of Convertible Notes issued in September and October 1996; the Company also has utilized borrowings under its Revolving Credit Facility to fund acquisitions and the Dealer Program. For additional information with respect to this indebtedness, see Note 8 of Notes to Consolidated Financial Statements included in Item 8. In September 1994, the Company raised \$18.3 million in net proceeds from its Initial Public Offering of Common Stock and in February 1996, the Company raised \$23.1 million in net proceeds from another public offering of the Common Stock. The Company intends to use cash flows from operations, together with borrowings under the Revolving Credit Facility, to finance the addition of subscriber accounts and capital expenditures. Although the Company anticipates that it will continue to acquire portfolios of subscriber accounts, the Company cannot estimate the number, size or timing of such acquisitions. Depending on such factors, additional funds beyond those currently available to the Company may be required to continue the acquisition program and to finance the Dealer Program, and there can be no assurance that the Company will be able to obtain such financing on acceptable terms or at all.

On a long-term basis, the Company has several material commitments. Borrowings under the Revolving Credit Facility were approximately \$5.3 million at September 30, 1996 and could be as high as \$100.0 million through the period ended January 3, 2000, the current maturity date of the Revolving Credit Facility. While the Company believes it will be able to obtain further extensions of the maturity date of the Revolving Credit Facility from time to time, or will be able to refinance the Revolving Credit Facility prior to its maturity date, there can be no assurance that the Company will be able to do so. The Convertible Notes require the Company to make semi-annual cash interest payments of \$3.5 million, or \$7.0 million annually. The Discount Notes require the Company to begin to make interest payments on such obligations on December 31, 1998. Based on an interest rate of 13 5/8%, such payment will be approximately \$11.3 million semiannually, or approximately \$22.6 million on an annual basis. As a result, a substantial portion of the Company's operating cash flows will be required to make interest payments on the Convertible Notes and the Discount Notes, and there can be no assurance that the Company's cash flow from operations will be sufficient to meet such obligations, or that there will be sufficient funds available to the Company after such interest payments to meet other debt, capital expenditure and operational obligations. The \$103.5 million principal amount of the Convertible Notes matures on September 15, 2003, although they may be converted into the Common Stock at any time prior to such date. The \$166.0 million principal amount of the Discount Notes matures on September 30, 2005. There can be no assurance that the Company will have the cash necessary to repay either the Convertible Notes or the Discount Notes at maturity or will be able to refinance such obligations. The Company maintains a \$2.0 million letter of credit sub-facility under its Revolving Credit Facility, and has extended an approximately \$0.8 million letter of credit to a seller, scheduled payments under which are approximately \$0.4 million during each of fiscal 1997 and fiscal 1998.

The Company has had, and expects to continue to have, a working capital deficit. For fiscal 1994, 1995 and 1996, the Company had a working capital

deficit of \$11.5 million, \$9.2 million and \$13.2 million, respectively. There are two principal categories of current liabilities that cause the Company to have a working capital deficit: (i) "purchase holdbacks," which represent the portion of the aggregate acquisition cost of subscriber accounts retained by the Company to offset lost MRR arising from the cancellation of acquired accounts; and (ii) "deferred revenue," which represents billings and cash collections received by the Company from its subscriber base in advance of performance of services. Both purchase holdbacks and deferred revenues are recorded as a current liability on the Company's balance sheet.

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For fiscal 1996, the Company's net cash provided by operating activities was \$24.1 million, compared to \$8.5 million net cash provided by operating activities for fiscal 1995. During fiscal 1994, the Company's net cash provided by operating activities was \$7.4 million.

For fiscal 1996, the Company's net cash used in investing activities was \$103.5 million, compared to \$63.5 million during fiscal 1995, primarily as a result of the acquisition of subscriber accounts, including the purchases of subscriber accounts from InterCap Funds Joint Venture and Metrol Security Services, as well as the Dealer Program. During fiscal 1994, the Company's net cash used in investing activities was \$66.8 million, primarily as a result of acquisitions.

During fiscal 1996, the Company's net cash provided by financing activities was \$83.6 million, compared to \$55.2 million in fiscal 1995. During fiscal 1994, the Company's net cash provided by financing activities was \$59.1 million. Financing activities are comprised of those debt and equity issuances discussed above.

The Discount Note Indenture, the Convertible Note Indenture and the Revolving Credit Facility agreements contain certain restrictions on transfers of funds, such as dividends, loans and advances, by the Company. The Company believes that such restrictions have not had and will not have a significant impact on the Company's ability to meet its cash obligations. The Company does not anticipate payment of dividends on Common Stock.

Capital Expenditures. The Company anticipates making capital expenditures in fiscal 1997 of approximately \$3.0 million for routine replacement and upgrading of vehicles, computers and other capital items. In addition, the Company anticipates making capital expenditures of approximately \$1.0 million to complete a project to upgrade its monitoring and administrative software. The Company believes the installation of the new computer software will create efficiencies Company-wide, and particularly in the customer service, data entry and field maintenance and repair functions. The Company believes the complete implementation of the new software will not occur until the end of fiscal 1997. In addition, the Company anticipates making capital expenditures of approximately \$500,000 in fiscal 1997 and 1998 to expand the capacity of the central monitoring station to approximately 500,000 subscribers. The Company believes cash flows from operations, together with borrowing under the Revolving Credit Facility, will be sufficient to fund the Company's capital expenditures in fiscal 1997.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

POI's consolidated financial statements and supplementary data, together with the report of Coopers and Lybrand L.L.P., independent auditors, are included elsewhere herein. See "Index to Financial Statements" immediately preceding page F-1. Separate audited financial statements for Monitoring have not been provided because the Company does not believe such financial statements are material to investors. See "Introductory Note- Company Structure" and the introductory note to Item 7 above. The Company includes, however, in the footnotes to the consolidated financial statements summary financial information concerning Monitoring. See Note 16 to Notes to Consolidated Financial Statements included in Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS

Reference is made to POI's Proxy Statement dated December 30, 1996 (the "Proxy Statement") and to the information appearing therein under the captions "I. Election of Directors- Nominees for Election," "Executive Officers; Executive Compensation and Related Information- Executive Officers" and "Security Ownership of Management- Section 16(a) Beneficial Ownership Reporting Compliance."

ITEM 11. EXECUTIVE COMPENSATION

There is hereby incorporated by reference the information appearing in the Proxy Statement under the captions "I. Election of Directors- Compensation of Directors" and "Executive Officers; Executive Compensation and Related Information- Executive Compensation and Related Information."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There is hereby incorporated by reference the information appearing in the Proxy Statement under the caption "Security Ownership of Management" and "Security Ownership of Certain Beneficial Owners."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There is hereby incorporated by reference the information appearing in the Proxy Statement under the caption "Certain Relationships and Related Transactions."

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) DOCUMENTS FILED AS A PART OF THIS FORM 10-K.

A. CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES.

The following consolidated financial statements and schedules are included in this Annual Report on Form 10-K on the pages listed below.

<TABLE>	
<CAPTION>	
Page	Consolidated Financial Statements
----	-----
<S>	<C>
F-2	Report of Independent Accountants
F-3	Consolidated Balance Sheets as of September 30, 1995 and 1996
F-4	Consolidated Statements of Operations for the years ended September 30, 1994, 1995, and 1996
F-5	Consolidated Statements of Cash Flows for the years ended September 30, 1994, 1995, and 1996
F-6	Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended September 30, 1994, 1995, and 1996
F-7	Notes to Consolidated Financial Statements

<TABLE>	
<CAPTION>	
Page	Schedule
----	-----
<S>	<C>
S-1	Schedule II- Valuation and Qualifying Accounts

B. EXHIBITS.

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
-----	-----
3.1	Fifth Amended and Restated Certificate of Incorporation of Protection One, Inc. ("POI") (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the year ended September 30, 1994 filed by POI(1), Protection One Alarm Monitoring, Inc. ("Monitoring") (2) and Protection One Alarm Services, Inc. ("Services") (the "Fiscal 1994 Form 10-K")).
3.2	Certificate of Designation of the Voting Powers, Designations, Preferences and Relative, Participating, Optional or Other Special Rights, and Qualifications,

Limitations and Restrictions of the Series H Preferred Stock (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-4 (Registration No. 33-94684) originally filed by POI, Monitoring and Services on July 18, 1995 (the "1995 Form S-4")).

- 3.3 By-laws of POI (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended March 31, 1996).

- 1 The Commission File Number of Protection One, Inc. is 0-24780.
2 The Commission File Number of Protection One Alarm Monitoring, Inc. is 33-73002-01.

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EXHIBIT
NUMBER

EXHIBIT DESCRIPTION

- 3.4 Certificate of Incorporation of Monitoring, as amended (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-3 (Registration No. 333-09401) originally filed by Monitoring, POI, Metrol Security Services, Inc. ("Metrol") and Sonitrol of Arizona, Inc. ("Sonitrol") on August 1, 1996 (the "August 1996 Form S-3")).
- 3.5 Bylaws of Monitoring (incorporated by reference to Exhibit 3.2 to the Fiscal 1994 Form 10-K).
- 4.1 Indenture, dated as of May 17, 1995, among Monitoring, as Issuer, POI, Services and A-Able Lock & Alarm, Inc. ("A-Able"), as Guarantors, and The First National Bank of Boston ("FNBB"), as Trustee (incorporated by reference to Exhibit 4.1 to the 1995 Form S-4).
- 4.2 First Supplemental Indenture dated as of July 26, 1996, among Monitoring, POI, Metrol, Sonitrol and State Street Bank and Trust Company ("SSBTC") as successor trustee to FNBB.
- 4.3 Second Supplemental Indenture dated as of October 28, 1996, among Monitoring, POI and Security Holdings, Inc. ("Security Holdings").
- 4.4 Subordinated Debt Shelf Indenture dated as of August 29, 1996, among Monitoring as Issuer, POI as Guarantor and SSBTC as Trustee (incorporated by reference to Exhibit 4.2 to the August 1996 Form S-3).
- 4.5 Supplemental Indenture No. 1 dated as of September 20, 1996, among Monitoring, POI and SSBTC as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by POI and Monitoring dated September 20, 1996 (the "September 1996 Form 8-K")).
- 4.6 Supplemental Indenture No. 2 dated as of October 28, 1996, among Monitoring, POI, Security Holdings and SSBTC as Trustee.
- 4.7 Amended and Restated Credit Agreement dated as of June 7, 1996, among Monitoring, Heller Financial, Inc. ("Heller Financial") as Agent and the financial institutions signatory thereto (the "Lenders") (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended June 30, 1996 (the "June 1996 Form 10-Q")).
- 4.8 Consent and First Amendment to Credit Agreement dated as of September 16, 1996, among Monitoring, Heller Financial as Agent and the Lenders (incorporated by reference to Exhibit 10.1 to the September 1996 Form 8-K).
- 4.9 Form of Revolving Note executed by Monitoring in favor of each Lender pursuant to the Amended and Restated Credit Agreement filed as Exhibit 4.7.
- 4.10 Amended and Restated Guaranty dated as of June 7, 1996, executed by POI in favor of Heller Financial as Agent.
- 4.11 Amended and Restated Stock Pledge Agreement dated as of June

35 EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
4.12	Amended and Restated Security Agreement dated as of June 7, 1996, between Monitoring and Heller Financial as Agent.
4.13	Amended and Restated Continuing Security Interest and Conditional Assignment of Patents, Trademarks, Copyrights and Licenses dated as of June 7, 1996, between Monitoring and Heller Financial as Agent.
10.1	Stock Purchase Warrant dated as of September 16, 1991, issued by POI to Merita Bank Ltd. (formerly Kansallis-Osake-Pankki) (incorporated by reference to Exhibit 10.25 to the Quarterly Report on Form 10-Q filed by POI, Monitoring and Services for the quarter ended March 31, 1994 (the "March 1994 Form 10-Q")).
10.2	Stock Purchase Warrant dated as of September 16, 1991, issued by POI to Dove Partners, G.P. (incorporated by reference to Exhibit 10.24 to the March 1994 Form 10-Q).
10.3	Modification Agreement dated as of June 29, 1994, among POI, Dove Partners, G.P. and SAMCO Partners, G.P. (incorporated by reference to Exhibit 10.27 to the Registration Statement on Form S-1 (Registration No. 33-81292) originally filed by POI on July 8, 1994 (the "1994 Form S-1")).
10.4	Stock Purchase Warrant dated December 31, 1992, issued by POI to Chemical Bank (incorporated by reference to Exhibit 10.26 to the March 1994 Form 10-Q).
10.5	Agreement Concerning Chemical Warrant and Chemical Shares dated as of June 27, 1994, between POI and Chemical Bank (incorporated by reference to Exhibit 10.27 to the March 1994 Form 10-Q).
10.6	Amended and Restated Stockholders' Agreement dated as of August 15, 1994, among POI and the stockholders of POI named therein (incorporated by reference to Exhibit 10.42 to the 1994 Form S-1).
10.7	Warrant Agreement dated as of November 3, 1993, between Monitoring and United States Trust Company of New York, as Warrant Agent (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-4 (Registration No. 33-73002) originally filed by POI, Monitoring and certain former subsidiaries of Monitoring on December 15, 1993 (the "1993 Form S- 4")).
10.8	Registration Rights Agreement dated as of November 3, 1993, among Monitoring, POI, certain former subsidiaries of Monitoring and Bear, Stearns & Co. Inc. (incorporated by reference to Exhibit 4.4 to the 1993 Form S-4).
10.9	Warrant Agreement dated as of May 17, 1995, between POI and The First National Bank of Boston, as Warrant Agent (incorporated by reference to Exhibit 10.40 to the 1995 Form S-4).
10.10	Common Stock Registration Rights Agreement dated May 17, 1995, among POI, Morgan Stanley & Co. Incorporated and Montgomery Securities (incorporated by reference to Exhibit 10.41 to the 1995 Form S-4).

36 EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
10.11	Amended and Restated Employment Agreement dated as of May 24,

1996, between POI and James M. Mackenzie, Jr. (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended June 30, 1996, as amended (the "June 1996 Form 10-Q")).*

- 10.12 Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and John W. Hesse (incorporated by reference to Exhibit 10.4 to the June 1996 Form 10-Q).*
- 10.13 Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and John E. Mack, III (incorporated by reference to Exhibit 10.5 to the June 1996 Form 10-Q).*
- 10.14 Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and Thomas K. Rankin (incorporated by reference to Exhibit 10.6 to the June 1996 Form 10-Q).*
- 10.15 Employment Agreement dated as of November 3, 1993, between Monitoring and George A. Weinstock (incorporated by reference to Exhibit 10.13 to the 1993 Form S-4).*
- 10.16 Non-Competition and Non-Solicitation Agreement dated as of November 3, 1993, between Monitoring and George A. Weinstock (incorporated by reference to Exhibit 10.14 to the 1993 Form S-4).*
- 10.17 Common Stock Performance Warrant Agreement dated as of September 16, 1991 between POI and James M. Mackenzie, Jr. (incorporated by reference to Exhibit 10.15 to the 1993 Form S-4).*
- 10.18 Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and John W. Hesse (incorporated by reference to Exhibit 10.16 to the 1993 Form S-4).*
- 10.19 Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and John E. Mack, III (incorporated by reference to Exhibit 10.17 to the 1993 Form S-4).*
- 10.20 Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and Thomas K. Rankin (incorporated by reference to Exhibit 10.18 to the 1993 Form S-4).*
- 10.21 Form of Amendment to Common Stock Performance Warrant dated as of June 29, 1994, between POI and each of James M. Mackenzie, Jr., John W. Hesse, John E. Mack, III and Thomas K. Rankin (incorporated by reference to Exhibit 10.31 to the March 1994 Form 10-Q).*
- 10.22 Consulting Agreement dated as of February 19, 1996 between POI and Dr. Ben Enis (incorporated by reference to Exhibit 10.7 to the June 1996 Form 10-Q).*
- 10.23 1994 Stock Option Plan of POI, as amended.*

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EXHIBIT
NUMBER

EXHIBIT DESCRIPTION

- 10.24 Series F Preferred Stock Repurchase Agreement dated May 10, 1995, between POI and PacifiCorp Financial Services, Inc. (incorporated by reference to Exhibit 10.39 to the 1995 Form S-4).
- 10.25 Notes Registration Rights Agreement dated as of May 17, 1995, among POI, Monitoring, Morgan Stanley & Co., Incorporated and Montgomery Securities (incorporated by reference to Exhibit 4.2 to the 1995 Form S-4).
- 10.26 Agreement for Purchase and Sale of Assets, dated May 25, 1995, between Alert Centre, Inc. and Monitoring (incorporated by reference to Exhibit 2 to the Current Report on Form 8-K filed by POI and Monitoring dated May 25, 1995).
- 10.27 Agreement to Purchase and Sell Stock dated as of May 23, 1996, among Metrol, the persons named therein as the

"Shareholders" (the "Metrol Shareholders"), Monitoring and POI (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-3 (Registration No. 33-5849) originally filed by POI on June 12, 1996 (the "June 1996 Form S-3"))).

- 10.28 Amendment No. 1 to Agreement dated as of June 28, 1996, among Metrol, the Metrol Shareholders, Monitoring and POI (incorporated by reference to Exhibit 2.2 to the June 1996 Form S-3).
- 10.29 Escrow Agreement dated May 31, 1996, among Metrol, the Metrol Shareholders, Monitoring, POI and First National Bank of Denver, N.A. as the Escrow Agent (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by POI and Monitoring dated June 7, 1996 (the "June 1996 Form 8-K"))).
- 10.30 Registration Rights Agreement dated as of June 28, 1996, among POI and the Metrol Shareholders (incorporated by reference to Exhibit 99.1 to the June 1996 Form 8-K).
- 21.1 Subsidiaries of POI.
- 23.1 Consent of Coopers & Lybrand, L.L.P.
- 27 Financial Data Schedule.
- 99.1 Information included as Item 5(d) of the September 20, 1996 Form 8-K (incorporated by reference to Item 5(d) of the September 20, 1996 Form 8-K).

* Each exhibit marked with an asterisk constitutes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

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C. CURRENT REPORTS ON FORM 8-K.

- (i) Current Report on Form 8-K filed by POI and Monitoring and dated September 16, 1996, reporting in response to Item 5 the commencement of the underwritten public offering of the Convertible Notes; and
- (ii) Current Report on Form 8-K filed by POI and Monitoring dated September 20, 1996, reporting in response to Item 5 the consummation of the Convertible Notes offering, the amendment of the Credit Agreement and the entering into an agreement with PacifiCorp, and setting forth certain cautionary statements for purposes of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995.

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PROTECTION ONE, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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September 30, 1995 and 1996	F-3
Consolidated Statements of Operations for the years ended	
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Consolidated Statements of Cash Flows for the years ended	
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REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Protection One, Inc.
Culver City, California

We have audited the consolidated financial statements and the financial statement schedule of Protection One, Inc. and Subsidiaries listed in the index on page F-1 of this Annual Report on Form 10-K. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Protection One, Inc. and Subsidiaries as of September 30, 1996 and 1995, and their consolidated results of operations and cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

As discussed in Note 2, effective October 1, 1994, the Company changed its method of accounting for certain subscriber account acquisition and transition costs.

COOPERS & LYBRAND L.L.P.

Portland, Oregon
December 10, 1996

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PROTECTION ONE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

ASSETS

<TABLE>

<CAPTION>

	SEPTEMBER 30,	
	1995	1996
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 1,256	\$ 1,782
Restricted cash	--	3,680
Receivables, net	5,806	12,743
Inventories	3,125	1,920
Prepaid expenses	547	1,221
	-----	-----
Total current assets	10,734	21,346
Property and equipment, net	5,307	9,952
Subscriber accounts and intangibles, net	162,239	257,354
Assets held for sale	--	775
Deposits	389	648

 \$ 178,669 \$ 290,075
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 2,078	\$ 2,278
Accrued salaries, wages and benefits	1,401	1,495
Other accruals	529	1,048
Purchase holdbacks	4,949	9,942
Acquisition transition costs	970	4,326
Other current liabilities	800	1,623
Deferred revenue	9,166	13,827
	-----	-----
Total current liabilities	19,893	34,539
Long-term debt, net of current portion	146,023	225,650
Other liabilities	279	1,059
	-----	-----
Total liabilities	166,195	261,248
	-----	-----
Commitments and contingencies (Note 14)		
Series H cumulative convertible preferred stock, \$.10 par value, 6,127 shares authorized, issued and outstanding at September 30, 1995	6,127	--
Stockholders' equity:		
Common Stock, \$.01 par value, 24,000,000 shares authorized, 9,047,638 and 12,914,783 shares issued and outstanding at September 30, 1995 and 1996 respectively	90	129
Additional paid-in capital	41,829	79,767
Accumulated deficit	(35,572)	(51,069)
	-----	-----
Total stockholders' equity	6,347	28,827
	-----	-----
	\$ 178,669	\$ 290,075
	=====	=====

</TABLE>

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

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PROTECTION ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(DOLLAR AMOUNTS IN THOUSANDS, EXCEPT FOR PER SHARE AMOUNTS)

<TABLE>

<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
	-----	-----	-----
<S>	<C>	<C>	<C>
Revenues:			
Monitoring and service	\$ 27,109	\$ 46,308	\$ 65,860
Other	7,371	9,574	7,597
	-----	-----	-----
Total revenues	34,480	55,882	73,457
	-----	-----	-----
Cost of revenues:			
Monitoring and service	6,520	11,795	17,770
Other	5,804	7,424	6,323
	-----	-----	-----
Total cost of revenues	12,324	19,219	24,093
	-----	-----	-----
Gross profit	22,156	36,663	49,364
Selling, general and administrative expenses	10,380	12,409	14,809
Loss on acquisition terminations	26	208	--
Performance warrants compensation expense	4,504	--	--
Acquisition and transition expenses	--	3,090	4,219
Amortization of subscriber accounts and goodwill	8,772	15,460	23,275
	-----	-----	-----
Operating income (loss)	(1,526)	5,496	7,061
Other expenses:			
Interest expense, net	6,932	7,626	4,885
Amortization of debt issuance costs and OID	891	6,797	17,812
Loss on assets held for sale	--	--	89

Loss on sales of assets	--	505	19
Loss before income taxes, extraordinary items and cumulative effect of change in accounting method -- net of taxes	(9,349)	(9,432)	(15,744)
Income tax benefit	2,863	3,595	247
Loss before extraordinary items and cumulative effect of change in accounting method -- net of taxes	(6,486)	(5,837)	(15,497)
Extraordinary items--losses on early extinguishment of debt--net	(1,174)	(8,906)	--
Cumulative effect of change in accounting method--net	--	(1,955)	--
Net loss	(7,660)	(16,698)	(15,497)
Preferred stock dividends	748	958	248
Accretion of redeemable preferred stock	753	797	--
Loss attributable to common stock	\$ (9,161)	\$ (18,453)	\$ (15,745)
Loss per common share:			
Before extraordinary items and cumulative effect of change in accounting method	\$ (27.11)	\$ (0.87)	\$ (1.40)
Net loss per share	\$ (31.10)	\$ (2.12)	\$ (1.40)

</TABLE>

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

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PROTECTION ONE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLAR AMOUNTS IN THOUSANDS)

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	\$ (7,660)	\$ (16,698)	\$ (15,497)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation	518	1,083	1,845
Amortization of subscriber accounts and goodwill	8,772	15,460	23,275
Amortization of debt issuance costs	479	1,212	1,212
Amortization of OID	412	5,585	16,600
Performance warrants earned	4,504	--	--
Cumulative effect of change in accounting method	--	1,955	--
Loss on sales and abandonments	--	713	--
Inventory received in settlements of claim	--	(1,562)	--
Deferred income tax benefit	(2,863)	(3,595)	(792)
Extraordinary items	1,174	8,906	--
Provision for doubtful accounts	789	1,751	2,649
Other	--	--	(204)
Receivables	(1,362)	(2,795)	(8,737)
Inventories	(355)	89	2,002
Prepaid expenses and deposits	383	(408)	(752)
Accounts payable	621	(121)	199
Accrued liabilities	2,662	(2,247)	1,793
Deferred revenue	(675)	(832)	470
Net cash provided by operating activities	7,399	8,496	24,063
Cash flows from investing activities:			
Purchases of property and equipment	(1,417)	(3,268)	(5,420)
Acquisitions, net of cash received	(60,069)	(52,249)	(89,776)
Acquisition payments held in escrow	(456)	456	(3,680)
Payments on purchase holdbacks	(941)	(3,626)	(3,532)
Deferred acquisition payments	(469)	(2,167)	(1,613)
Acquisition transition costs	(3,136)	(2,558)	(3,111)
Payment of other liabilities	(322)	(109)	--
Net cash used in investing activities	(66,810)	(63,521)	(107,132)
Cash flows from financing activities:			
Payments on long-term debt	(25,805)	(118,699)	(111,222)
Proceeds from long-term debt	88,328	168,005	174,248

Debt and equity issuance costs	(6,444)	(6,780)	(4,981)
Payments on stockholders' notes receivable	15	47	--
Issuance of preferred and common stock and warrants	5,494	20,219	25,798
Redemption of preferred stock	(1,500)	(2,125)	--
Note redemption and premium costs	--	(2,627)	--
Cash dividends paid on preferred stock	(965)	(2,816)	(248)
	-----	-----	-----
Net cash provided by financing activities	59,123	55,224	83,595
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents.....	(288)	199	526
Cash and cash equivalents:			
Beginning of period	1,345	1,057	1,256
	-----	-----	-----
End of period	\$ 1,057	\$ 1,256	\$ 1,782
	=====	=====	=====
Interest paid during the period	\$ 4,563	\$ 9,968	\$ 4,784
	=====	=====	=====
Income taxes paid during the period	\$ --	\$ --	\$ 160
	=====	=====	=====

Supplemental disclosure (see Note 12)
</TABLE>

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

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PROTECTION ONE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

(DOLLAR AMOUNTS IN THOUSANDS)

<TABLE>

<CAPTION>

	COMMON STOCK	CLASS B COMMON STOCK	SERIES A PREFERRED STOCK	ADDITIONAL PAID-IN CAPITAL	STOCKHOLDERS' NOTES RECEIVABLE	ACCUMULATED DEFICIT	TOTAL
	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
September 30, 1993	\$ 10		\$ 962	\$ 7	\$ (62)	\$ (9,713)	\$ (8,796)
Net loss						(7,660)	(7,660)
Restatement of par value	(9)		(895)	904			2,358
Issuance of preferred shares				2,358			(122)
Cancellation of preferred shares				(122)			1,000
Issuance of common shares		\$ 18		982			4,494
Issuance of common stock warrants				4,494			(376)
Stock and warrant issuance costs				(376)			(753)
Accretion of Series C and E Redeemable Preferred Stock						(753)	15
Payments on stockholders' notes receivable					15		(748)
Dividends on Series F Redeemable Preferred Stock						(748)	
Exercise of stock purchase warrant	1			(1)			4,504
Performance warrants				4,504			
	-----	-----	-----	-----	-----	-----	-----
September 30, 1994	2	18	67	12,750	(47)	(18,874)	(6,084)
Net loss						(16,698)	(16,698)
Issuance of common stock and warrants	30			20,120			20,150
Exercise of stock purchase warrants	2			71			73
Stock and warrant issuance costs				(2,283)			(2,283)
Accretion of Series C and E Redeemable Preferred Stock				(797)			(876)
Dividends on Series A, F, and H Preferred Stock				(876)			12,815
Conversion to common stock	56	(18)	(67)	12,844			47
Payments on stockholders' notes receivable					47		
	-----	-----	-----	-----	-----	-----	-----
September 30, 1995	90	--	--	41,829	--	(35,572)	6,347
Net loss						(15,497)	(15,497)
Issuance of common shares	38			38,913			66
Exercise of stock purchase warrants	1			65			(792)
Stock issuance costs				(792)			(248)
Dividends on Series H Preferred Stock				(248)			
	-----	-----	-----	-----	-----	-----	-----
September 30, 1996	\$ 129	\$ --	\$ --	\$ 79,767	\$ --	\$ (51,069)	\$ 28,827
	=====	=====	=====	=====	=====	=====	=====

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

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

1. THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Consolidation and Business

The consolidated financial statements include the accounts of Protection One, Inc. (POI) and its wholly-owned subsidiary, Protection One Alarm Monitoring, Inc. (Monitoring) (together with POI, the Company). Monitoring's former wholly-owned subsidiary, Protection One Alarm Services, Inc. was merged into Monitoring in May 1996. The assets, results of operations and stockholders' equity of Monitoring comprise substantially all of the assets, results of operations and stockholders' equity of the Company on a consolidated basis. POI's principal assets and sole operations are in and through its investment in Monitoring. All significant intercompany balances and transactions have been eliminated in consolidation. Separate audited financial statements for Monitoring have not been provided because the Company does not believe such separate financial statements are material to investors. Summarized financial information of Monitoring is included in Note 16.

The Company provides security alarm monitoring services and sells, installs and services security alarm systems for residential and small business subscribers principally in the western United States.

Revenues

Revenues are recognized when installation of security alarm systems occurs and when monitoring, extended service protection, patrol and repair services are provided. The Company does not receive separate connection fees in any aspect of its business. Subscribers are billed for monitoring, extended service protection and patrol and alarm response services in advance of the period in which such services are provided, on a monthly, quarterly or annual basis. Deferred revenues result from billings in advance of performance of monitoring, extended service protection and patrol service. Deferred revenues relating to subscriber accounts acquired are recorded as part of the allocation of the purchase price and are amortized to income during the period in which service is provided. Costs of providing service and installations, including inventory, are charged to income in the period incurred and when the installation occurs. Losses on contracts for which future costs are anticipated to exceed revenues are accrued in the period such losses are identified. Costs of services provided to dealers are expensed as incurred and are included in acquisition and transition expenses. Contracts for services are generally for an initial non-cancellable term of one to five years with automatic renewal on an annual basis thereafter unless terminated by either party. A substantial number of contracts are now on an automatic renewal basis.

Inventories

Inventories, comprised of alarm systems and parts, are stated at the lower of average cost or market.

Property and Equipment

Property and equipment is stated at cost and depreciated using the straight-line method over its estimated useful life. Costs of property and equipment of purchased businesses are based on estimated replacement costs at the date of acquisition. When property and equipment is retired or sold, the cost and the related allowance for depreciation is eliminated from the property and allowance accounts. Gains or losses from retirements and dispositions of property and equipment are recognized in the period realized. Repair and maintenance costs are expensed as incurred.

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Income Taxes

Deferred tax liabilities and assets reflect the tax effect of temporary differences between the financial statement and tax bases of assets and liabilities and the availability of net operating losses and tax credits.

Subscriber Accounts and Intangibles

Subscriber accounts acquired and intangible assets are stated at cost. The cost of acquired subscriber accounts includes the cost of accounts purchased and the estimated fair value at the date of acquisition of the accounts acquired in business acquisitions, including an accrual for estimated acquisition transition costs. The Company's personnel and related support costs and duplicative costs incurred solely in support of acquiring and transitioning subscriber accounts are expensed as incurred. Direct and incremental external costs associated with the acquisition of subscriber accounts are capitalized. If the acquisition is terminated prior to completion of the purchase transaction the costs are recorded as a loss in the period of termination. The accrual for transition costs includes liabilities assumed and incremental external costs related to customer changeover and transition, warranty obligation costs, employee and lease termination costs and other related costs. Costs related to sales, marketing and installation of systems for accounts internally generated are expensed as incurred.

The cost of subscriber accounts acquired is amortized on a straight-line basis over a 10 year period. It is the Company's policy to evaluate acquired subscriber account attrition on a quarterly basis utilizing historical attrition rates for the subscriber accounts in total and, when necessary, adjust the remaining useful lives.

The Company periodically estimates future cash flows from the subscriber accounts. Because the expected cash flows have exceeded the unamortized cost of the subscriber accounts the Company has not recorded an impairment loss.

Intangible assets include goodwill, which is amortized on a straight-line basis over the estimated life of 10 years, and debt issuance costs, which are amortized over the respective lives of associated debt using the interest method.

Cash and Cash Equivalents

All highly liquid investments purchased with a remaining maturity of three months or less at the date acquired are cash equivalents. These investments, consisting of money market funds, are stated at cost, which approximates market.

Restricted Cash

Restricted cash is held in escrow pursuant to an acquisition agreement pending final determination of the purchase price of the assets acquired by the Company.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables from a large number of customers, including both residential and commercial, dispersed across a wide geographic base. The Company extends credit to its customers in the normal course of business, performs periodic credit evaluations and maintains allowances for potential credit losses.

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Advertising Costs

The Company expenses advertising costs as incurred. Total advertising expense was \$497, \$411 and \$374 during the years ended September 30, 1994, 1995 and 1996, respectively.

New Accounting Pronouncements

In March of 1995, the Financial Accounting Standards Board issued SFAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" effective for financial statements for fiscal years beginning

after December 15, 1995. This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company determines the value of its subscriber accounts and intangibles, net based on the undiscounted cash flows from the monthly recurring revenue (MRR) stream using the most recent historical attrition rate and aggregate MRR. Based on estimates made as of September 30, 1996, the Company does not anticipate a material impact on the financial statements of the registrant that will result from the adoption of the standard.

In October of 1995, the Financial Standards Accounting Board issued SFAS 123 "Accounting for Stock Based Compensation," which is effective for fiscal years beginning after December 15, 1995. The Company has not made a decision with regard to adoption of the optional provisions of the new standard.

Loss Per Common Share

The computation of fully diluted net loss per share for the years ended September 30, 1994, 1995 and 1996 was antidilutive; as such, no presentation of fully diluted earnings per share has been included in the consolidated statements of operations. The weighted average shares outstanding used in the computation of net loss attributable to common shares are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Common Stock.....	129,705	8,695,395	11,250,185
Class B Common Stock.....	164,880	2,792	--
	-----	-----	-----
	294,585	8,698,187	11,250,185
	=====	=====	=====

</TABLE>

Reclassifications

Certain prior period amounts were reclassified to conform to the September 30, 1996 presentation. Such reclassifications did not affect previously reported net loss.

2. CHANGE IN ACCOUNTING METHOD:

In the third quarter of fiscal 1995, the Company changed its method of accounting for certain subscriber account acquisition and transition costs, effective as of October 1, 1994. Under the new method, the Company's personnel and related support costs and duplicate costs incurred solely in support of acquiring and transitioning subscriber accounts are expensed as incurred. Capitalizable costs include the direct costs of accounts purchased and the estimated fair value at the date of acquisition of the accounts acquired in business acquisitions, including an accrual for estimated acquisition transition costs. Such capitalized transition costs include incremental external costs related to customer changeover and transition, warranty obligation costs, employee and lease termination costs and other related costs.

The new method is consistent with the guidelines adopted by the Emerging Issues Task Force of the Financial Accounting Standards Board in Issue 95-3, Recognition of Liabilities in Conjunction with Purchase Business Combinations.

The consolidated financial statements for the year ended September 30, 1995 reflect the change in accounting method as of October 1, 1994. The effect of the change on such year was to increase the loss before cumulative effect of the accounting change, net loss and loss attributable to Common Stock by approximately \$1.5 million or \$0.17 per share. The cumulative effect of the change as of October 1, 1994 was approximately \$1.95 million or \$0.22 per share, net of income taxes of \$1.2 million, and is reported separately in the consolidated statement of operations for the year ended September 30, 1995.

The following unaudited pro forma amounts reflect the results of operations as if the change in accounting method had been retroactively applied:

<TABLE>
<CAPTION>

	Year Ended September 30,	
	1994	1995
	-----	-----
<S>	<C>	<C>
Pro forma:		
Loss before extraordinary items	\$ (7,333)	\$ (5,837)
Net loss	\$ (8,508)	\$ (14,743)
Net loss attributable to common stock	\$ (10,008)	\$ (16,498)
Loss per common share:		
Before extraordinary item	\$ (29.99)	\$ (.87)
Net loss per share	\$ (33.97)	\$ (1.90)
Actual:		
Net loss per share	\$ (31.10)	\$ (2.12)

</TABLE>

3. PUBLIC EQUITY OFFERINGS AND CONVERSION OF PREFERRED STOCK:

Initial Public Offering and Borrowing Under Revolving Credit Facility

On October 6, 1994, POI issued 2,700,000 shares of its common stock (Common Stock) at \$6.50 per share in an initial public offering (IPO). On November 4, 1994, the Company's underwriters exercised their option to purchase an additional 330,000 shares of Common Stock at \$6.50 per share. In conjunction with the issuance of shares on October 6, 1994, the Company borrowed \$3 million under Monitoring's revolving credit facility to pay accumulated unpaid dividends, stock conversion inducements and accounts payable.

Conversion of Shares

In conjunction with the IPO, all outstanding shares of POI's Series A, B, C, E and G Preferred Stock and Class B Common Stock were converted into a total of 5,557,003 shares of Common Stock. At the time of conversion, the Company paid accumulated unpaid dividends totaling \$2,104 to the holders of the Series A, C and E Preferred Stock and payments totaling \$82 to the holders of the Series A Preferred Stock to induce conversion of the shares into Common Stock. As a result of the conversion, the Company recorded a charge to additional paid in capital of \$1,043 which reflects: (i) the accrual of dividends on the Series C and E Redeemable Preferred Stock from September 30, 1994 through October 6, 1994 totaling \$15, (ii) the acceleration of accretion to redemption value of the Series C and E Redeemable Preferred

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Stock totaling \$782, (iii) payment of dividends to the holders of the Series A Preferred Stock totaling \$164 and (iv) payments of conversion inducements to the holders of the Series A Preferred Stock totaling \$82.

Secondary Public Offering and Conversion of Shares

On February 6, 1996, POI completed a public offering of 4.0 million shares of Common Stock (2.5 million shares of which was sold by POI), resulting in net proceeds to the Company of \$23.1 million.

In connection with the secondary public offering, all the outstanding shares of the Company's Series H preferred stock were converted into an aggregate of 680,777 shares of common stock.

4. EXTRAORDINARY ITEMS:

The extraordinary items all relate to losses on early extinguishment of debt and include the following components:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,	
	1994	1995
	-----	-----
<S>	<C>	<C>
Unamortized debt issuance costs.....	1,174	\$ 3,044

Unamortized OID.....	--	4,138
Conversion and tender fees and expenses...	--	2,635
	-----	-----
	1,174	9,817
Deferred tax benefit.....	--	(911)
	-----	-----
	\$ 1,174	\$ 8,906
	=====	=====

</TABLE>

5. RECEIVABLES:

Receivables, which consist primarily of trade accounts receivable of \$8,309 at September 30, 1995 and \$18,284 at September 30, 1996, have been reduced by allowances for doubtful accounts of \$2,503 and \$5,541, respectively. Included in receivables and deferred revenue at September 30, 1995 and 1996 are October invoices billed in advance of the periods in which the services are provided totaling \$4,667 and \$7,309, respectively. The provisions for doubtful accounts for the years ended September 30, 1994, 1995, and 1996 were \$789, \$1,751 and \$2,649, respectively.

6. PROPERTY AND EQUIPMENT:

Property and equipment are summarized as follows:

<TABLE>

<CAPTION>

	SEPTEMBER 30,	
	1995	1996
	-----	-----
<S>	<C>	<C>
Furniture and fixtures.....	\$2,004	\$2,668
Data processing.....	2,563	6,361
Vehicles.....	2,568	4,038
Leasehold improvements.....	634	927
	-----	-----
	7,769	13,994
Less accumulated depreciation and amortization	(2,462)	(4,042)
	-----	-----
	\$5,307	\$9,952
	=====	=====

</TABLE>

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

7. SUBSCRIBER ACCOUNTS AND INTANGIBLES:

Subscriber accounts and intangibles (at cost) consist of the following:

<TABLE>

<CAPTION>

	SEPTEMBER 30,	
	1995	1996
	-----	-----
<S>	<C>	<C>
Acquired subscriber accounts	\$ 184,463	\$ 298,767
Debt issuance costs	7,405	11,847
Goodwill and other	1,641	2,497
	-----	-----
	193,509	313,111
Less accumulated amortization	(31,270)	(55,757)
	-----	-----
	\$ 162,239	\$ 257,354
	=====	=====

</TABLE>

Reconciliation of acquired subscriber accounts:

<TABLE>

<CAPTION>

	SEPTEMBER 30,	
	1995	1996
	-----	-----

<S>	<C>	<C>
Balance, beginning of year	\$ 122,330	\$ 184,463
Cumulative effect of change in accounting method	(3,802)	--
Acquisition of subscriber accounts	70,105	119,629
Charges against acquisition holdbacks	(2,025)	(5,325)
Sale of subscriber accounts	(2,145)	--
	-----	-----
Balance, end of year	\$ 184,463	\$ 298,767
	=====	=====
Number of subscriber accounts acquired during the year	63,611	91,325
	=====	=====

</TABLE>

In conjunction with certain purchases of subscriber accounts the Company withholds a portion of the purchase price as a reserve to offset qualifying attrition of the acquired subscriber accounts for a specified period as provided for in the purchase agreements, and as a reserve for purchase price settlements of assets acquired and liabilities assumed. During the year ended September 30, 1995, purchase holdbacks as a percentage of total purchase price ranged from 0% to 20% and extended for periods of up to 30 months. During the year ended September 30, 1996, purchase holdbacks as a percentage of total purchase price ranged from 0% to 20% and extended for periods of up to 12 months.

Reconciliation of purchase holdbacks:

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	-----	-----
	1995	1996
	-----	-----
<S>	<C>	<C>
Balance, beginning of year	\$ 4,250	\$ 4,949
Purchase holdbacks additions	6,349	13,850
Charges against subscriber accounts	(2,025)	(5,325)
Cash payments to sellers	(3,625)	(3,532)
	-----	-----
Balance, end of year	\$ 4,949	\$ 9,942
	=====	=====

</TABLE>

8. LONG-TERM DEBT

Long-term debt is comprised of the following:

<TABLE>
<CAPTION>

	SEPTEMBER 30,	
	-----	-----
	1995	1996
	-----	-----
<S>	<C>	<C>
Notes payable under credit agreements:		
Senior Subordinated Discount Notes	\$ 166,000	\$ 166,000
Unamortized original issue discount	(52,229)	(35,628)
Convertible Senior Subordinated Notes	--	90,000
Revolving credit facility	32,252	5,278
	-----	-----
	\$ 146,023	\$ 225,650
	=====	=====

</TABLE>

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Senior Subordinated Discount Notes

In May 1995, the Company completed a refinancing plan (the "Refinancing") to increase its operating and financial flexibility and provide additional funds to finance the acquisition of subscriber accounts. The principal components of the Refinancing were:

1. The offering of \$166 million principal amount of Monitoring's Senior Subordinated Discount Notes (the Senior Subordinated Discount Notes) and

warrants to purchase 531,200 shares of Common Stock at \$6.60 per share. The net proceeds of \$105.2 million were used to (i) repurchase all \$50 million principal amount of the Series B Notes for an aggregate \$52.5 million; (ii) repay \$51.1 million of the Company's borrowings under the Revolving Credit Facility; (iii) finance the repurchase of 25% of the outstanding shares of the Series F Preferred Stock from the holder thereof; and (iv) pay accrued interest on the Series B Notes to the date of repurchase, accrued dividends on the Series F Preferred Stock to the date of repurchase and certain fees relating to the extension of the maturity date of the Revolving Credit Facility.

2. The execution of an amendment to the Revolving Credit Facility in order to permit the consummation of the Refinancing and to provide for the extension of the maturity date of the Revolving Credit Facility from November 1996 to November 1997.

3. The repurchase by POI of 25% of the outstanding shares of Series F Preferred Stock from the holder thereof for consideration consisting of approximately \$2.0 million in cash and the exchange of the remaining shares of Series F Preferred Stock for POI's Series H Cumulative Convertible Preferred Stock.

The Senior Subordinated Discount Notes are unsecured subordinated obligations of Monitoring, limited to \$166 million aggregate principal amount at maturity, and will mature on June 30, 2005. These notes were sold at a substantial discount from their principal amount, and will accrete to face value through June 30, 1998. Although for federal income tax purposes a significant amount of original issue discount, taxable as ordinary income, will be recognized by a holder as such discount accrues from the issue date, no interest will be payable prior to December 31, 1998. From and after June 30, 1998, cash interest on the notes will accrue at the rate of 13 5/8% per annum, payable in cash semiannually on June 30 and December 31, of each year, commencing December 31, 1998.

The Senior Subordinated Discount Notes are redeemable, at Monitoring's option, in whole or in part, at any time or from time to time, on or after June 30, 2000 and prior to maturity, upon not less than 30 nor more than 60 days' prior notice at certain specified redemption prices plus accrued and unpaid interest.

The Senior Subordinated Discount Notes are fully, unconditionally and jointly and severally guaranteed on a senior subordinated basis by POI and a subsidiary of Monitoring, Security Holdings, Inc. (Security Holdings), purchased by Monitoring in November 1996. As of September 30, 1996, Monitoring had no subsidiaries.

The Senior Subordinated Discount Notes contain covenants which, among other matters, limit the Company and its Subsidiaries' ability to incur indebtedness, pay dividends, sell assets, make stock distributions or sell shares of certain subsidiaries.

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Senior Subordinated Notes

On November 3, 1993, the Company issued 50,000 units (the Units) with each Unit consisting of one, \$1,000 face value, 12%, Series A Senior Subordinated Note (the Notes) of Monitoring and 28 detachable Warrants to purchase shares of Common Stock. The Notes had an aggregate principal amount of \$50,000 and were scheduled to mature on November 1, 2003. Interest was payable semi-annually on May 1 and November 1, commencing in May 1994. The Notes had optional redemption provisions and mandatory redemption provisions in the event of change of control of the Company. A portion of the proceeds from the Units was assigned as the value attributable to the warrants resulting in a \$4,494 original issue discount (OID) which was being amortized over the maturity period of the Notes using the effective interest method. The Company recorded discount amortization of \$202 and \$155 for the years ended September 30, 1994 and 1995, respectively; such amounts are included in the consolidated statement of operations as a component of interest expense. The Series B Notes were repaid with the proceeds from the issuance of the Senior Subordinated Discount Notes.

Convertible Senior Subordinated Notes

In September 1996, Monitoring issued \$90.0 million principal amount of

Convertible Senior Subordinated Notes (the "Convertible Notes"). In October 1996, the underwriters exercised an overallotment option, and Monitoring issued an additional \$13.5 million of Convertible Notes. The Convertible Notes are unsecured subordinated obligations of Monitoring and rank pari passu with the Senior Subordinated Discount Notes. The Convertible Notes mature on September 15, 2003 and are convertible, at any time, into Common Stock at a price of \$17.95 per share, subject to adjustment.

Interest on the Convertible Notes accrues at the rate of 6.75% per annum, payable in cash semiannually on March 15 and September 15 of each year, commencing March 15, 1997. The Convertible Notes are redeemable, at Monitoring's option, in whole or in part, at any time or from time to time, on or after September 19, 1999 and prior to maturity, upon not less than 30 days prior notice at certain specified redemption prices plus accrued and unpaid interest.

The Convertible Notes are fully, unconditionally and jointly and severally guaranteed on a senior subordinated basis by POI and Security Holdings.

The indenture under which the Convertible Notes were issued contains covenants which limit the Company and its subsidiaries' ability to incur certain indebtedness.

Revolving Credit Facility

At September 30, 1996 Monitoring had a \$100 million revolving credit facility (the Revolving Credit Facility) which matures in January 2000. Borrowings under the Revolving Credit Facility bear interest at the lesser of the bank's prime rate plus 1.00% (9.25% at September 30, 1996) or LIBOR plus 2.50% (7.93% at September 30, 1996). Borrowings made under the Revolving Credit Facility are collateralized by substantially all of the Company's assets, including the stock of Monitoring and the Company's rights and interests in subscriber contracts and agreements. Availability of funds under the agreement is subject to certain financial covenants including: (i) maximum senior debt to annualized earnings before interest, taxes, depreciation and amortization (EBITDA); (ii) maximum total debt to annualized EBITDA; and (iii) maximum senior debt to monthly recurring revenues (MRR). At September 30, 1996, borrowings under the Revolving Credit Facility amounted to \$5,278, all of which bear interest at LIBOR plus 2.50%.

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Annual scheduled maturities of long-term debt are as follows:

<TABLE>	
<CAPTION>	
Fiscal Year Ending September 30,	<C>
<S>	<C>
1997	\$ --
1998	--
1999	--
2000	5,278
2001	--
Thereafter	256,000

	261,278
Less unamortized OID	(35,628)

	\$ 225,650
	=====

</TABLE>

9. OTHER LIABILITIES:

Other liabilities are comprised of the following:

<TABLE>	
<CAPTION>	
	SEPTEMBER 30,

	1995 1996

<S>	<C>
Deferred acquisition payments	\$1,057 \$2,297
Other	22 385

	\$1,079 \$2,682

Classified as follows:

Other current liabilities	\$ 800	\$1,623
Other liabilities	279	1,059
	-----	-----
	\$1,079	\$2,682
	=====	=====

</TABLE>

At September 30, 1996 deferred acquisition payments are due as follows:

<TABLE>

<S>	<C>
Fiscal Year Ended September 30,	
1997.....	\$1,238
1998.....	621
1999.....	438

	\$2,297
	=====

</TABLE>

10. STOCK WARRANTS AND OPTIONS:

Performance Warrants to purchase 500,472 shares of Common Stock at an exercise price of \$0.167 per share were issued to certain officers of the Company on September 16, 1991 and were to be earned upon attainment of certain return on investment objectives and were to vest over a five year period of employment after the date of issuance. Such objectives were not achieved as of June 29, 1994, when the Board of Directors and the officers modified the earnings and vesting criteria such that vesting occurred on that date for all Performance Warrants. Accordingly, compensation expense in an amount equal to the excess of the fair market value of the Common Stock issuable on exercise of the Performance Warrants over the exercise price is reflected as a non-cash expense in the amount of \$4,504 in the year ended September 30, 1994. The Performance Warrants expire in September 2002.

On November 3, 1993, the Company issued 1,400,000 warrants to purchase 840,000 shares of Common Stock as a part of the Units offering. Each warrant, when exercised, entitles the holder to receive six-tenths (0.6) of one share of Common Stock at an exercise price of \$.167 per share, subject to adjustment. The outstanding warrants are exercisable and expire on November 1, 2003.

In June 1994, the Board of Directors adopted, and the stockholders of the Company approved, the 1994 Stock Option Plan (the Plan). The Plan provides for the award to directors, officers and key employees of qualified and nonqualified options under the Internal Revenue Code. Nine hundred forty-

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

four thousand (944,000) shares are reserved for issuance under the Plan, subject to such adjustment as may be necessary to reflect changes in the Common Stock or other securities of POI.

During the year ended September 30, 1995, the Company granted options to purchase an aggregate of 288,000 shares of Common Stock including 132,000 shares granted to officers of the Company. Each option has a term of 10 years and vests 20% on each of the third through seventh anniversaries of the commencement of the participant's employment with the Company. The purchase price of the shares issuable pursuant to the options is equal to fair market value of Common Stock at the date of option grant.

In connection with the issuance of the Senior Subordinated Discount Notes in May 1995, the Company issued warrants to purchase 531,200 shares of Common Stock at an exercise price of \$6.60 per share, subject to adjustment. The outstanding warrants are exercisable and expire in May of 2005.

During the year ended September 30, 1996, the Company granted options to purchase an aggregate of 616,800 shares of Common Stock including 400,000 shares granted to officers of the Company. Each option has a term of 10 years and vests 20% on each of the first through fifth anniversaries of the later of November 15, 1995 or the commencement of the participant's employment with the Company. The purchase price of the shares issuable pursuant to the options is equal to (or greater than) the fair market value of the Common Stock at the date of option grant.

A summary of warrant and option activity is as follows:

<TABLE>
<CAPTION>

	WARRANTS AND OPTIONS		PRICE RANGE
<S>	<C>	<C>	
Outstanding September 30, 1993.....	833,534		\$0.167-\$3.663
Granted.....	840,000		\$0.167
Exercised.....	(99,841)		\$0.167
Surrendered.....	(1,264)		\$0.167
Outstanding September 30, 1994.....	1,572,429		\$0.167-\$3.663
Granted.....	819,200		\$5.875-\$9.125
Exercised.....	(256,799)		\$0.167-\$6.50
Surrendered.....	(14,400)		\$6.50
Outstanding September 30, 1995.....	2,120,430		\$0.167-\$9.125
Granted.....	616,800		\$8.00-\$16.75
Exercised.....	(74,252)		\$0.167-\$6.50
Surrendered.....	(17,760)		\$6.50-\$8.00
Outstanding September 30, 1996.....	2,645,218		\$0.167-\$16.75
Exercisable:			
September 30, 1994.....	1,572,429		\$0.167-\$3.663
September 30, 1995.....	1,907,310		\$0.167-\$6.50
September 30, 1996.....	1,886,818		\$0.167-\$6.50

</TABLE>

11. INCOME TAXES:

For the years ended September 30, 1995 and 1996, the Company recognized federal and state deferred tax benefits of \$3,595 and \$247, respectively. Such benefits were recognized because valuation allowances were reduced as a result of utilization of net operating losses (NOL) to offset temporary differences that generate deferred tax liabilities during the carryforward period. At September 30, 1996, the Company had \$32.1 million in NOL carryforwards for regular federal tax purposes and \$24.8 million for alternative minimum tax (AMT NOL) purposes which expire in the years 2006-2010. The Company also has certain general business and job credit carryforwards. These carryforwards are available, subject to certain restrictions, to reduce taxable income, alternative minimum taxable income and income taxes payable in future years. As a result of the issuance of warrants in conjunction with the Company's refinancing plan, as well as various prior issuances of preferred and common stock and stock warrants, there are annual

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

limitations on the amount of NOL and AMT NOL carryforwards, as well as tax credits, that can be used to reduce taxable income, alternative minimum taxable income and income tax payable. Future substantial changes in the Company's ownership could create additional limitations.

The components of deferred tax assets and liabilities are

<TABLE>
<CAPTION>

	AT SEPTEMBER 30,	
	1995	1996
<S>	<C>	<C>
Deferred tax assets:		
Accounts receivable, due to allowances for doubtful accounts	\$ 1,000	\$ 2,214
Acquisition reserves and holdbacks	2,365	5,701
Performance warrants	1,800	1,662
Net operating loss carryforwards	15,688	12,814
OID amortization	2,174	8,634
Other	37	139
Less valuation allowance	(3,573)	(1,907)
Total deferred tax assets	19,491	29,257
Deferred tax liabilities:		
Differences in depreciation and amortization	(19,491)	(29,257)

Net deferred tax liabilities	-----	-----
	\$ --	\$ --
	=====	=====

</TABLE>

The valuation allowances at September 30, 1995 and September 30, 1996 reflect current estimates of limitations on utilization of NOL carryforwards for Federal and state income tax purposes. The valuation allowance at September 30, 1995 of \$3,573 reflects a \$2,953 increase over the valuation allowance at September 30, 1994. The decrease in valuation allowance of \$1,666 from September 30, 1995 to September 30, 1996 reflects amounts which were eliminated in connection with the acquisition of Metrol Security Services, Inc. (see Note 17.)

The income tax benefit is comprised of the following:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Current			
Federal	\$ --	\$ --	\$ (463)
State	--	--	(82)
Total current	--	--	(545)
Deferred			
Federal	2,663	4,594	674
State	200	1,120	118
Total deferred	2,863	5,714	792
Total income tax benefit	\$2,863	\$5,714	\$ 247

</TABLE>

The differences between the income tax benefit at the Company's effective tax rate and at the statutory rate are as follows:

<TABLE>
<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Computed "expected" tax benefit	\$ 3,178	\$ 7,620	\$ 5,408
State income tax benefit, net	537	1,336	948
Other	(8)	(289)	(188)
Loss for which no tax benefits were provided	(844)	(2,953)	(5,921)
Total income tax benefit	\$ 2,863	\$ 5,714	\$ 247

Income tax benefits included in the statement of operations are as follows:

Continuing operations	\$ 2,863	\$ 3,595	\$ 247
Extraordinary items-loss on early extinguishment of debt	--	911	--
Cumulative effect of change in accounting method	--	1,208	--
	\$ 2,863	\$ 5,714	\$ 247

</TABLE>

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method resulted from recognition of the benefit of the related NOL carryforward to the extent of available deferred tax credits. Such credits permitted full recognition of the benefit related to the change in accounting method and limited the benefit of the extraordinary item to \$911.

12. SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

Acquisitions

<TABLE>

<CAPTION>

	YEAR ENDED SEPTEMBER 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Subscriber accounts acquired	\$ 81,525	\$ 70,105	\$ 119,629
Goodwill	1,641	--	792
Cash acquired	240	--	31
Other assets acquired	2,584	113	4,983
Total assets acquired	\$ 85,990	\$ 70,218	\$ 125,435
Cash paid to seller	\$ 58,404	\$ 49,361	\$ 88,330
Stock issued to seller	2,358	--	8,960
Acquisition expenses	1,905	1,451	943
Deferred revenue assumed	4,567	3,213	3,676
Other assumed liabilities	18,756	16,193	23,526
Purchase price and assumed liabilities	\$ 85,990	\$ 70,218	\$ 125,435

</TABLE>

Cash paid to sellers, payments for acquisition expenses and payments on liabilities assumed in conjunction with acquisitions are included in cash used in investing activities in the period paid. Deferred revenue, which represents advance payments by subscribers, is recognized as revenues in the period in which the related service is provided. Such amounts are considered a non-cash component of operations and are reflected as a reduction in cash provided by operating activities.

The following reflects increases (decreases) in assets and accumulated deficit, and decreases (increases) in liabilities and capital stock resulting from noncash investing and financing activities which occurred during the year ended September 30, 1994:

<TABLE>

<CAPTION>

	SUBSCRIBER ACCOUNTS	PURCHASE HOLDBACKS	COMMON STOCK	REDEEMABLE PREFERRED STOCK	PREFERRED STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Restatement of par value.....			\$9		\$895	\$ (904)	
Charge-off of purchase holdbacks.....	\$ (1,059)	\$1,059					
Cancellation of Series G preferred stock.....	(122)					122	
Exercise of stock purchase warrants.....			(1)			1	
Accretion to redemption value of preferred stock.....				\$ (753)			\$753
	\$ (1,181)	\$1,059	\$8	\$ (753)	\$895	\$ (781)	\$753

</TABLE>

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

The following reflects increases (decreases) in assets and accumulated deficit, and decreases (increases) in liabilities and capital stock resulting from noncash investing and financing activities which occurred during the year ended September 30, 1995:

<TABLE>
<CAPTION>

	SUBSCRIBER ACCOUNTS	PURCHASE HOLDBACKS	COMMON STOCK	REDEEMABLE PREFERRED STOCK	CLASS B COMMON AND PREFERRED STOCK	ADDITIONAL PAID-IN CAPITAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Accretion to redemption value of preferred stock.....				\$ (15)		\$ 15
Charge-off of purchase holdbacks.....	\$(2,025)	\$2,025				
Accelerated accretion upon conversion of preferred stock.....				(782)		782
Reclassification of IPO costs.....	(1,305)					1,305
Conversion of Class B common and preferred stock.....			\$(56)	12,897	\$85	(12,926)
	\$(3,330)	\$2,025	\$(56)	\$12,100	\$85	\$(10,824)
	=====	=====	=====	=====	=====	=====

</TABLE>

In 1995 the Company received inventory from a supplier in settlement of a claim. The estimated fair value of the inventory was determined through a subsequent sale to an independent third party. In connection with such settlement, the Company recorded revenue of approximately \$1.6 million, which is reflected in other revenues in the Company's statement of operations.

The following reflects increases (decreases) in assets and accumulated deficit, and decreases (increases) in liabilities and capital stock resulting from noncash investing and financing activities which occurred during the year ended September 30, 1996:

<TABLE>
<CAPTION>

	INTANGIBLES	PURCHASE HOLDBACKS	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	SERIES H PREFERRED STOCK
<S>	<C>	<C>	<C>	<C>	<C>
Charge-off of purchase holdbacks.....	\$(5,325)	\$5,325			
Conversion of Series H Preferred.....			\$(7)	\$(6,120)	\$6,127
Common shares issued for Metrol.....	6,843		(4)	(6,839)	
Common shares issued for Alltec.....	2,117		(2)	(2,115)	
Reclassification of stock offering costs	(792)			792	
	\$2,843	\$5,325	\$(13)	\$(14,282)	\$6,127
	=====	=====	=====	=====	=====

</TABLE>

13. EMPLOYEE BENEFIT PLANS:

401(k) Plan

The Company maintains a tax-qualified, defined contribution plan designed to meet the requirements of Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The Company at its election also may make contributions to the 401(k) Plan, which contributions are allocated among participants based upon the respective contributions made by the participants through salary reductions during the applicable plan year. The Company's matching contribution may be made in Common Stock, in cash or in a combination of both stock and cash; the Company made \$40 of such contributions to the plan during the three year period ended September 30, 1996.

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

Employee Stock Purchase Plan

POI's Employee Stock Purchase Plan is designed to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Internal Revenue Code, and allows eligible employees to acquire shares of Common Stock at periodic intervals through their accumulated payroll deductions. A total of 650,000 shares of Common Stock have been reserved for issuance under the Employee Stock Purchase Plan, which is administered by the Compensation

Committee.

The purchase price of shares of Common Stock purchased under the Employee Stock Purchase Plan during any purchase period is the lower of (i) 85% of the fair market value of the Common Stock on the first day of that purchase period or (ii) 85% of the fair market value of the Common Stock on the purchase date.

Termination of a participant's employment for any reason (including death, disability or retirement) cancels participation in the Employee Stock Purchase Plan immediately. The Employee Stock Purchase Plan will in all events terminate upon the earliest to occur of (i) the last business day in September 2005, (ii) the date on which all shares available for issuance under the plan have been sold or (iii) the date on which all purchase rights are exercised in connection with an acquisition of the Company or all or substantially all of its assets.

14. COMMITMENTS AND CONTINGENCIES:

The Company leases office facilities for lease terms maturing through 2005. Future minimum lease payments under noncancelable operating leases are as follows:

<TABLE>		
	<S>	<C>
	Year ending September 30,	
	1997.....	\$ 1,641
	1998.....	1,431
	1999.....	1,102
	2000.....	969
	Thereafter.....	2,799

		\$ 7,942
		=====

</TABLE>

Total rent expense for the years ended September 30, 1994, 1995 and 1996 was \$787, \$1,261 and \$1,101, respectively.

The Company is a party to claims and matters of litigation incidental to the normal course of its business. The ultimate outcome of these matters cannot presently be determined; however, in the opinion of management of the Company, the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows.

The Company has entered into employment agreements with five of its officers. The term of the employment agreements with three of the officers is continually extended so as to cause each such agreement to have a remaining term of three years; the other two agreements expire in September and November 1998.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and other accrued liabilities, the carrying amounts approximate fair market value due to their short maturities. The Company's Revolving Credit Facility, which bears a floating

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

market rate of interest, and the Series H Redeemable Preferred Stock are carried at amounts which approximate fair market value.

At September 30, 1996, the Senior Subordinated Discount Notes have an estimated fair value of approximately \$153,550 based on their quoted market price as compared to their carrying value of \$130,372.

At September 30, 1996, the Convertible Senior Subordinated Notes have an estimated fair value of approximately \$90,000 based on their quoted market price as compared to their carrying value of \$90,000.

The estimated fair values may not be representative of actual values of the financial instruments that could have been realized at year end or may be realized in the future.

16. SUPPLEMENTAL SUBSIDIARY COMPANY SUMMARIZED FINANCIAL INFORMATION:

The assets, results of operations and stockholders' equity of Monitoring comprise substantially all of the assets, results of operations and stockholders' equity of the Company on a consolidated basis. POI's principal assets and sole operations are in and through its investment in Monitoring. All significant intercompany balances and transactions have been eliminated in consolidation. Separate audited financial statements for Monitoring have not been provided because the Company does not believe such separate financial statements are material to investors.

The summarized consolidated financial information of Monitoring is presented below.

<TABLE>
<CAPTION>

	At September 30,	
	1995	1996
<S>	<C>	<C>
Summarized Balance Sheet		
Assets		
Current assets	\$ 10,733	\$ 21,345
Subscriber accounts and intangibles, net	\$162,239	\$257,354
Other non-current assets	\$ 5,696	\$ 11,375
Liabilities and Stockholders' Equity		
Deferred revenue	\$ 9,166	\$ 13,827
Other current liabilities	\$ 10,727	\$ 20,712
Long-term debt, net of current portion	\$146,023	\$225,650
Other long term liabilities	\$ 279	\$ 1,059
Shareholders' equity	\$ 12,473	\$ 28,826

</TABLE>

<TABLE>
<CAPTION>

	Year Ended September 30,		
	1994	1995	1996
<S>	<C>	<C>	<C>
Summarized Statements of Operations			
Revenues	\$34,480	\$ 55,882	\$ 73,457
Gross profit	\$22,156	\$ 36,663	\$ 49,364
Loss before extraordinary items and cumulative effect of change in accounting method	\$ (6,492)	\$ (5,839)	\$ (15,497)
Net loss	\$ (7,666)	\$ (16,700)	\$ (15,497)

</TABLE>

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PROTECTION ONE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(DOLLAR AMOUNTS IN THOUSANDS EXCEPT FOR PER SHARE AMOUNTS)

17. METROL SECURITY SERVICES, INC. ACQUISITION:

On June 28, 1996 the Company acquired all of the outstanding stock of Metrol Security Services, Inc. ("Metrol"). Metrol sells, installs, services and monitors security alarm systems and provides guard and patrol services to residential and commercial subscribers in Arizona and New Mexico.

The following unaudited pro forma condensed consolidated results of operations present information as if the acquisition had occurred as of the beginning of each period presented. The pro forma information is presented after giving effect to certain adjustments for the amortization of subscriber accounts, interest expense and the disposition of Metrol's guard operations. Certain of Metrol's expenses were estimated based on annual amounts incurred. Management believes the estimates provide a reasonable approximation of actual results. The pro forma information is provided for informational purposes only. It is based on historical information and is not necessarily indicative of future results of operations.

<TABLE>
<CAPTION>

PRO FORMA FOR THE YEAR ENDED SEPTEMBER 30,	
1995	1996

<S>	<C>	<C>
Revenues	\$ 67,093	\$ 82,313
Net loss before extraordinary item and cumulative effect of change in accounting method ...	(8,328)	(14,275)
Net loss	(16,355)	(14,275)
Net loss before extraordinary item and cumulative effect of change in accounting method, per share ...	\$ (1.11)	\$ (1.26)
Net loss per common share	\$ (1.99)	\$ (1.26)

18. SUBSEQUENT EVENTS:

On October 4, 1996, Monitoring purchased all of the outstanding shares of capital stock of Security Holdings in exchange for an aggregate of 551,888 shares of Common Stock. Of such shares, 68,985 shares have been placed in an escrow account and will be delivered to the former shareholders of Security Holdings in June 1997 if the actual postclosing attrition rate of Security Holding's alarm accounts does not exceed the assumed rate reflected in the purchase agreement.

Pursuant to the acquisition, Security Holdings became Monitoring's wholly owned subsidiary and a guarantor of both the Senior Subordinated Discount Notes and the Convertible Senior Subordinated Notes.

On December 18, 1996, the Company announced that it entered into a definitive agreement to acquire substantially all of the assets of Phillips Electronics, Inc. for an aggregate purchase price of \$14.5 million. The Company will issue to Phillips Electronics, Inc. \$2.0 million of Common Stock to fund a portion of the purchase price. The Company anticipates closing the acquisition in early January, 1997.

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PROTECTION ONE, INC. AND SUBSIDIARIES

SCHEDULE II- VALUATION AND QUALIFYING ACCOUNTS

(DOLLAR AMOUNTS IN THOUSANDS)

<TABLE> <CAPTION>	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS (A)	DEDUCTIONS (B)	BALANCE AT AT END OF PERIOD
DESCRIPTION	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED SEPTEMBER 30, 1994					
Allowances deducted from assets for doubtful accounts	\$610	\$789	\$994	(\$1,211)	\$1,182
YEAR ENDED SEPTEMBER 30, 1995					
Allowances deducted from assets for doubtful accounts	\$1,182	\$1,751	--	(\$430)	\$2,503
YEAR ENDED SEPTEMBER 30, 1996					
Allowances deducted from assets for doubtful accounts	\$2,503	\$2,649	\$1,218	(\$829)	\$5,541

</TABLE>

- (a) Allowances recorded on receivables purchased in conjunction with acquisition of customer accounts.
- (b) Results from write-offs of accounts receivable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROTECTION ONE, INC.

By: /s/ John W. Hesse

 John W. Hesse
 Executive Vice President and
 Chief Financial Officer

Date: December 30, 1996

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of each of the registrants and in the capacities and on the dates indicated.

<S> <CAPTION>	SIGNATURE -----	TITLE -----	DATE -----
	/s/ James M. Mackenzie, Jr. ----- James M. Mackenzie, Jr.	President, Chief Executive Officer and Director	December 30, 1996
	/s/ John W. Hesse ----- John W. Hesse	Executive Vice President, Chief Financial Officer (principal financial officer) and Secretary	December 30, 1996
	/s/ Robert M. Chefitz ----- Robert M. Chefitz	Director	December 30, 1996
	/s/ Ben Enis ----- Ben Enis	Director	December 30, 1996
	/s/ James Q. Wilson ----- James Q. Wilson	Director	December 30, 1996

</TABLE>

EXHIBIT INDEX

<TABLE> <CAPTION>	EXHIBIT DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE ----- <C>
EXHIBIT NUMBER ----- <S>	<C>	
3.1	Fifth Amended and Restated Certificate of Incorporation of Protection One, Inc. ("POI") (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the year ended September 30, 1994 filed by POI(1), Protection One Alarm Monitoring, Inc. ("Monitoring") (2) and Protection One Alarm Services, Inc. ("Services") (the "Fiscal 1994 Form 10-K")).	
3.2	Certificate of Designation of the Voting Powers, Designations, Preferences and Relative, Participating, Optional or Other Special Rights, and Qualifications, Limitations and Restrictions of the Series H Preferred Stock (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-4 (Registration No. 33-94684) originally filed by POI, Monitoring and Services on July 18, 1995 (the "1995 Form S-4")).	
3.3	By-laws of POI (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended March 31, 1996).	
3.4	Certificate of Incorporation of Monitoring, as amended (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-3 (Registration No. 333-09401) originally filed by Monitoring, POI, Metrol Security Services, Inc. ("Metrol") and Sonitrol of Arizona, Inc. ("Sonitrol") on August 1, 1996 (the "August 1996 Form S-3")).	
3.5	Bylaws of Monitoring (incorporated by reference to Exhibit 3.2 to the Fiscal 1994 Form 10-K).	
4.1	Indenture, dated as of May 17, 1995, among Monitoring, as Issuer, POI, Services and A-Able Lock & Alarm, Inc. ("A-Able"), as Guarantors, and The First National Bank of Boston ("FNBB"), as Trustee (incorporated by reference to Exhibit 4.1 to the 1995 Form S-4).	

- 4.2 First Supplemental Indenture dated as of July 26, 1996, among Monitoring, POI, Metrol, Sonitrol and State Street Bank and Trust Company ("SSBTC") as successor trustee to FNBB.
- 4.3 Second Supplemental Indenture dated as of October 28, 1996, among Monitoring, POI and Security Holdings, Inc. ("Security Holdings").
- 4.4 Subordinated Debt Shelf Indenture dated as of August 29, 1996, among Monitoring as Issuer, POI as Guarantor and SSBTC as Trustee (incorporated by reference to Exhibit 4.2 to the August 1996 Form S-3).

</TABLE>

- (1) The Commission File Number of Protection One, Inc. is 0-24780.
- (2) The Commission File Number of Protection One Alarm Monitoring, Inc. is 33-73002-01.

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EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	<C>
4.5	Supplemental Indenture No. 1 dated as of September 20, 1996, among Monitoring, POI and SSBTC as Trustee (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by POI and Monitoring dated September 20, 1996 (the "September 1996 Form 8-K")).	
4.6	Supplemental Indenture No. 2 dated as of October 28, 1996, among Monitoring, POI, Security Holdings and SSBTC as Trustee.	
4.7	Amended and Restated Credit Agreement dated as of June 7, 1996, among Monitoring, Heller Financial, Inc. ("Heller Financial") as Agent and the financial institutions signatory thereto (the "Lenders") (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended June 30, 1996 (the "June 1996 Form 10-Q")).	
4.8	Consent and First Amendment to Credit Agreement dated as of September 16, 1996, among Monitoring, Heller Financial as Agent and the Lenders (incorporated by reference to Exhibit 10.1 to the September 1996 Form 8-K).	
4.9	Form of Revolving Note executed by Monitoring in favor of each Lender pursuant to the Amended and Restated Credit Agreement filed as Exhibit 4.7.	
4.10	Amended and Restated Guaranty dated as of June 7, 1996, executed by POI in favor of Heller Financial as Agent.	
4.11	Amended and Restated Stock Pledge Agreement dated as of June 7, 1996, between POI and Heller Financial as Agent.	
4.12	Amended and Restated Security Agreement dated as of June 7, 1996, between Monitoring and Heller Financial as Agent.	
4.13	Amended and Restated Continuing Security Interest and Conditional Assignment of Patents, Trademarks, Copyrights and Licenses dated as of June 7, 1996, between Monitoring and Heller Financial as Agent.	
10.1	Stock Purchase Warrant dated as of September 16, 1991, issued by POI to Merita Bank Ltd. (formerly Kansallis-Osake-Pankki) (incorporated by reference to Exhibit 10.25 to the Quarterly Report on Form 10-Q filed by POI, Monitoring and Services for the quarter ended March 31, 1994 (the "March 1994 Form 10-Q")).	
10.2	Stock Purchase Warrant dated as of September 16, 1991, issued by POI to Dove Partners, G.P. (incorporated by reference to Exhibit 10.24 to the March 1994 Form 10-Q).	

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EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	<C>
10.3	Modification Agreement dated as of June 29, 1994, among POI, Dove Partners, G.P. and SAMCO	

Partners, G.P. (incorporated by reference to Exhibit 10.27 to the Registration Statement on Form S-1 (Registration No. 33-81292) originally filed by POI on July 8, 1994 (the "1994 Form S-1"))).

- 10.4 Stock Purchase Warrant dated December 31, 1992, issued by POI to Chemical Bank (incorporated by reference to Exhibit 10.26 to the March 1994 Form 10-Q).
- 10.5 Agreement Concerning Chemical Warrant and Chemical Shares dated as of June 27, 1994, between POI and Chemical Bank (incorporated by reference to Exhibit 10.27 to the March 1994 Form 10-Q).
- 10.6 Amended and Restated Stockholders' Agreement dated as of August 15, 1994, among POI and the stockholders of POI named therein (incorporated by reference to Exhibit 10.42 to the 1994 Form S-1)).
- 10.7 Warrant Agreement dated as of November 3, 1993, between Monitoring and United States Trust Company of New York, as Warrant Agent (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-4 (Registration No. 33-73002) originally filed by POI, Monitoring and certain former subsidiaries of Monitoring on December 15, 1993 (the "1993 Form S-4"))).
- 10.8 Registration Rights Agreement dated as of November 3, 1993, among Monitoring, POI, certain former subsidiaries of Monitoring and Bear, Stearns & Co. Inc. (incorporated by reference to Exhibit 4.4 to the 1993 Form S-4).
- 10.9 Warrant Agreement dated as of May 17, 1995, between POI and The First National Bank of Boston, as Warrant Agent (incorporated by reference to Exhibit 10.40 to the 1995 Form S-4).
- 10.10 Common Stock Registration Rights Agreement dated May 17, 1995, among POI, Morgan Stanley & Co. Incorporated and Montgomery Securities (incorporated by reference to Exhibit 10.41 to the 1995 Form S-4).
- 10.11 Amended and Restated Employment Agreement dated as of May 24, 1996, between POI and James M. Mackenzie, Jr. (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q filed by POI and Monitoring for the quarter ended June 30, 1996, as amended (the "June 1996 Form 10-Q")).*
- 10.12 Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and John W. Hesse (incorporated by reference to Exhibit 10.4 to the June 1996 Form 10-Q).*

</TABLE>
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<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	<C>
10.13	Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and John E. Mack, III (incorporated by reference to Exhibit 10.5 to the June 1996 Form 10-Q).*	
10.14	Amended and Restated Employment Agreement dated as of May 24, 1996 between POI and Thomas K. Rankin (incorporated by reference to Exhibit 10.6 to the June 1996 Form 10-Q).*	
10.15	Employment Agreement dated as of November 3, 1993, between Monitoring and George A. Weinstock (incorporated by reference to Exhibit 10.13 to the 1993 Form S-4).*	
10.16	Non-Competition and Non-Solicitation Agreement dated as of November 3, 1993, between Monitoring and George A. Weinstock (incorporated by reference to Exhibit 10.14 to the 1993 Form S-4)*.	
10.17	Common Stock Performance Warrant Agreement dated as of September 16, 1991 between POI and James M. Mackenzie, Jr. (incorporated by reference to Exhibit 10.15 to the 1993 Form S-4).*	
10.18	Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and John W. Hesse (incorporated by reference to Exhibit 10.16 to the 1993 Form S-4).*	
10.19	Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and John E. Mack, III (incorporated by reference to Exhibit 10.17 to the 1993 Form S-4).*	
10.20	Common Stock Performance Warrant Agreement dated as of September 16, 1991, between POI and Thomas K. Rankin (incorporated by reference to Exhibit 10.18 to the 1993 Form S-4).*	
10.21	Form of Amendment to Common Stock Performance Warrant dated as of June 29, 1994, between POI and each of James M. Mackenzie, Jr., John W. Hesse, John E. Mack, III and Thomas K. Rankin (incorporated by reference to Exhibit 10.31 to the March 1994 Form 10-Q).*	
10.22	Consulting Agreement dated as of February 19, 1996 between POI and Dr. Ben Enis (incorporated by reference to Exhibit 10.7 to the June 1996 Form 10-Q).*	

10.23 1994 Stock Option Plan of POI, as amended.*

10.24 Series F Preferred Stock Repurchase Agreement dated May 10, 1995, between POI and PacificCorp Financial Services, Inc. (incorporated by reference to Exhibit 10.39 to the 1995 Form S-4).

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EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	<C>
10.25	Notes Registration Rights Agreement dated as of May 17, 1995, among POI, Monitoring, Morgan Stanley & Co., Incorporated and Montgomery Securities (incorporated by reference to Exhibit 4.2 to the 1995 Form S-4).	
10.26	Agreement for Purchase and Sale of Assets, dated May 25, 1995, between Alert Centre, Inc. and Monitoring (incorporated by reference to Exhibit 2 to the Current Report on Form 8-K filed by POI and Monitoring dated May 25, 1995).	
10.27	Agreement to Purchase and Sell Stock dated as of May 23, 1996, among Metrol, the persons named therein as the "Shareholders" (the "Metrol Shareholders"), Monitoring and POI (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-3 (Registration No. 33-5849) originally filed by POI on June 12, 1996 (the "June 1996 Form S-3"))).	
10.28	Amendment No. 1 to Agreement dated as of June 28, 1996, among Metrol, the Metrol Shareholders, Monitoring and POI (incorporated by reference to Exhibit 2.2 to the June 1996 Form S-3).	
10.29	Escrow Agreement dated May 31, 1996, among Metrol, the Metrol Shareholders, Monitoring, POI and First National Bank of Denver, N.A. as the Escrow Agent (incorporated by reference to Exhibit 2.3 to the Current Report on Form 8-K filed by POI and Monitoring dated June 7, 1996 (the "June 1996 Form 8-K"))).	
10.30	Registration Rights Agreement dated as of June 28, 1996, among POI and the Metrol Shareholders (incorporated by reference to Exhibit 99.1 to the June 1996 Form 8-K).	
21.1	Subsidiaries of POI.	
23.1	Consent of Coopers & Lybrand, L.L.P.	
27	Financial Data Schedule.	
99.1	Information included as Item 5(d) of the September 20, 1996 Form 8-K (incorporated by reference to Item 5(d) of the September 20, 1996 Form 8-K).	

</TABLE>

* Each exhibit marked with an asterisk constitutes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

Protection One Alarm Monitoring, Inc.,
as Issuer

Protection One, Inc.,
Metrol Security Services, Inc.
and
Sonitrol of Arizona, Inc.,
as Guarantors

13 5/8% Senior Subordinated Discount Notes Due 2005

First Supplemental Indenture
dated as of July 26, 1996

to

Indenture dated as of May 17, 1995

State Street Bank and Trust Company,
as Trustee

FIRST SUPPLEMENTAL INDENTURE dated as of July 26, 1996, by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Monitoring"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company"), METROL SECURITY SERVICES, INC., a Delaware corporation ("Metrol"), SONITROL OF ARIZONA, INC. an Arizona corporation ("Sonitrol" and together with the Parent Company and Metrol, each a guarantor and collectively, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company, as successor trustee to The First National Bank of Boston under the Indenture hereinafter referred to

(the "Trustee"). All terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture (as defined below).

WHEREAS, Monitoring, the Parent Company, Protection One Alarm Services, Inc., an Oregon corporation ("Services"), A-Able Lock & Alarm, Inc., a Nevada corporation ("A-Able"), and The First National Bank of Boston entered into an Indenture dated as of May 17, 1995 (the "Indenture") providing for the issuance by Monitoring of up to \$166,000,000 aggregate principal amount 13 5-8% Senior Subordinated Discount Notes due 2005 (the "Discount Notes"); and

WHEREAS, in accordance with applicable provisions of the Indenture, each of Services and A-Able heretofore has been merged into Monitoring;

WHEREAS, State Street Bank and Trust Company has acquired substantially all of the corporate trust business of The First National Bank of Boston and has thereby become successor trustee under the Indenture;

WHEREAS, Section 9.01 of the Indenture provides that Monitoring and the Guarantors, in each case when authorized by a resolution of such company's board of directors (or, in the case of a Guarantor, any committee of such company's board of directors duly authorized to act under the Indenture), and the Trustee, at any time and from time to time, may, without the consent of any Holder, enter into an indenture supplemental to the Indenture for the purpose of, among other things, adding a Note Guarantee;

WHEREAS, pursuant to Sections 4.21 and 11.05 of the Indenture, Monitoring and the Guarantors desire to provide for Note Guarantees of payment of the Securities by Metrol and Sonitrol;

WHEREAS, Monitoring and the Guarantors desire among other things to amend the preamble of the Indenture to reflect the addition of Metrol and Sonitrol as Guarantors; and

WHEREAS, all things necessary to make this First Supplemental Indenture a valid indenture supplemental to the Indenture have been done;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH:

For and in consideration of the premises, it is hereby mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE I

AMENDMENT OF THE INDENTURE

A. Preamble. The preamble of the Indenture is hereby amended and restated

in its entirety to read as follows:

"INDENTURE dated as of May 17, 1995 by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Monitoring"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company"), METROL SECURITY SERVICES, INC., a Delaware corporation ("Metrol"), and SONITROL OF ARIZONA, INC., an Arizona corporation ("Sonitrol", and together with the Parent Company and Metrol, the "Guarantors"), as Guarantors (collectively, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company, as trustee (the "Trustee")."

B. Note Guarantees. Pursuant to Section 4.21 of the Indenture, each of Metrol and Sonitrol hereby provides a Note Guarantee of payment of the Securities by such Restricted Subsidiary pursuant to Article Eleven of the Indenture,

C References to Guarantors. Any reference in any Section of the Indenture to the Guarantors or any of them shall be deemed to include each of Metrol and Sonitrol.

ARTICLE II MISCELLANEOUS

I. Execution of Supplemental Indenture. This First Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Indenture and, as provided in the Indenture, this First Supplemental Indenture forms a part thereof. The Indenture, as supplemented and amended by this First Supplemental Indenture, is in all respects hereby adopted, ratified and confirmed and shall remain in full force and effect in accordance with its terms.

A. Responsibility for Recitals. etc. The recitals herein shall be taken as the statements of Monitoring and the Guarantors, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this First Supplemental Indenture.

B. Provisions Binding on Successors. All the covenants and agreements in this First Supplemental Indenture by Monitoring and the Guarantors shall bind their respective successors and assigns whether so expressed or not.

C. Governing Law. This First Supplemental Indenture shall be governed by the internal laws of the State of New York.

D. Execution and Counterparts. This First Supplemental Indenture may be executed in any number of counterparts, each of which shall be an original but such counterparts shall together constitute but one and the same instrument.

This First Supplemental Indenture shall become effective immediately upon its execution and delivery by Monitoring, each of the Guarantors and the Trustee.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed, all as of the date first written above.

PROTECTION ONE ALARM MONITORING, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

PROTECTION ONE, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

METROL SECURITY SERVICES, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

SONITROL OF ARIZONA, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

STATE STREET BANK AND TRUST COMPANY,

as Trustee

By: ANDREW M. SINASKY

Name: Andrew M. Sinasky

Title: Assistant Vice President

Protection One Alarm Monitoring, Inc.,
as Issuer

Protection One, Inc.
and
Security Holdings, Inc.
as Guarantors

13 5/8% Senior Subordinated Discount Notes Due 2005

Second Supplemental Indenture
dated as of October 28, 1996

to

Indenture dated as of May 17, 1995

State Street Bank and Trust Company,
as Trustee

SECOND SUPPLEMENTAL INDENTURE dated as of October 28, 1996, by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Monitoring"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company") and SECURITY HOLDINGS, INC., an Oregon corporation ("Security Holdings" and together with the Parent Company, each a guarantor and

collectively, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company, as successor trustee to The First National Bank of Boston under the Indenture hereinafter referred to (the "Trustee"). All terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture (as defined below).

WHEREAS, Monitoring, the Parent Company, Protection One Alarm Services, Inc., an Oregon corporation ("Services"), A-Able Lock & Alarm, Inc., a Nevada corporation ("A-Able"), and The First National Bank of Boston entered into an Indenture dated as of May 17, 1995 (the "Indenture") providing for the issuance by Monitoring of up to \$166,000,000 aggregate principal amount 13 5-8% Senior Subordinated Discount Notes due 2005 (the "Discount Notes"); and

WHEREAS, in accordance with applicable provisions of the Indenture, each of Services and A-Able was merged into Monitoring;

WHEREAS, State Street Bank and Trust Company has acquired substantially all of the corporate trust business of The First National Bank of Boston and has thereby become successor trustee under the Indenture;

WHEREAS, Section 9.01 of the Indenture provides that Monitoring and the Guarantors, in each case when authorized by a resolution of such company's board of directors (or, in the case of a Guarantor, any committee of such company's board of directors duly authorized to act under the Indenture), and the Trustee, at any time and from time to time, may, without the consent of any Holder, enter into an indenture supplemental to the Indenture for the purpose of, among other things, adding a Note Guarantee;

WHEREAS, pursuant to said Section 9.01, Metrol Security Services, Inc., a Delaware corporation ("Metrol"), Sonitrol of Arizona, Inc., an Arizona corporation ("Sonitrol"), Monitoring, the Parent Company and the Trustee thereafter entered into a First Supplemental Indenture dated as of July 26, 1996 for the purpose of adding Note Guarantees by Metrol and Sonitrol;

WHEREAS, in accordance with applicable provisions of the Indenture, Metrol and Sonitrol thereafter were merged into Monitoring;

WHEREAS, pursuant to Sections 4.21 and 11.05 of the Indenture, Monitoring, the Parent Company and Security Holdings desire to provide for a Note Guarantee of payment of the Securities by Security Holdings;

WHEREAS, Monitoring and the Guarantors desire among other things to amend the preamble of the Indenture to reflect the addition of Security Holdings as a Guarantor; and

WHEREAS, all things necessary to make this Second Supplemental Indenture a valid indenture supplemental to the Indenture have been done;

NOW, THEREFORE, THIS SECOND SUPPLEMENTAL INDENTURE WIT-
NESSETH:

For and in consideration of the premises, it is hereby mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE I

AMENDMENT OF THE INDENTURE

A. Preamble. The preamble of the Indenture is hereby amended and restated in its entirety to read as follows:

"INDENTURE dated as of May 17, 1995 by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Monitoring"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company"), and SECURITY HOLDINGS, INC., an Oregon corporation ("Security Holdings", and together with the Parent Company, the "Guarantors"), as Guarantors (collectively, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company, as trustee (the "Trustee")."

B. Note Guarantees. Pursuant to Section 4.21 of the Indenture, Security Holdings hereby provides a Note Guarantee of payment of the Securities by such Restricted Subsidiary pursuant to Article Eleven of the Indenture,

C. References to Guarantors. Any reference in any Section of the Indenture to the Guarantors or any of them shall be deemed to include Security Holdings.

ARTICLE II

MISCELLANEOUS

I. Execution of Supplemental Indenture. This Second Supplemental Indenture is executed and shall be construed as an indenture supplemental to the Indenture and, as provided in the Indenture, this Second Supplemental Indenture forms a part thereof. The Indenture, as supplemented and amended by the First Supplemental Indenture and this Second Supplemental Indenture, is in all respects hereby adopted, ratified and confirmed and shall remain in full force and effect in accordance with its terms.

A. Responsibility for Recitals. etc. The recitals herein shall be taken as the statements of Monitoring and the Guarantors, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Second Supplemental Indenture.

B. Provisions Binding on Successors. All the covenants and agreements in this Second Supplemental Indenture by Monitoring and the Guarantors shall bind their respective successors and assigns whether so expressed or not.

C. Governing Law. This Second Supplemental Indenture shall be governed by

the internal laws of the State of New York.

D. Execution and Counterparts. This Second Supplemental Indenture may be executed in

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any number of counterparts, each of which shall be an original but such counterparts shall together constitute but one and the same instrument.

This Second Supplemental Indenture shall become effective immediately upon its execution and delivery by Monitoring, each of the Guarantors and the Trustee.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed, all as of the date first written above.

PROTECTION ONE ALARM MONITORING, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

PROTECTION ONE, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

SECURITY HOLDINGS, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

STATE STREET BANK AND TRUST COMPANY,

as Trustee

By: ANDREW M. SINASKY

Name: Andrew M. Sinasky

Title: Assistant Vice President

Protection One Alarm Monitoring, Inc.,
as Issuer

Protection One, Inc.
and
Security Holdings, Inc.
as Guarantors

6 3/4% Convertible Senior Subordinated Discount Notes Due 2003

Supplemental Indenture No. 2
dated as of October 28, 1996

to

Subordinated Debt Shelf Indenture
dated as of August 29, 1996
as amended and supplemented by
Supplemental Indenture No. 1
dated as of September 20, 1996

State Street Bank and Trust Company,
as Trustee

SUPPLEMENTAL INDENTURE NO. 2 dated as of October 28, 1996, by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Monitoring"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company") and SECURITY HOLDINGS, INC., an Oregon corporation ("Security Holdings" and together with the Parent Company, each a guarantor and collectively, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company ("State Street"), as successor trustee to The First National Bank of Boston under the Indenture hereinafter referred to (the

"Trustee"). All terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Indenture (as defined below).

WHEREAS, Monitoring and the Parent Company and State Street entered into a Subordinated Debt Shelf Indenture dated as of August 29, 1996 (the "Shelf Indenture") providing for the issuance by Monitoring of up to \$150,000,000 aggregate principal amount of debt securities;

WHEREAS, pursuant to Supplemental Indenture No. 1 dated as of September 20, 1996 to the Shelf Indenture ("Supplemental Indenture No. 1", and the Shelf Indenture as amended and supplemented by Supplemental Indenture No. 1 the "Indenture"), Monitoring issued \$103,500,000 aggregate principal amount of 6 3/4% Convertible Senior Subordinated Notes due 2003 (the "Convertible Notes");

WHEREAS, Section 8.01 of the Indenture provides that Monitoring, when authorized by a resolution of the Issuer's board of directors, and the Trustee, at any time and from time to time, may, without the consent of any Holder, enter into an indenture supplemental to the Indenture for the purpose of, among other things, adding a Note Guarantee;

WHEREAS, pursuant to Sections 3.07 and 13.05 of the Indenture, Monitoring, the Parent Company and Security Holdings desire to provide for a Note Guarantee of payment of the Securities by Security Holdings;

WHEREAS, Monitoring and the Guarantors desire among other things to amend the preamble of the Indenture to reflect the addition of Security Holdings as a Guarantor; and

WHEREAS, all things necessary to make this Supplemental Indenture No. 2 a valid indenture supplemental to the Indenture have been done;

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 2 WITNESSETH:

For and in consideration of the premises, it is hereby mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE I

AMENDMENT OF THE INDENTURE

A. Preamble. The preamble of the Indenture is hereby amended and restated in its entirety to read as follows:

"THIS INDENTURE, dated as of August 29, 1996, by and among PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation (the "Issuer"), PROTECTION ONE, INC., a Delaware corporation (the "Parent Company"), SECURITY HOLDINGS, INC., an Oregon corporation ("Security

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Holdings", and together with the Parent Company, the "Guarantors"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company, as trustee (the "Trustee")."

B. Note Guarantees. Pursuant to Section 3.29 of the Indenture, Security Holdings hereby provides a Note Guarantee of payment of the Securities by such Restricted Subsidiary pursuant to Article Thirteen of the Indenture,

C. References to Guarantors. Any reference in any Section of the Indenture to the Guarantors or any of them shall be deemed to include Security Holdings.

ARTICLE II

MISCELLANEOUS

1. Execution of Supplemental Indenture. This Supplemental Indenture No. 2 is executed and shall be construed as an indenture supplemental to the Shelf Indenture and, as provided in the Indenture, this Supplemental Indenture No. 2 forms a part thereof. The Shelf Indenture, as supplemented and amended by the Supplemental Indenture No. 1 and this Supplemental Indenture No. 2, is in all respects hereby adopted, ratified and confirmed and shall remain in full force and effect in accordance with its terms.

A. Responsibility for Recitals. etc. The recitals herein shall be taken as the statements of Monitoring and the Guarantors, and the Trustee assumes no responsibility for the correctness thereof. The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture No. 2.

B. Provisions Binding on Successors. All the covenants and agreements in this Supplemental Indenture No. 2 by Monitoring and the Guarantors shall bind their respective successors and assigns whether so expressed or not.

C. Governing Law. This Supplemental Indenture No. 2 shall be governed by the internal laws of the State of New York.

D. Execution and Counterparts. This Supplemental Indenture No. 2 may be executed in any number of counterparts, each of which shall be an original but such counterparts shall together constitute but one and the same instrument.

This Supplemental Indenture No. 2 shall become effective immediately upon its execution and delivery by Monitoring, each of the Guarantors and the Trustee.

SIGNATURES

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture No. 2 to be duly executed, all as of the date first written above.

PROTECTION ONE ALARM MONITORING, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

PROTECTION ONE, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

SECURITY HOLDINGS, INC.

By: JOHN W. HESSE

John W. Hesse
Executive Vice President and
Chief Financial Officer

STATE STREET BANK AND TRUST COMPANY,
as Trustee

By: ANDREW M. SINASKY

Name: Andrew M. Sinasky
Title: Assistant Vice President

REVOLVING NOTE (1)

\$75,000,000

Chicago, Illinois
June 7, 1996

FOR VALUE RECEIVED, the undersigned, Protection One Alarm Monitoring, Inc., a Delaware corporation ("Borrower"), hereby unconditionally promises to pay to the order of Heller Financial, Inc., a Delaware corporation ("Lender"), at the office of Agent (as defined in the Credit Agreement) at 500 West Monroe Street, Chicago, Illinois 60611, or at such other place as Agent may from time to time designate in writing, in lawful money of the United States of America and in immediately available funds, the principal sum of SEVENTY-FIVE MILLION DOLLARS (\$75,000,000) or, if less, the aggregate unpaid principal amount of the Revolving Loan advanced by Lender pursuant to that certain Amended and Restated Credit Agreement dated as of the date hereof among Borrower, Heller Financial, Inc., as Agent and as Lender, and certain other Persons signatory thereto, together with Heller, as Lenders (as the same may from time to time hereafter be amended, supplemented, restated or modified, the "Credit Agreement").

This Revolving Note is referred to in and was executed and delivered pursuant to and evidences obligations of Borrower under the Credit Agreement, to which reference is hereby made for a statement of the terms and conditions under which the loans evidenced hereby are made and are to be repaid and for a statement of Agent's and Lenders' remedies upon the occurrence of an Event of Default as defined therein. The Credit Agreement is incorporated herein by reference in its entirety. All capitalized terms used in this Revolving Note shall have the meanings ascribed to them by the Credit Agreement, unless otherwise defined herein.

This Revolving Note is secured pursuant to the Security Agreement and the other Security Documents. Reference is made to the foregoing documents for a statement of terms and conditions of such security.

This Revolving Note shall be paid in full as provided in the Credit Agreement. Borrower further promises to pay interest, including default interest, on the outstanding unpaid principal amount hereof, as provided in the Credit Agreement. Interest shall be calculated on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

If a payment hereunder becomes due and payable hereunder on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day, and interest shall be payable thereon during such extension at the applicable rate specified in the Credit Agreement. Credit for

payments made by Borrower shall, for the purpose of computing interest earned by Lender, be given in accordance with the Credit Agreement.

In no event shall interest charged hereunder, however such interest may be characterized or computed, exceed the highest rate permissible under any law which a court of competent jurisdiction shall, in a final determination, deem applicable hereto. In the event that such a court determines that Lender has received interest hereunder in excess of the highest rate applicable hereto, such excess interest shall be applied in accordance with the term of the Credit Agreement.

Borrower hereby waives demand, presentment, protest, and notice of demand, presentment, protest and nonpayment. Except for such notice as may be specifically provided for in the Credit Agreement, Borrower also waives all rights to notice and hearing of any kind prior to the exercise by Agent, on behalf of

(1) Notes in different principal amounts were executed by the Borrower in favor of each of the other "Lenders" under the Amended and Restated Credit Agreement dated as of June 7, 1996.

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Lenders, of the right to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

In addition to and not in limitation of the foregoing and the provisions of the Credit Agreement, Borrower further agrees, subject only to any limitation imposed by applicable law, to pay all fees, costs and expenses, including reasonable attorney's fees and legal expenses, incurred by the holder of this Revolving Note in endeavoring to collect any amounts payable hereunder which are not paid when due, whether by acceleration or otherwise.

THIS REVOLVING NOTE SHALL BE DEEMED TO HAVE BEEN DELIVERED AND MADE AT CHICAGO, ILLINOIS AND SHALL BE INTERPRETED AND THE RIGHTS AND LIABILITIES OF THE PARTIES HERETO DETERMINED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS) AND DECISIONS OF THE STATE OF WHENEVER POSSIBLE EACH PROVISION OF THE REVOLVING NOTE SHALL BE INTERPRETED IN SUCH MANNER AS TO BE EFFECTIVE AND VALID UNDER APPLICABLE LAW, BUT IF ANY PROVISION OF THIS REVOLVING NOTE SHALL BE PROHIBITED BY OR INVALID UNDER APPLICABLE LAW, SUCH PROVISION SHALL BE INEFFECTIVE TO THE EXTENT OF SUCH PROHIBITION OR INVALIDITY, WITHOUT INVALIDATING THE REMAINDER OF SUCH PROVISION OR THE REMAINING PROVISIONS OF THIS REVOLVING NOTE. WHENEVER IN THIS REVOLVING NOTE REFERENCE IS MADE TO AGENT, ANY OF THE LENDERS OR BORROWER, SUCH REFERENCE SHALL BE DEEMED TO INCLUDE, AS APPLICABLE, A REFERENCE TO THEIR RESPECTIVE SUCCESSORS AND ASSIGNS. THE PROVISIONS OF THIS REVOLVING NOTE SHALL BE BINDING UPON AND SHALL INURE TO THE BENEFIT OF SUCH SUCCESSORS AND ASSIGNS. THE PROVISIONS OF THIS REVOLVING NOTE SHALL BE BINDING UPON AND SHALL INURE TO THE

BENEFIT OF SUCH SUCCESSORS AND ASSIGNS. BORROWER'S SUCCESSORS AND ASSIGNS SHALL INCLUDE, WITHOUT LIMITATION, A RECEIVER, TRUSTEE OR DEBTOR-IN-POSSESSION OF OR FOR BORROWER.

This Revolving Note supersedes, amends and restates the revolving note (the "Existing Note") issued to Lender pursuant to the Existing Credit Agreement. This Revolving Note is issued in substitution and replacement of such Existing Note and not in payment thereof and any and all amounts outstanding pursuant to such Existing Note shall be evidenced by this Revolving Note and shall be paid in accordance with the terms hereof.

IN WITNESS WHEREOF, this Revolving Note has been duly executed and delivered by Borrower as of the date first above written.

PROTECTION ONE ALARM MONITORING, INC.

By: JOHN W. HESSE

Title: Executive Vice President

AMENDED AND RESTATED GUARANTY

This AMENDED AND RESTATED GUARANTY ("Guaranty") is dated as of June 7, 1996 by PROTECTION ONE, INC., a Delaware corporation ("Guarantor"), having an office at 3900 S.W. Murray Boulevard, Beaverton, Oregon 97005, in favor of HELLER FINANCIAL, INC., a Delaware corporation, individually and as agent (the "Agent") for the other Lenders under the Credit Agreement (as hereinafter defined), having an office at 500 West Monroe Street, Chicago, Illinois 60661.

WHEREAS, the Guarantor is the legal and beneficial owner of all of the issued and outstanding capital stock of Protection One Alarm Monitoring, Inc., a Delaware corporation ("Debtor");

WHEREAS, the Agent and the other Lenders named therein have entered into that certain Amended and Restated Credit Agreement of even date herewith (as the same may hereafter be further amended, supplemented or otherwise modified from time to time, the "Credit Agreement") with the Debtor;

WHEREAS, the Debtor will become liable for the "Obligations" (as defined in the Credit Obligations being hereinafter referred to as the "Indebtedness"); and

WHEREAS, the Guarantor will derive substantial benefit and advantage from the financial accommodations to the Debtor set forth in the Credit Agreement, including the loans and advances made to the Debtor thereunder, and it will be to the Guarantor's direct interest and economic benefit to assist the Debtor in procuring such financial accommodations from the Lender;

NOW, THEREFORE, for and in consideration of the premises and in order to induce the Lenders to enter into the Credit Agreement and to make loans thereunder, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Guarantor hereby agrees as follows (unless otherwise defined herein all capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement):

1. Guaranty of Payment.

(a) The Guarantor hereby unconditionally guarantees the full and prompt payment to the Lenders, when due, upon demand, at maturity or by reason of acceleration or otherwise and at all times thereafter, of any and all of the Indebtedness.

(b) The Guarantor acknowledges that valuable

consideration supports this Guaranty, including, without limitation, the consideration set forth in the recitals above as well as any commitment to lend, extension of credit or other financial accommodation, whether heretofore or hereafter made by the Lenders to the Debtor, any extension, renewal or replacement of any of the Indebtedness; any forbearance with respect to any of the Indebtedness or otherwise any cancellation of an existing guaranty, any purchase of any of the Debtor's assets by the Lenders; or any other valuable consideration.

(c) The Guarantor agrees that all payments under this Guaranty shall be made in United States currency and in the same manner as provided for the Indebtedness.

2. Agent's and Lenders' Costs and Expenses. The Guarantor agrees to pay on demand, if not paid by the Debtor, all costs and expenses of every kind incurred by the Agent or the Lenders: (a) in enforcing this Guaranty; (b) in collecting any of the Indebtedness from the Debtor or the Guarantor; (c) in realizing upon or protecting any collateral for this Guaranty or for payment of any of the Indebtedness; and (d) for any other purpose related to the Indebtedness or this Guaranty. "Costs and expenses" as used in the preceding sentence shall include, without limitation, attorneys' fees incurred by the Agent or any Lender in retaining counsel for advice, suit, appeal, any insolvency or other proceedings under the United States Bankruptcy Code or otherwise, or for any purpose specified in the preceding sentence.

3. Nature of Guaranty Continuing, Absolute and Unconditional.

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(a) This Guaranty is and is intended to be a continuing guaranty of payment of the Indebtedness, independent of and in addition to any other guaranty, endorsement, collateral or other agreement held by the Agent or the Lenders therefor or with respect thereto, whether or not furnished by the Guarantor, The obligations of the Guarantor to repay the Indebtedness hereunder shall be unlimited. Notwithstanding anything to the contrary in this Guaranty, the Guarantor hereby irrevocably waives all rights which may have arisen in connection with this Guaranty to be subrogated to any of the rights (whether contractual, under the Bankruptcy code, including section 509 thereof, under common law or otherwise) of the Agent or any Lender against the Debtor or against any collateral security or guarantee or right of offset held by the Agent or any Lender for the payment of the Indebtedness. The Guarantor hereby further irrevocably waives all contractual, common law, statutory or other rights of reimbursement, contribution, exoneration or indemnity (or any similar right) from or against the Debtor or any other Person which may have arisen in connection with this Guaranty So long as the Indebtedness remains outstanding, if any amount shall be paid by or on behalf of the Debtor to the Guarantor on account of any of the fights waived in this paragraph, such amount shall be held by the Guarantor in trust,

segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Agent in the exact form received by the Guarantor (duly endorsed by the Guarantor to the Agent if required), to be applied against the Indebtedness, whether matured or unmatured, in such order as the Agent may determine. The provisions of this paragraph shall survive the term of this Guaranty and the payment in full of the Indebtedness and the termination of the Commitments. Notwithstanding the foregoing, in the event of the bankruptcy or insolvency of the Debtor, the Agent, on behalf of the Lenders, shall be entitled notwithstanding the foregoing, to file in the name of the Guarantor or in its own name a claim for any and all indebtedness owing to the Guarantor by the Debtor, vote such claim and to apply the proceeds of any such claim to the Indebtedness.

(b) For the further security of the Lenders and without in any way diminishing the liability of the Guarantor, following the occurrence of an Event of Default and acceleration of the Indebtedness, all debts and liabilities, present or future of M1 Debtor to the Guarantor and all monies received from the Debtor or for its account by the Guarantor in respect thereof shall be received in trust for the Agent and the Lenders and forthwith upon receipt shall be paid over to the Agent, for the benefit of the Lenders, until all of the Indebtedness has been paid in full. This assignment and postponement is independent of and severable from this Guaranty and shall remain in full force and effect whether or not the Guarantor is liable for any amount under this Guaranty.

(c) This Guaranty is absolute and unconditional and shall not be changed or affected by any representation, oral agreement, act or thing whatsoever, except as herein provided. This Guaranty is intended by the Guarantor to be the final, complete and exclusive expression of the guaranty agreement between the Guarantor and the Agent. No modification or amendment of any provision of this Guaranty shall be effective unless in writing and signed by a duly authorized officer of the Agent.

4. Certain Rights and Obligations.

(a) The Guarantor authorizes the Agent and the Lenders, without notice, demand or any reservation of rights against the Guarantor and without affecting the Guarantor's obligations hereunder, from time to time: (i) to renew, extend, increase, accelerate or otherwise change the time for payment of, the terms of or the interest on the Indebtedness or any part thereof or grant other indulgences to the Debtor or others; (ii) to accept from any Person and hold collateral for the payment of the Indebtedness or any part thereof, and to modify, exchange, enforce or refrain from enforcing, or release, compromise, settle, waive, subordinate or surrender, with or without consideration, such collateral or any part thereof, (iii) to accept and hold any endorsement or guaranty of payment of the Indebtedness or any part thereof, and to discharge, release or

substitute any such obligation of any such endorser or guarantor, or any Person who has given any security interest in any collateral as

security for the payment of the Indebtedness or any part thereof or any other Person in any was obligated to pay the Indebtedness or any part thereof, and to enforce or refrain from enforcing, or compromise or modify, the terms of any obligation of any such indorser, guarantor, or Person, (iv) to dispose of any and all collateral securing the Indebtedness in any manner as the Agent or the Lenders, in their sole discretion, may deem appropriate, and to direct the order or manner of such disposition and the enforcement of any and all endorsements and guaranties relating to the Indebtedness or any part thereof as the Agent or the Lenders, in their sole discretion may determine, (v) to determine the manner, amount and time of application of payments and credits, if any, to be made on all or any part of any component or components of the Indebtedness (whether principal, interest, fees, costs, and expenses, or otherwise), including, without limitation, the application of payments received from any source to the payment of indebtedness other than the Indebtedness even though the Lenders might lawfully have elected to apply such payments to the Indebtedness to amounts which are not covered by this Guaranty; and (VI) to take advantage or refrain from taking advantage of any security or accept or make or refrain from accepting or making any compositions or arrangements when and in such manner as the Agent or the Lenders, in their sole discretion, may deem appropriate and generally do or refrain from doing any act or thing which might otherwise, at law or in equity, release the liability of Guarantor as a guarantor or surety in whole or in part, and in no case shall the Lenders or Agent be responsible or shall the Guarantor be released either in whole or in part for any act or omission in connection with the Lenders or Agent having sold any security at an under value.

(b) If any default shall be made in the payment of any of the Indebtedness and any grace period has expired with respect thereto, the Guarantor hereby agrees to pay the same in full to the extent hereinafter provided: (i) without deduction by reason of any setoff, defense (other than payment) or counterclaim of the Debtor, (ii) without requiring presentment, protest or notice of nonpayment or notice of default to the Guarantor, to the Debtor or to any other Person; (iii) without demand for payment or proof of such demand or filing of claims with a court in the event of receivership, bankruptcy or reorganization of the Debtor, (iv) without requiring the Agent or the Lenders to resort first to the Debtor (this being a guaranty of payment and not of collection) or to any other guaranty or any collateral which the Agent or the Lenders may hold; (v) without requiring notice of acceptance hereof or assent hereto by the Agent;

and (VI) without requiring notice that any of the Indebtedness has been incurred, extended or continued or of the reliance by the Agent or the Lenders upon this Guaranty, all of which the Guarantor hereby waives.

(c) The Guarantor's obligation hereunder shall not be affected by any of the following, all of which the Guarantor hereby waives (i) any failure to perfect or continue the perfection of any security interest in or other lien on any Collateral securing payment of any of the Indebtedness or the Guarantor's obligation hereunder, (ii) the invalidity, unenforceability, propriety, of manner of enforcement of, or loss or change in priority of any such security interest or other lien or guaranty of the Indebtedness; (iii) any failure to protect, preserve or insure any such Collateral, (iv) failure of the Guarantor to receive notice of any intended disposition of such Collateral; (v) any defense arising by reason of the cessation from any cause whatsoever of liability of the Debtor, including, without limitation, any failure, negligence or omission by the Agent or the Lenders in enforcing their claims against the Debtor, (vi) any release, settlement or compromise of any obligation of the Debtor, (vii) the invalidity or unenforceability of any of the Indebtedness; (viii) any change of ownership of the Debtor or the insolvency, bankruptcy or any other change in the legal status of the Debtor. (ix) any change in, or the imposition of, any law, decree, regulation or other governmental act which does or might impair, delay or in any way affect the validity, enforceability or the payment when due of the Indebtedness; (x) the existence of any setoff or other right which the Guarantor may have at any time against the Agent, any Lender or the Debtor in connection herewith or any unrelated transaction; (xi) the Lenders' election in any case instituted under chapter 11 of the United States Bankruptcy Code, of the application of section 1111(b)(2) of the United States Bankruptcy Code; (xii) any borrowing, use of cash collateral, or grant of a security interest by the Debtor, as debtor in possession, under sections 363 or 364 of the United States Bankruptcy Code, (xiii) the disallowance of all or any portion of any of the Lenders' claims for repayment of the Indebtedness under sections 502 or 506 of the United States

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Bankruptcy Code; or (xiv) any other fact or circumstance which might otherwise constitute grounds at law or in equity for the discharge or release of the Guarantor from its obligations hereunder, all whether or not the Guarantor shall have had notice or knowledge of any act or omission referred to in the foregoing clauses (i) through (xiv) of this paragraph.

5. Representations and Warranties. The Guarantor further represents and warrants to the Agent and the Lenders that: (a) it is a corporation duly organized, validly existing and in good standing under the laws

of the jurisdiction of its incorporation, and has full power, authority and legal right to own its property and assets and to transact the business in which it is engaged; (b) it has full power, authority and legal right to execute and deliver, and to perform its obligations under, this Guaranty, and has taken all necessary action to authorize the guaranty hereunder on the terms and conditions of this Guaranty and to authorize the execution, delivery and performance of this Guaranty; (c) this Guaranty has been duly executed and delivered by the Guarantor and constitutes the legal, valid and binding obligation of the Guarantor enforceable against the Guarantor in accordance with its terms; and (d) the representations and warranties of the other Loan Parties contained in the Credit Agreement and the other Loan Documents are true, correct and complete in all material respects on and as of the date hereof and all such representations and warranties which are hereafter remade on any subsequent date shall be true, correct and complete in all material respects on and as of such date to the same extent made on and as of such date.

6. Security, Conduct of Business. Concurrently with the execution hereof, Guarantor has entered into that certain Amended and Restated Stock Pledge Agreement dated as of the date hereof with the Agent (the "Stock Pledge Agreement"), pursuant to which the Guarantor has pledged the Pledged Stock (as defined in the Stock Pledge Agreement) to the Agent, for the benefit of the Lenders, as security for, among other things, its performance and obligations under this Guaranty, The Guarantor warrants and represents to and covenants with the Agent and the Lenders that: (a) the Guarantor has good, indefeasible and merchantable title to all of its assets; (b) the Guarantor shall not sell or dispose of any of the Pledged Stock and shall not grant a security interest in or permit a lien, claim or encumbrance upon any of its assets in favor of any third party other than its pledge of the Pledged Stock to the Agent, for the benefit of the Lenders; (c) the Debtor will at all times be a wholly-owned subsidiary of the Guarantor and (d) the Guarantor will not engage in any type of business activity other than ownership of the capital stock of the Debtor and the performance of its obligations under this Guaranty, the Stock Pledge Agreement and any other Loan Document to which it is a party.

7. Termination. This Guaranty shall remain in full force and effect until an officer of Agent shall actually receive from the Guarantor written notice of its discontinuance; provided, however, this Guaranty shall remain in full force and effect thereafter until all of the Indebtedness outstanding, or contracted or committed for (whether or not outstanding), before the receipt of such notice by Agent, and any extensions, renewals or replacements thereof (whether made before or after receipt of such notice), together with interest accruing thereon after such notice, shall be finally and irrevocably paid in full. Payment of all of the Indebtedness from time to time shall not operate as a discontinuance of this Guaranty. The Guarantor further agrees that, to the extent that the Debtor makes a payment or payments to the Agent or any of the Lenders on the Indebtedness, or the Agent or any of the Lenders receive any proceeds of Collateral securing the Indebtedness, which payment or receipt of proceeds or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be returned or repaid to the Debtor, its estate, trustee, receiver, debtor in possession or any other Person, including, without limitation, any guarantor, under any

insolvency or bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such payment, return or repayment, the obligation or part thereof which has been paid, reduced or satisfied by such amount shall be reinstated and continued in full force and effect as of the date when such initial payment, reduction or satisfaction occurred, and this Guaranty shall continue in full force notwithstanding any contrary action which may have been taken by the Agent or the Lenders in reliance upon such payment, and any such contrary action so taken shall be without prejudice to the Agent's or the Lenders' rights under this Guaranty and shall be deemed to have been conditioned upon such payment having become final and irrevocable

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8. Guaranty of Performance. The Guarantor also guarantees the full, prompt and unconditional performance of all obligations and agreements of every kind owed or hereafter to be owed by the Guarantor or the Debtor to the Agent or the Lenders Every provision for the benefit of the Agent or the Lenders contained in this Guaranty shall apply to the guaranty of performance given in this paragraph. Without limiting the foregoing, the Guarantor shall cause each other Loan Party to perform all obligations and agreements of such Loan Party contained in the Credit Agreement or any other Loan Document in accordance with the terms thereof

9. Assumption of Liens and Indebtedness. To the extent that the Guarantor has received or shall hereafter receive contributions to its capital consisting of assets of the Debtor that are subject, at the time of such contribution, to liens and security interests in favor of the Agent or the Lenders in accordance with the Credit Agreement, the Guarantor hereby expressly agrees that: (1) it shall hold such assets subject to such liens and security interests and subject to the terms of the Credit Agreement; and (ii) it shall be liable for the payment of the Indebtedness secured thereby, The Guarantor's obligations under this Section 9 shall be in addition to its obligations as set forth in other sections of this Guaranty and not in substitution therefor or in lieu thereof

10. Parents. The Guarantor covenants and agrees that the Obligations will be paid strictly in accordance with their respective terms regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Agent or the Lenders with respect thereto. Without limiting the generality of the foregoing, the Guarantor's obligations hereunder with respect to any Obligations shall not be discharged by a payment in a currency other than the currency in which the Obligations are denominated (the "Obligation Currency") or at a place other than the place specified for the payment of the Obligations, whether pursuant to a judgment or otherwise, to the extent that the amount so paid on conversion to the Obligation Currency and transferred to Chicago,, Illinois under normal banking procedures, does not yield the amount of Obligation Currency due thereunder.

11. Taxes. All payments hereunder shall be made without any counterclaim or setoff, free and clear of, and without reduction by reason of, any taxes, levies, imposts, charges and withholdings, restrictions or conditions of any nature ("Taxes"), which are now or may hereafter be imposed, levied or assessed by any country, political subdivision or taxing authority, all of which will be for the account of and paid by the Guarantor. If for any reason, any such reduction is made or any Taxes are paid by the Agent or the Lenders, the Guarantor will pay to the Agent or the Lenders such additional amounts as may be necessary to ensure that the Agent or the Lenders receives the same net amount which they would have received had no reduction been made or Taxes paid.

12. Miscellaneous.

(a) The terms "Debtor" and the "Guarantor" as used in this Guaranty shall include: (i) any successor individual or individuals, association, partnership or corporation to which all or a substantial part of the business or assets of the Debtor or the Guarantor shall have been transferred; and (ii) any other corporation into or with which the Debtor or the Guarantor shall have been merged, consolidated, reorganized or absorbed.

(b) Without limiting any other right of the Agent of the Lenders, whenever the Agent or the Lenders have the right to declare any of the Indebtedness to be immediately due and payable (whether or not it has been so declared), the Lenders at their sole election without notice to the undersigned may appropriate and set off against the Indebtedness: (i) any and all indebtedness or other monies due or to become due to the Guarantor by the Agent or any of the Lenders in any capacity; and (ii) any credits or other property belonging to the Guarantor (including all account balances, whether provisional or final and whether or not collected or available) at any time held by or coming into the possession of the Agent or any of the Lenders, or any affiliate of the Agent or any of the Lenders, whether for deposit or otherwise, whether or not the Indebtedness or the obligation to pay such monies owed by the Agent or the Lenders is then due, and the Agent or the Lenders shall be

deemed to have exercised such right of set off immediately at the time of such election even though any charge therefor is made or entered on the Agent's or the Lender's records subsequent thereto.

(c) The Guarantees obligation hereunder is to pay the Indebtedness in full] when due according to the Credit Agreement to the extent provided herein, and shall not be affected by any stay or extension of time for payment by the Debtor resulting from any proceeding under the United States Bankruptcy Code or any similar law

(d) The Agent or the Lenders shall not by any act, delay, omission or otherwise be deemed to have waived any of their remedies hereunder, and no waiver by the Agent or the Lenders shall be valid unless in writing and signed by the Agent or the Lenders and then only to the extent therein set forth. A waiver by the Agent or the Lenders of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Agent or the Lenders would otherwise have on any further occasion, No course of dealing between the Guarantor and the Agent or the Lenders and no failure to exercise, nor any delay in exercising on the part of the Agent or the Lenders, any right, power or privilege hereunder or under the Credit Agreement shall impair such right or remedy or operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law

(e) The term "Lenders" as used herein shall have the same meaning as in the Credit Agreement and this Guaranty shall inure to the benefit of the Agent and the Lenders under the Credit Agreement

(f) Section headings in this Guaranty are included herein for convenience of reference only and shall not constitute a part of this Guaranty for any other purpose or be given any substantive effect

(g) THE GUARANTOR AGREES THAT ANY ACTION OR PROCEEDING ARISING OUT OF OR TO ENFORCE THIS GUARANTY MAY BE COMMENCED IN THE FEDERAL DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS, OR IF SUCH COURT DENIES JURISDICTION, IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS, AND THE GUARANTOR WAIVES PERSONAL SERVICE OF PROCESS AND AGREES THAT A SUBSTITUTION AND COMPLAINT COMMENCING AN ACTION OR PROCEEDING IN ANY SUCH COURT SHALL BE PROPERLY SERVED AND SHALL CONFER PERSONAL JURISDICTION IF SERVED BY MESSENGER OR REGISTERED MAIL TO THE GUARANTOR AND, IF BY REGISTERED MAIL, SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED THREE (3) DAYS AFTER THE SAME SHALL HAVE BEEN POSTED, OR AS OTHERWISE PROVIDED BY THE LAWS OF ILLINOIS OR THE UNITED STATES.

(h) Any provision of this Guaranty which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

(i) THIS GUARANTY SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS.

13. Notices. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by overnight courier service or United States mail certified or registered and shall be deemed to have been given (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 5:00 p.m. (Chicago time) or, if not, on the next succeeding Business Day, (c) if delivered by overnight courier, two Business Days

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after delivery to such courier properly addressed; or (d) if by United States mail, four Business Days after depositing in the United States mail, with postage prepaid and properly addressed.

Notices shall be addressed as follows:

(a) If to Guarantor
Protection One, Inc.
3900 5.W. Murray Boulevard
Beaverton, Oregon 97005
Attn John W. Hesse

With a copy to

Protection One, Inc.
6011 Bristol Parkway
Culver City, Los Angeles, California 90230
Attn James W. MacKenzie, Jr., President

(b) If to Agent

Heller Financial, Inc.
500 West Monroe Street
Chicago, Illinois 60661
Attn: Portfolio Manager

Portfolio Organization
Corporate Finance Group
Telecopy: (312) 441-7367

With a copy to:

Heller Financial, Inc.
500 West Monroe Street Chicago, Illinois 60661
Attn: Leo Department

or in any case, to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section

14. A notice not given as provided above shall, if it is in writing, be deemed given if and when actually received by the party to whom given

15. Waivers.

(a) THE GUARANTOR WAIVES THE BENEFIT OF ALL VALUATION, APPRAISAL AND EXEMPTION LAWS.

(b) IN THE EVENT OF A DEFAULT UNDER THE CREDIT AGREEMENT, THE GUARANTOR HEREBY WAIVES ALL RIGHTS TO NOTICE AND HEARING OF ANY KIND PRIOR TO THE EXERCISE BY THE AGENT OR THE LENDERS OF THEIR RIGHTS TO REPOSSESS THE COLLATERAL WITHOUT JUDICIAL PROCESS OR TO

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REPLEVY, ATTACH OR LEVY UPON THE COLLATERAL WITHOUT PRIOR NOTICE OR HEARING. THE GUARANTOR ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY COUNSEL OF ITS CHOICE WITH RESPECT TO THIS TRANSACTION AND THIS GUARANTY.

(c) THE GUARANTOR AND AGENT ACKNOWLEDGE THAT THE TIME AND EXPENSE REQUIRED FOR TRIAL BY JURY EXCEED THE TIME AND EXPENSE REQUIRED FOR A BENCH TRIAL AND HEREBY WAIVE, TO THE EXTENT PERMITTED BY LAW, TRIAL BY JURY. THE GUARANTOR HEREBY WAIVES, TO THE EXTENT PERMITTED BY LAW, ANY OBJECTION BASED ON FORUM NON CONVENIENS, ANY OBJECTION TO VENUE OF ANY ACTION INSTITUTED HEREUNDER, AND WAIVES ANY BOND OR SECURITY UPON SUCH BOND WHICH MIGHT, BUT FOR THIS WAIVER BE REQUIRED OF THE AGENT OR THE LENDERS.

(d) THE GUARANTOR HEREBY WAIVES ANY RIGHT TO REQUIRE A PROCEEDING FIRST AGAINST THE DEBTOR OR RIGHT TO REQUIRE THE PRIOR DISPOSITION OF THE ASSETS OF THE DEBTOR TO MEET ITS OBLIGATIONS AND COVENANTS THAT THIS GUARANTY WILL NOT BE DISCHARGED EXCEPT BY COMPLETE PERFORMANCE OF THE OBLIGATIONS OF THE DEBTOR UNDER THE CREDIT AGREEMENT.

16. Effect of Restatement. This Guaranty amends, restates and supersedes that certain Guaranty dated as of November 3, 1993, by guarantor in favor of Agent (the "Existing Guaranty"); provided, that all references in the other Loan Documents to the Existing Guaranty shall be deemed to refer without amendment to this Guaranty.

IN WITNESS WHEREOF, this Guaranty has been executed as of the day first written above.

PROTECTION ONE, INC

By: JOHN W. HESSE

Title: Executive Vice President

Accepted and Agreed to as of the day first written above.

HELLER FINANCIAL, INC.,
individually and as Agent for
the Lenders

By: TIMOTHY CANON

Title: Vice President

AMENDED AND RESTATED STOCK PLEDGE AGREEMENT

This AMENDED AND RESTATED STOCK PLEDGE AGREEMENT ("Agreement") is dated as of June 7, 1996, by and between PROTECTION ONE, INC., a Delaware corporation ("Pledgor"), having an office at 3900 S.W. Murray Boulevard, Beaverton, Oregon 97005 and HELLER FINANCIAL, INC., a Delaware corporation, individually and as agent ("Agent") for the other Lenders under the Credit Agreement (as hereinafter defined), having an office at 500 West Monroe Street, Chicago, Illinois 60661.

WHEREAS, Pledgor is the legal and beneficial owner of one hundred percent (100%) of the issued and outstanding capital stock of Protection One Alarm Monitoring, Inc., a Delaware corporation ("Borrower"), all of which stock is described on Exhibit A;

WHEREAS, Borrower has entered into that certain Amended and Restated Credit Agreement dated as of the date hereof (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Credit Agreement") with Agent and the other Lenders named therein;

WHEREAS, the Pledgor has entered into that certain Amended and Restated Guaranty dated as of the date hereof with the Agent (the "Guaranty"), pursuant to which the Pledgor guarantees the Obligations (as defined in the Credit Agreement) of the Borrower under the Credit Agreement;

WHEREAS, the Borrower has received, and may hereafter receive, loans and other financial accommodations from Agent under the Credit Agreement, as a result of which it has incurred, and will hereafter, incur, Obligations (as hereinafter defined) to the Agent;

WHEREAS, Pledgor acknowledges that, as the sole stockholder of the Borrower, it will receive substantial direct and indirect benefit by reason of the making of loans and other financial accommodations to the Borrower as provided in the Credit Agreement, and it will be to Pledgor's direct interest and economic benefit to assist the Borrower in procuring such financial accommodations from Agent and to induce Agent to make such financial accommodations; and

WHEREAS, Pledgor wishes to grant further security and assurance to Agent in order to secure the performance by Pledgor of its obligations under the Guaranty and by the Borrower of its Obligations under the Credit Agreement and to that effect to pledge to Agent all of the present and future capital stock of the Borrower owned by Pledgor;

NOW, THEREFORE, in consideration of the premises and in order

to induce Agent to make the loans under the Credit Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Pledgor hereby agrees with Agent as follows:

1. Defined Terms. Unless otherwise defined herein, all capitalized terms used herein shall have the meanings ascribed thereto in the Credit Agreement. Terms defined in the Illinois Uniform Commercial Code which are not otherwise defined in this Agreement or in the Credit Agreement are used in this Agreement as defined in the Illinois Uniform Commercial Code as in effect on the date hereof

2. Pledge. Pledgor hereby pledges, assigns, hypothecates, transfers, delivers and grants to Agent, for the benefit of the Lenders, a first Lien on all of the capital stock of the Borrower (collectively, the "Pledged Shares"), all other property hereafter delivered to Pledgor in substitution for or in addition to the Pledged Shares and in all proceeds thereof, and any other property of Pledgor, as described in Section 4 or, otherwise, now or hereafter delivered to, or in the possession or in the custody of, Agent and any and all proceeds thereof as collateral security for: (a) the prompt and complete payment when due (whether at the stated maturity, by acceleration or otherwise) of all the Obligations of the Borrower regardless of whether the Credit Agreement shall have terminated; and (b) the due and punctual payment and performance by Pledgor of its obligations and liabilities under, arising out of or in connection with the Holdings Guaranty and this Agreement (all of the foregoing being referred to hereinafter, collectively, as the "Liabilities"). All of the Pledged Shares are presently represented by the stock certificates listed on Exhibit A, which stock certificates, with undated stock powers duly executed in blank by Pledgor, are being delivered to Agent simultaneously

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herewith. Agent shall maintain possession and custody of the certificates representing the Pledged Shares and shall return the Pledged Shares in accordance with Section 5.

3. Representations and Warranties of Pledgor. Pledgor represents and warrants to Agent that:

(a) With respect to the Borrower, Exhibit B sets forth (i) its authorized capital stock, and (ii) the number of shares of its capital stock that are issued and outstanding as of the date hereof and the number of its shares of capital stock held in its treasury. Pledgor is the record and beneficial owner of, and has good and marketable title to, the Pledged Shares, and such shares are and will remain free and clear of all Liens and other restrictions whatsoever (other than restrictions arising out of federal and state securities laws), except the Liens created by this Agreement;

(b) Pledgor has full power, authority and legal right

to execute the pledge provided for herein and to pledge the Pledged Shares to Agent;

(c) this Agreement has been executed and delivered by Pledgor and constitutes a legal, valid and binding obligation of Pledgor enforceable in accordance with its terms;

(d) there are no outstanding options, warrants or other agreements with respect to the Pledged Shares and there are no outstanding options;

(e) the Pledged Shares have been duly and validly authorized and issued, are fully paid and non-assessable and represent one hundred percent (1000/o) of the issued and outstanding shares of capital stock of the Borrower; and

(f) no consent, approval or authorization of or designation or filing with any authority on the part of Pledgor is required in connection with the pledge and security interest granted under this Agreement;

(g) the execution, delivery and performance of this Agreement will not violate any provision of any applicable law or regulation or of any order, judgment, writ, award or decree of any court, arbitrator or governmental authority, domestic or foreign, or of the charter or by-laws of Pledgor or the Borrower or of any securities issued by Pledgor or the Borrower or of any mortgage, indenture, lease, contract, or other agreement, instrument or undertaking to which Pledgor or the Borrower is a party or which is binding upon Pledgor or the Borrower or upon any of their respective assets, and will not result in the creation or imposition of any lien, charge or encumbrance on or security interest in any of the assets of Pledgor or the Borrower except as contemplated by this Agreement, and

(h) the pledge, assignment and delivery of such Pledged Shares pursuant to this Agreement creates a valid and first lien on and a first perfected security interest in such Pledged Shares and the proceeds thereof in favor of Agent, on behalf of the Lenders, subject to no prior pledge, lien, mortgage, hypothecation, security interest, charge, option or encumbrance or to any agreement purporting to grant to any third party a security interest in the property or assets of Pledgor which would include the Pledged Shares. Pledgor covenants and agrees that it will defend Agent's, on behalf of the Lenders, right, title and security interest in and to the Pledged Shares and the proceeds thereof against the claims and demands of all persons whomsoever.

4. Stock Dividends, Distributions. etc. If, while this Agreement is in effect, Pledgor shall become entitled to receive or shall receive any stock certificate (including, without limitation, any certificate

representing a stock dividend or a stock distribution in connection with any reclassification, increase or reduction of capital, or issued in connection with any reorganization), or any options or rights, whether as an addition to, in substitution for, or in exchange for any of the Pledged Shares, or otherwise, Pledgor agrees to

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accept the same as Agent's agent and to hold the same in trust for Agent, and to deliver the same forthwith to Agent in the exact form received, with the endorsement of Pledgor. when necessary and/or appropriate pursuant to undated stock powers duly executed in blank, to be held by Agent subject to the terms hereof, as additional collateral security for the Liabilities. In case any distribution of capital shall be made on or in respect of the Pledged Shares or any property shall be distributed upon or with respect to the Pledged Shares pursuant to the recapitalization or reclassification of the capital of the issuer thereof or pursuant to the reorganization thereof, the property so distributed shall be delivered to Agent to be held by it, for the benefit of the Lenders, as additional collateral security for the Liabilities. All sums of money and property so paid or distributed in respect of the Pledged Shares which are received by Pledgor shall, until paid or delivered to Agent, be held by Pledgor in trust as additional collateral security for the Liabilities.

5. Administration of Security. The following provisions shall govern the administration of the Pledged Shares:

(a) So long as no Event of Default has occurred and is continuing, Pledgor shall be entitled (subject to the other provisions hereof, including, without limitation, Section 8) (i) to vote or consent with respect to the Pledged Shares and otherwise exercise the incidents of ownership thereof in any manner not inconsistent with this Agreement, the Credit Agreement, the Notes, the Loan Documents or any other document or instrument delivered or to be delivered pursuant to or in connection with the Credit Agreement, and (ii) to receive cash dividends or other distributions in the ordinary course made in respect of the Pledged Shares. Pledgor hereby grants to Agent or its nominee an irrevocable proxy to exercise all voting and corporate rights relating to the Pledged Shares in any instance, including, without limitation, to approve any merger involving the Borrower as a constituent corporation, which proxy shall be effective immediately upon the occurrence of an Event of Default. After the occurrence and during the continuance of an Event of Default and upon the request of Agent, Pledgor agrees to deliver to Agent such further evidence of such irrevocable proxy or such further irrevocable proxies to vote the Pledged Shares as Agent may request;

(b) Upon the occurrence and during the continuance of an Event of Default, in the event that Pledgor, as record and beneficial owner of the Pledged Shares, shall receive or shall have become entitled to receive, any cash dividends or other distributions in the ordinary course, Pledgor shall deliver to Agent, and Agent shall be entitled to receive and retain, all such cash or

other distributions as additional security for the Liabilities, and

(c) Subject to any sale or other disposition by Agent of the Pledged Shares or other property pursuant to this Agreement, upon full payment, satisfaction and termination of all of the Liabilities and the termination pursuant to Section 15 of the Liens hereby granted, the Pledged Shares and any other property then held as part of the Pledged Shares in accordance with the provisions of this Agreement shall be returned to Pledgor.

6. Rights of Agent. Agent shall not be liable for failure to collect or realize upon the Obligations or any collateral security or guaranty therefor, or any part thereof, or for any delay in so doing, nor shall Agent be under any obligation to take any action whatsoever with regard thereto. Any or all of the Pledged Shares held by Agent hereunder may, if an Event of Default has occurred and is continuing, without notice, be registered in the name of Agent or its nominee and Agent or its nominee may thereafter without notice exercise all voting and corporate rights at any meeting with respect to the Borrower and exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Shares as if it were the absolute owner thereof, including, without limitation, the right to vote in favor of, and to exchange at its discretion any and all of the Pledged Shares upon, the merger, consolidation, reorganization, recapitalization or other readjustment with respect to the Borrower or upon the exercise by Agent or the Borrower of any right, privilege or option pertaining to any of the Pledged Shares, and in connection therewith, to deposit and deliver any and all of the Pledged Shares with any committee, depositary, transfer agent, registrar or other designated agency upon such terms and conditions as Agent may determine, all without liability except to account for property actually received by Agent, but Agent shall have no duty to

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exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

7. Remedies. Upon the occurrence and during the continuance of an Event of Default, Agent without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of time and place of public or private sale) to or upon Pledgor or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Pledged Shares, or any part thereof, and/or may forthwith sell, assign, give an option or options to purchase, contract to sell or otherwise dispose of (including the disposition by merger) and deliver such Pledged Shares, or any part thereof, in one or more portions at public or private sale or sales or transactions, at any exchange, broker's board or at any of Agent's offices or elsewhere upon such terms and conditions as Agent may deem advisable and at such prices as it may deem best, for any combination of cash and/or securities or other property or on credit or for future delivery without assumption of any credit risk, with the right to Agent upon any such sale or sales, public or

private, to purchase the whole or any part of such Pledged Shares so sold, free of any right or equity of redemption in Pledgor, which right or equity is hereby expressly waived or released. Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization, sale or disposition, after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the safekeeping or otherwise of any and all of the Pledged Shares or in any way relating to the rights of Agent hereunder, including reasonable attorneys' fees and legal expenses, first to the payment, in whole or in part, of the Obligations incurred under or pursuant to the Credit Agreement in such order (unless a court of competent jurisdiction shall otherwise direct) as Agent may elect. Only after so paying over such net proceeds and after the payment by Agent of any other amount required by any provision of law, including, without limitation, Section 9-504(1)(c) of the Uniform Commercial Code of the State of Illinois, need Agent account for the surplus, if any, to the Pledgor. Pledgor agrees that Agent need not give more than ten (10) days' notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. No notification need be given to Pledgor if it has signed after default a statement renouncing or modifying any right to notification of sale or other intended disposition. In addition to the rights and remedies granted to Agent in this Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Obligations or the Liabilities, Agent shall have all the rights and remedies of a secured party under the Uniform Commercial Code of the State of Illinois and under any other applicable law. Pledgor further agrees to waive and agrees not to assert any rights or privileges which it may acquire under Section 9-112 of the Uniform Commercial Code of the State of Illinois and Pledgor shall be liable for the deficiency if the proceeds of any sale or other disposition of the Pledged Shares are insufficient to pay all amounts to which Agent is entitled, and the fees of any attorneys employed by Agent to collect such deficiency and any other costs and expenses incurred by Agent.

8. No Disposition, etc. Without the prior written consent of Agent, Pledgor agrees that it will not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Pledged Shares, nor will Pledgor create, incur or permit to exist any Lien or any other restriction whatsoever with respect to any of the Pledged Shares, or any interest therein, or any proceeds thereof, except for the Lien provided for by this Agreement. Without the prior written consent of Agent, Pledgor agrees that it will not vote to enable, and will not otherwise permit, the Borrower to (a) issue any stock or other securities of any nature in addition to or in exchange or substitution for the Pledged Shares, or (b) except as expressly provided under the Credit Agreement, dissolve, liquidate, retire any of its capital stock, reduce its capital or merge or consolidate with any other Person.

9. Sale of Pledged Shares.

(a) Pledgor recognizes that Agent may be unable to effect a public sale or disposition of any or all the Pledged Shares by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Act"), and applicable state securities laws, but may be compelled to resort to one or

more private sales or dispositions thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the

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distribution or resale thereof Pledgor acknowledges and agrees that any such private sale or disposition may result in prices and other terms (including the terms of any securities or other property received in connection therewith) less favorable to the seller than if such sale or disposition were a public sale or disposition and, notwithstanding such circumstances, agrees that any such private sale or disposition shall be deemed to be reasonable and affected in a commercially reasonable manner. Agent shall be under no obligation to delay a sale or disposition of any of the Pledged Shares in order to permit Pledgor or the Borrower as the case may be, to register such securities for public sale under the Act, or under applicable state securities laws, even if Pledgor or the Borrower, as the case may be, would agree to do

(b) Pledgor further agrees to do or cause to be done all such other acts and things as may be necessary to make such sale or sales or dispositions of any portion or all of the Pledged Shares valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or governmental instrumentalities, domestic or foreign, having jurisdiction over any such sale or sales or dispositions, all at Pledgor's expense, provided that Pledgor shall be under no obligation to take any action to enable any or all of the Pledged Shares to be registered under the provisions of the Act or to prepare and file a prospectus in connection therewith or under any comparable state law. Pledgor further agrees that a breach of any of the covenants contained in Sections 2, 4, 8, 9 and 10 will cause irreparable injury to Agent, that Agent has no adequate remedy at law in respect of such breach and, as a consequence, agrees, without limiting the right of Agent, to seek and obtain specific performance of other obligations of Pledgor contained in this Agreement, that each and every covenant above referenced shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Credit Agreement.

(c) Pledgor further agrees to indemnify and hold harmless Agent, its successors and assigns, its officers, directors, employees and agents, and any Person in control of any thereof, from and against any loss, liability, claim, damage and expense, including, without limitation, counsel fees (in this paragraph collectively called the "Indemnified Liabilities"), under federal and state securities laws or otherwise insofar as such loss, liability, claim, damage or expense (i) arises out of or is based upon any untrue statement or alleged untrue statement by Pledgor of a material fact contained in any registration statement, prospectus or offering memorandum or in any preliminary prospectus or preliminary offering memorandum or in any amendment or supplement to any of the foregoing or in any other writing prepared

in connection with the offer, sale or resale of all or any portion of the Pledged Shares or other Collateral, or (ii) arises out of or is based upon any omission by Pledgor to state therein a material fact required to be stated or necessary to make the statements therein not misleading. The obligations of Pledgor under this clause shall survive any termination of this Agreement.

10. Further Assurances. Pledgor agrees that at any time, and from time to time, upon the written request of Agent. Pledgor will execute and deliver all stock powers, financing statements and such further documents and do such further acts and things as Agent may reasonably request consistent with the provisions hereof in order to effect the purposes of this Agreement.

11. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12. No Waiver Cumulative Remedies. Agent shall not by any act, delay, omission or otherwise be deemed to have waived any of its remedies hereunder, and no waiver by Agent shall be valid unless in writing and signed by Agent and then only to the extent therein set forth. A waiver by Agent of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which Agent would otherwise have on any further occasion. No course of dealing between Pledgor and Agent and no failure to exercise, nor any delay in exercising on the part of Agent, any right, power or privilege hereunder or under the Credit Agreement shall impair such right or remedy or operate as a waiver thereof, nor shall any

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single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

13. Successors and Assigns.

(a) This Agreement shall inure to the benefit of the successors and assigns of the Agent and shall be binding upon the heirs, executors, administrators, legal representatives, successors and assigns of the Pledgor.

(b) Should the Agent at any time assign any of its rights under the other Loan Documents, the Agent may assign its rights under this Agreement, and may deliver the Pledged Shares or any portion thereof to the assignee who shall thereupon, to the extent provided in the instrument of assignment, have all of the rights of the Agent hereunder with respect to the

Pledged Shares and the Agent shall, thereafter, be fully discharged from any responsibility with respect to the Pledged Shares so delivered to such assignee. No such assignment, however, shall relieve such assignee of those duties and obligations of the Agent specified hereunder.

14. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS, OF THE STATE OF ILLINOIS.

15. Termination. This Agreement and the Liens granted hereunder shall terminate upon full and complete performance and satisfaction of the Liabilities.

16. Possession of Pledged Shares. Beyond the exercise of reasonable care to assure the safe custody of the Pledged Shares in the physical possession of Agent pursuant hereto, neither Agent nor any nominee of Agent shall have any duty or liability to collect any sums due in respect thereof or to protect, preserve or exercise any rights pertaining thereto, and shall be relieved of all responsibility for the Pledged Shares upon surrendering them to Pledgor.

17. Survival of Represent. All representations and warranties of Pledgor contained in this Agreement shall survive the execution and delivery of this Agreement.

18. Taxes and Expenses. Pledgor will upon demand Pay to Agent (a) any taxes (excluding income taxes, franchise taxes or other taxes levied on gross earnings, profits or the like) payable or ruled payable by any federal or state authority in respect of this Agreement, together with interest and penalties, if any, and (b) all reasonable expenses, including the reasonable fees and expenses of counsel for Agent and of any experts and agents, that Agent may incur connection with (i) the administration of this Agreement, (ii) the custody or preservation of, or the sale of, collection from, or other realization upon, any of the Pledged Shares, (iii) the exercise or enforcement of any of the rights of Agent hereunder, or (iv) the failure of Pledgor to perform or observe any of the provisions hereof

19. Agent Appointed Attorney-In-Fact. Pledgor hereby irrevocably appoints Agent as Pledgor's attorney-in-fact, effective upon the occurrence and during the continuance of an Event of Default, with full authority in the place and stead of Pledgor and in the name of Pledgor or otherwise, from time to time in Agent's discretion, to take any action and to execute any instrument that Agent deems reasonably necessary or advisable to accomplish the purposes of this Agreement, including, without limitation, to receive, endorse and collect all instruments made payable to Pledgor representing any dividend, interest payment or other distribution in respect of the Pledged Shares or any part thereof and to give full discharge for the same, when and to the extent permitted by this Agreement.

20. Notices. Unless otherwise specifically provided herein, any notice or other communication required or permitted to be given shall be in writing addressed to the respective party as set forth below and may be personally served, telecopied or sent by a reputable overnight courier service and shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by telecopy, on the date of transmission if transmitted on a Business Day before 4:00 P. M. (Chicago, Illinois time) (but only if such telecopied document is also delivered by another method permitted by this Agreement by the next Business Day) or, if not, on the next succeeding Business Day; or (c) if delivered by reputable overnight courier, the day such delivery is made by such courier.

Notices shall be addressed as follows:

(a) If to Pledgor:

Protection One, Inc.
3900 S.W. Murray Boulevard
Beaverton, Oregon 97005
Attn: John W. Hesse, Executive Vice President

With a copy to:

Protection One, Inc.
6011 Bristol Parkway
Culver City, Los Angeles, California 90230
Attn: James W. MacKenzie, Jr., President

(b) If to Agent:

Heller Financial, Inc.
500 West Monroe Street
Chicago, IL 60661
Attn: Portfolio Manager
Portfolio Organization
Corporate Finance Group
Telecopy: (312) 441-7367

With a copy to:

Heller Financial, Inc.
500 West Monroe Street
Chicago, IL 60661
Attn: Legal Department
Portfolio Organization
Corporate Finance Group
Telecopy: (312) 441-7367

or in any case, to such other address as the party addressed shall have previously designated by written notice to the serving party, given in accordance with this Section 20.

21. CONSENT TO JURISDICTION AND SERVICE OF PROCESS. PLEDGOR HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF COOK, STATE OF ILLINOIS AND IRREVOCABLY AGREES THAT, SUBJECT TO THE AGENTS ELECTION, ALL ACTIONS OR PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE LITIGATED IN SUCH COURTS. PLEDGOR ACCEPTS FOR ITSELF AND IN CONNECTION WITH ITS PROPERTIES, GENERALLY AND UNCONDITIONALLY, THE EXCLUSIVE JURISDICTION OF THE AFORESAID COURTS AND WAIVES ANY DEFENSE OF FORUM NON CONVENIENS, AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH THIS AGREEMENT. PLEDGOR HEREBY AGREES THAT

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SERVICE OF PROCESS UPON HIM BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, SHALL CONSTITUTE SUFFICIENT NOTICE IN ANY COURT OR PROCEEDING. NOTHING HEREIN SHALL AFFECT THE RIGHT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF THE AGENT TO BRING PROCEEDINGS AGAINST PLEDGOR IN THE COURTS OF ANY OTHER JURISDICTION FOR THE PURPOSES OF ENFORCING ITS LIENS.

22. Changes in Writing. No amendment, modification, termination or waiver of any provision of this Agreement or consent to any departure by Pledgor therefrom, shall in any event be effective without the written concurrence of Agent and Pledgor, and then only to the extent specifically set forth in such writing.

23. Headings. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

24. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

25. Entire Agreement. This Agreement embodies the entire agreement and understanding between Pledgor and Agent and supersedes all prior oral and written agreements and understandings between Pledgor and Agent relating to the subject matter hereof

26. Effect of Restatement. This Agreement amends, restates and supersedes that certain Stock Pledge Agreement dated as of November 3, 1993, between Pledgor and Agent (the "Existing Pledge Agreement"); provided, that (i) the liens and security interests in favor of Agent for the benefit of Lenders

securing payment of the Liabilities are in all respects continuing and in full force and effect with respect to all Liabilities and (ii) all references in the other Loan Documents to the Existing Pledge Agreement shall be deemed to refer without amendment to this Agreement.

[SIGNATURE PAGE FOLLOWS]

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered individually or by their duly authorized officers as of the date first above written.

PROTECTION ONE, INC., a Delaware corporation

By: JOHN W. HESSE

Its: Executive Vice President

HELLER FINANCIAL, INC., a Delaware corporation, individually and as Agent for the Lenders

By: TIMOTHY CANON

Its: Vice President

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AMENDED AND RESTATED SECURITY AGREEMENT

AMENDED AND RESTATED SECURITY AGREEMENT dated as of June 7, 1996 (this "Agreement") between Protection One Alarm Monitoring, Inc., a Delaware corporation ("Borrower"), and Heller Financial, Inc., a Delaware corporation, as agent ("Agent") for the benefit of all Lenders.

W I T N E S S E T H :

WHEREAS, Borrower, Agent and Lenders are parties to an Amended and Restated Credit Agreement dated as of June 7, 1996 (as the same may be amended and in effect from time to time, the "Credit Agreement"), providing for extensions of credit to be made to Borrower by Lenders; and

WHEREAS, it is a condition precedent to the making of Loans and the issuance of Lender Letters of Credit that Borrower shall have granted the security interests contemplated by this Agreement;

NOW, THEREFORE, in consideration of the premises and in order to induce Lenders to make Loans and to issue Lender Letters of Credit, Borrower hereby agrees with Agent for its benefit and the benefit of Lenders as follows:

SECTION 1. Definitions

1.1 Certain Defined Terms. Terms defined in the Credit Agreement and not otherwise defined herein have the respective meanings provided for in the Credit Agreement. The following terms, as used herein, have the meanings set forth below:

"Accounts" means all "accounts" (as defined in the UCC) now owned or hereafter created or acquired by Borrower including, without limitation, all of the following now owned or hereafter created or acquired by Borrower: (a) accounts receivable, contract rights, book debts, notes, drafts and other obligations or indebtedness owing to Borrower arising from the sale, lease or exchange of goods or other property and/or the performance of services; (b) Borrower's rights in, to and under all purchase orders for goods, services or other property; (c) Borrower's rights to any goods, services or other property represented by any of the foregoing (including returned or repossessed goods and unpaid sellers' rights of rescission, replevin, reclamation and rights to stoppage in transit); (d) monies due to or to become due to Borrower under all contracts for the sale, lease or exchange of goods or other property and/or the performance of services (whether or not yet earned by performance on the part of Borrower); (e) uncertificated securities; and (f) Proceeds of any of the foregoing and all collateral security and guaranties of any kind given by any Person with respect to any of the foregoing.

"Collateral" has the meaning assigned to that term in Section 2.

"Copyright License" means any written agreement now or hereafter in existence granting to Borrower any right to use any Copyright including, without limitation, the agreements described in Schedule 1 of the Copyright Security Agreement.

"Copyrights" means collectively all of the following: (a) all copyrights, rights and interests in copyrights, works protectable by copyright, copyright registrations and copyright applications now owned or hereafter created or acquired by Borrower, including, without limitation, those listed on Schedule B to the Intellectual Property Security Agreement; (b) all renewals of any of the foregoing; (c) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing, including, without limitation, damages or payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated with and symbolized by any of the foregoing.

"Depository Account" has the meaning assigned to such term in Section 7.

"Documents" means all "documents" (as defined in the UCC) or other receipts covering, evidencing or representing goods now owned or hereafter acquired by Borrower.

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"Equipment" means all "equipment" (as defined in the UCC) now owned or hereafter acquired by Borrower including, without limitation, all machinery, motor vehicles, trucks, trailers, vessels, aircraft and rolling stock and all parts thereof and all additions and accessions thereto and replacements therefor.

"Existing Security Agreement" means the Security Agreement dated November 3, 1993 between Borrower and Agent, as heretofore amended, modified and supplemented from time to time.

"Fixtures" means all of the following now owned or hereafter acquired by Borrower: plant fixtures; business fixtures; other fixtures and storage office facilities, wherever located; and all additions and accessions thereto and replacements therefor.

"General Intangibles" means all "general intangibles" (as defined in the UCC) now owned or hereafter acquired by Borrower including, without limitation, all right, title and interest of Borrower in and to: (a) all agreements, leases, licenses and contracts to which Borrower is or may become a party; (b) all obligations or indebtedness owing to Borrower (other than Accounts) from whatever source arising; (c) all tax refunds; (d) Intellectual Property; and (e) all trade secrets and other confidential information relating to the business of Borrower including by way of illustration and not limitation:

systems and techniques for the analysis, diagnosis and correction of malfunctions of products used by Borrower's customers; the names and addresses of, and credit and other business information concerning, Borrower's past, present or future customers; the prices which Borrower obtains for its services or at which it sells merchandise; estimating and cost procedures; profit margins; policies and procedures pertaining to the sale and design of equipment, components, devices and services furnished by Borrower; information concerning suppliers of Borrower; and information concerning the manner of operation, business plans, pledges, projections, and all other information of any kind or character, whether or not reduced to writing, with respect to the conduct by Borrower of its business not generally known by the public.

"Instruments" means all "instruments", "chattel paper" or "letters of credit" (each as defined in the UCC) including, but not limited to, promissory notes, drafts, bills of exchange and trade acceptances, now owned or hereafter acquired by Borrower.

"Intellectual Property" shall mean collectively all of the following: Copyrights, Copyright Licenses, Patents, Patent Licenses, Trademarks and Trademark Licenses.

"Intellectual Property Security Agreement" means the Amended and Restated Continuing Security Interest and Conditional Assignment of Patents, Trademarks, Copyrights and Licenses executed and delivered by Borrower to Agent, substantially in the form of Exhibit A, as such agreement may hereafter be amended, supplemented or otherwise modified from time to time.

"Inventory" means all "inventory" (as defined in the UCC), now owned or hereafter acquired by Borrower, wherever located including, without limitation, finished goods, raw materials, work in process and other materials and supplies (including packaging and shipping materials) used or consumed in the manufacture or production thereof and goods which are returned to or repossessed by Borrower.

"Patent License" means any written agreement now or hereafter in existence granting to Borrower any right to use any invention on which a Patent is in existence including, without limitation, the agreements described in Schedule D of the Intellectual Property Security Agreement.

"Patents" means collectively all of the following: (a) all patents and patent applications now owned or hereafter created or acquired by Borrower including, without limitation, those listed on Schedule A of the Intellectual Property Security Agreement and the inventions and improvements described and claimed therein, and patentable inventions; (b) the reissues, divisions, continuations, renewals, extensions and continuations-in-part of any of the foregoing; (c) all income, royalties, damages or payments now and hereafter due and/or payable under any of the foregoing with respect to any of the foregoing, including, without limitation, damages of payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated

with any of the foregoing.

"Proceeds" means all proceeds of, and all other profits, rentals or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or realization upon, any Collateral including, without limitation, all claims of Borrower against third parties for loss of, damage to or destruction of,

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or for proceeds payable under, or unearned premiums with respect to, policies of insurance with respect to any Collateral, and any condemnation or requisition payments with respect to any Collateral, in each case whether now existing or hereafter arising.

"Secured Obligations" has the meaning assigned to that term in Section 3.

"Security Interests" means the security interests granted pursuant to Section 2, as well as all other security interests created or assigned as additional security for the Secured Obligations pursuant to the provisions of this Agreement.

"Trademark License" means any written agreement now or hereafter in existence granting to Borrower any right to use any Trademark, including, without limitation, the agreements described in Schedule D to the Intellectual Property Security Agreement.

"Trademarks" means collectively all of the following now owned or hereafter created or acquired by Borrower: (a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos, other business identifiers, prints and labels on which any of the foregoing have appeared or appear, all registrations and recordings thereof, and all applications in connection therewith including registrations, recordings and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, including, without limitation, those described in Schedule C of the Intellectual Property Security Agreement; (b) all reissues, extensions or renewals thereof; (c) all income, royalties, damages and payments now or hereafter due and/or payable under any of the foregoing or with respect to any of the foregoing including damages or payments for past or future infringements of any of the foregoing; (d) the right to sue for past, present and future infringements of any of the foregoing; (e) all rights corresponding to any of the foregoing throughout the world; and (f) all goodwill associated with and symbolized by any of the foregoing.

"UCC" means the Uniform Commercial Code as in effect on the date hereof in the State of Illinois, provided that if by reason of mandatory provisions of

law, the perfection or the effect of perfection or non-perfection of the Security Interest in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect on or after the date hereof in any other jurisdiction, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy.

1.2 Other Definition Provisions. References to "Subsections", "subsections", "Exhibits" and "Schedules" shall be to Sections, subsections, Exhibits and Schedules, respectively, of this Agreement unless otherwise specifically provided. Any of the terms defined in subsection 1.1 may, unless the context otherwise requires, be used in the singular or the plural depending on the reference. All references to statutes and related regulations shall include (unless otherwise specifically provided herein) any amendments of same and any successor statutes and regulations.

1.3 Effect of Restatement. This Agreement amends, restates and supersedes the Existing Security Agreement; provided, that (i) the liens and security interests in favor of Agent for the benefit of Lenders securing payment of the Secured Obligations are in all respects continuing and in full force and effect with respect to all Secured Obligations and (ii) all references in the other Loan Documents to the Existing Security Agreement shall be deemed to refer without further amendment to this Agreement.

SECTION 2. Grant of Security Interests

In order to secure the payment and performance of the Secured Obligations in accordance with the terms thereof, Borrower hereby grants to Agent for the benefit of Lenders a continuing security interest in and to all right, title and interest of Borrower in the following property, whether now owned or existing or hereafter acquired or arising and regardless of where located (all being collectively referred to as the "Collateral"):

- (A) Accounts;
- (B) Inventory;
- (C) General Intangibles;

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- (D) Documents;
- (E) Instruments;
- (F) Equipment;
- (G) Fixtures;

(H) All deposit accounts of Borrower maintained with any bank or financial institution;

(I) All Depository Accounts, all cash deposited therein from time to time and other monies and property of Borrower in the possession or under the control of Agent or any Lender;

(J) All books, records, ledger cards, files, correspondence, computer programs, tapes, disks and related data processing software that at any time evidence or contain information relating to any of the property described in subparts (A) - (I) above or are otherwise necessary or helpful in the collection thereof or realization thereon; and

(K) Proceeds of all or any of the property described in subparts (A) - (J) above.

Notwithstanding the foregoing, so long as no Event of Default has occurred and is continuing, Borrower shall have the exclusive, non-transferable right and license to use the Intellectual Property and the exclusive right to grant to other Persons licenses and sublicenses with respect to Intellectual Property.

Notwithstanding the foregoing, the term "Collateral" shall not include the monies (and any investment contracts and life insurance policies purchased therewith and any other proceeds thereof) deposited with the Protection-I Trust and the Protection-II Trust, each dated September 24, 1993, in accordance with the Ion Acquisition Documents to defease the promissory notes issued by Monitoring to Ion Leasing Inc. under the Ion Acquisition Documents.

SECTION 3. Security for Obligations

This Agreement secures the payment and performance of the Obligations and all obligations of Borrower now or hereafter existing under this Agreement and all renewals, extensions, restructurings and refinancings of any of the above (all such debts, obligations and liabilities of Borrower being collectively called the "Secured Obligations").

SECTION 4. Borrower Remains Liable

Anything herein to the contrary notwithstanding: (a) Borrower shall remain liable under the contracts and agreements included in the Collateral to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed; (b) the exercise by Agent of any of the rights hereunder shall not release Borrower from any of its duties or obligations under the contracts and agreements included in the Collateral; and (c) Agent shall not have any obligation or liability under the contracts and agreements included in the Collateral by reason of this Agreement, nor shall Agent be obligated to perform any of the obligations or duties of Borrower thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

SECTION 5. Representations and Warranties

Borrower represents and warrants as follows:

5.1 Binding Obligation. This Agreement is the legally valid and binding obligation of Borrower, enforceable against it in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws or equitable principles relating to or limiting creditor's rights generally.

5.2 Location of Equipment and Inventory. All of the Equipment and Inventory is located at the places specified on Schedule I.

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5.3 Ownership of Collateral; Bailees. Except for matters disclosed on Schedule II, other Permitted Encumbrances and the Security Interests, Borrower owns the Collateral free and clear of any Lien. No effective financing statement or other form of lien notice covering all or any part of the Collateral is on file in any recording office, except for those in favor of Agent and as disclosed on Schedule II. Except as disclosed on Schedule II, none of the Collateral is in the possession of any bailee, warehouseman, agent or processor.

5.4 Office Locations; FEIN; Fictitious Names. The chief place of business, the chief executive office and the office where Borrower keeps its books and records are located at the places specified on Schedule I. Borrower's federal employee identification number is specified in Schedule I. Borrower does not do business nor has Borrower done business during the past five years under any trade-name or fictitious business name except as disclosed on Schedule III.

5.5 Perfection. This Agreement creates a valid, perfected and, except for the Permitted Encumbrances, first priority security interest in the Collateral, securing the payment of the Secured Obligations, and all filings and other actions necessary or desirable to perfect and protect such security interest have been duly taken.

5.6 Governmental Authorizations; Consents. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or consent of any other Person (including without limitation any Licensor of Intellectual Property or party to any Assigned Agreement) is required either (a) for the grant by Borrower of the security interest granted hereby or for the execution, delivery or performance of this Agreement by Borrower or (b) for the perfection of or the exercise by Agent of its rights and remedies hereunder (except as may have been taken by or at the direction of Borrower or Agent).

5.7 Accounts. Each Account constitutes the legally valid and binding obligation of the customer obligated to pay the same. The amount represented by

Borrower to Agent as owing by each customer is the correct amount actually and unconditionally owing, except for normal cash discounts and allowances where applicable. No customer has any defense, set-off, claim or counterclaim against Borrower that can be asserted against Agent, whether in any proceeding to enforce Agent's rights in the Collateral or otherwise except defenses, set-offs, claims or counterclaims that are not, in the aggregate, material to the value of the Accounts. None of the Accounts is evidenced by a promissory note or other instrument other than a check.

5.8 Intellectual Property. The Copyrights, Copyright Licenses, Patents, Patent Licenses, Trademarks and Trademark Licenses listed on the respective schedules to the Intellectual Property Security Agreement constitute all of the Intellectual Property owned by Borrower.

5.9 Accurate Information. All information heretofore, herein or hereafter supplied to Agent by or on behalf of Borrower with respect to the Collateral is and will be accurate and complete in all material respects.

5.10 Credit Agreement Warranties. Each representation and warranty set forth in Section 4 of the Credit Agreement is true and correct in all material respects and such representations and warranties are hereby incorporated herein by this reference with the same effect as though set forth in their entirety herein.

SECTION 6. Further Assurances; Covenants

6.1 Other Documents and Actions. Borrower will, from time to time, at its expense, promptly execute and deliver all further instruments and documents and take all further action that may be necessary or desirable, or that Agent may request, in order to perfect and protect any security interest granted or purported to be granted hereby or to enable Agent to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, Borrower will: (a) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as Agent may request, in order to perfect and preserve the security interests granted or purported to be granted hereby; (b) at any reasonable time, upon demand by Agent exhibit the Collateral to allow inspection of the Collateral by Agent or persons designated by Agent; and (c) upon Agent's request, appear in and defend any action or proceeding that may affect Borrower's title to or Agent's security interest in the Collateral.

6.2 Agent Authorized. Borrower hereby authorizes Agent to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of Borrower where permitted by law.

6.3 Corporate or Name Change. Borrower will notify Agent promptly in writing prior to any change in Borrower's name, identity or corporate structure.

6.4 Business Locations. Borrower will keep the Collateral at the locations specified on Schedule I. Borrower will give Agent thirty (30) days prior written notice of any change in Borrower's chief place of business or of any new location of business or any new location for any of the Collateral. With respect to any new location (which in any event shall be within the continental United States), Borrower will execute such documents and take such actions as Agent deems necessary to perfect and protect the Security Interests.

6.5 Bailees. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of Borrower's agents or processors, Borrower shall, upon the request of Agent, notify such warehouseman, bailee, agent or processor of the Security Interests created hereby and shall instruct such Person to hold all such Collateral for Agent's account subject to Agent's instructions.

6.6 Instruments. Borrower will deliver and pledge to Agent all Instruments duly endorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to Agent. Borrower will mark conspicuously all chattel paper with a legend, in form and substance satisfactory to Agent, indicating that such chattel paper is subject to the Security Interests. Without limiting the generality of the foregoing Borrower will mark conspicuously all subscriber agreements and alarm system purchase agreements (whether or not constituting chattel paper) with the legend referred to in the proceeding sentence.

6.7 Certificates of Title. Upon Agent's request, Borrower shall promptly deliver to Agent any and all certificates of title, applications for title or similar evidence of ownership of all Equipment and shall cause Agent to be named as lienholder on any such certificate of title or other evidence of ownership. Borrower shall promptly inform Agent of any additions to or deletions from the Equipment and shall not permit any such items to become fixtures to real estate other than real estate described in the Mortgages.

6.8 Account Covenants. Except as otherwise provided in this subsection 6.8, Borrower shall continue to collect, at its own expense, all amounts due or to become due Borrower under the Accounts. In connection with such collections, Borrower may take (and, at Agent's direction, shall take) such action as Borrower or Agent may deem necessary or advisable to enforce collection of the Accounts; provided, that Agent shall have the right at any time after the occurrence of a Default or an Event of Default to: (a) notify the customers or obligors under any Accounts of the assignment of such Accounts to Agent (on behalf of Lenders) and to direct such customers or obligors to make payment of all amounts due or to become due directly to Agent; (b) enforce collection of any such Accounts; and (c) adjust, settle or compromise the amount or payment of such Accounts. After the occurrence of an Event of Default (i) all amounts and proceeds (including Instruments) received by Borrower with respect to the Accounts shall be received in trust for the benefit of Agent (on behalf of

lenders), shall be segregated from other funds of Borrower and shall be forthwith paid over to Agent in the same form as so received (with any necessary endorsement) to be applied in accordance with Section 13 and (ii) Borrower shall not adjust, settle or compromise the amount or payment of any Account, or release wholly or partly any customer or obligor thereof, or allow any credit or discount thereon without the prior consent of Agent.

6.9 Intellectual Property Covenants. Borrower shall concurrently herewith deliver to Agent the Intellectual Property Security Agreement and all other documents, instruments and other items as may be necessary for Agent to file such agreement with the United States Copyright Office, United States Patent and Trademark Office and any similar domestic or foreign office, department or agency. If, before the Secured Obligations are paid in full, Borrower obtains any new Intellectual Property or rights thereto or becomes entitled to the benefit of any Intellectual Property not listed on the respective schedules to each security agreement, Borrower shall give to Agent prompt written notice thereof, and shall amend the respective security agreement to include any such new Intellectual Property. Borrower shall: (a) prosecute diligently any copyright, patent, trademark or license application at any time pending; (b) make application on all new copyrights, patents and trademarks as reasonably deemed appropriate by Borrower; (c) preserve and maintain all rights in the Intellectual Property; and (d) use its best efforts to obtain any consents, waivers or agreements necessary to enable Agent to exercise its remedies with respect to the Intellectual Property. Borrower shall not abandon any right to file a copyright, patent or trademark application nor shall Borrower abandon any pending copyright, patent or trademark application, or Copyright, Copyright License, Patent, Patent License, Trademark or Trademark License without the prior written consent of Agent. Borrower represents and warrants to Agent that the execution, delivery and performance of this Agreement by Borrower will not violate or cause a default under any of the Intellectual Property or any agreement in connection therewith.

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6.10 Equipment Covenants. Borrower shall cause the Equipment to be maintained and preserved in the same condition, repair and working order as when new, ordinary wear and tear excepted, and in accordance with any manufacturer's manual, and shall promptly make or cause to be made all repairs, replacements, and other improvements in connection therewith that are necessary or desirable to such end.

6.11 Insurance. Borrower shall maintain insurance with respect to the Collateral in accordance with the terms of the Credit Agreement.

6.12 Taxes and Claims. Borrower will pay promptly when due all property and other taxes, assessments and governmental charges or levies imposed upon, and all claims against, the Collateral (including claims for labor, materials and supplies), except to the extent the validity thereof is being contested in good faith.

6.13 Collateral Description. Borrower will furnish to Agent, from time to time, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as Agent may reasonably request, all in reasonable detail.

6.14 Use of Collateral. Borrower will not use or permit any Collateral to be used unlawfully or in violation of any provision of this Agreement or any applicable statute, regulation or ordinance or any policy of insurance covering any of the Collateral.

6.15 Records of Collateral. Borrower shall keep full and accurate books and records relating to the Collateral and shall stamp or otherwise mark such books and records in such manner as Agent may reasonably request indicating that the Collateral is subject to the Security Interests.

6.16 Other Information. Borrower will, promptly upon request, provide to Agent all information and evidence it may reasonably request concerning the Collateral, and in particular the Accounts, to enable Agent to enforce the provisions of this Agreement.

SECTION 7. Bank Accounts; Collection of Accounts and Payments

On or prior to the Closing Date, the Agent and Borrower shall enter into a bank agency agreement ("Bank Agency Agreement") substantially in the form of Exhibit B hereto with each financial institution with which the Borrower maintains from time to time any deposit accounts (general or special) (a "Depository Account"), except for petty cash accounts with an aggregate balance in all such accounts not exceeding \$100,000 at any time. Pursuant to the Bank Agency Agreements and pursuant hereto, Borrower grants and shall grant to the Agent, for the benefit of the Lenders, a continuing lien upon, and security interest in, all such accounts and all funds at any time paid, deposited, credited or held in such accounts (whether for collection, provisionally or otherwise) or otherwise in the possession of such financial institutions, and each such financial institution shall act as the Agent's agent in connection therewith. Following the Closing Date, Borrower shall not establish any deposit account (except for the above-described petty cash accounts) with any financial institution unless prior thereto the Agent and Borrower shall have entered into a Bank Agency Agreement with such financial institution and Borrower shall have notified Agent of the establishment of such account. The Bank Agency Agreement dated as of November 3, 1993 among Borrower, Agent and First Interstate Bank of Oregon, N.A. shall be deemed a Bank Agency Agreement hereunder.

SECTION 8. Agent Appointed Attorney-in-Fact

Borrower hereby irrevocably appoints Agent as Borrower's attorney-in-fact, with full authority in the place and stead of Borrower and in the name of Borrower, Agent or otherwise, from time to time following the occurrence and during the continuance of an Event of Default in Agent's discretion to take any action and to execute any instrument that Agent may deem necessary or advisable to accomplish the purposes of this Agreement, including,

without limitation:

(a) to obtain and adjust insurance required to be paid to Agent;

(b) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

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(c) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clauses (a) and (b) above;

(d) to file any claims or take any action or institute any proceedings that Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Agent with respect to any of the Collateral;

(e) to pay or discharge taxes or Liens, levied or placed upon or threatened against the Collateral, the legality or validity thereof and the amounts necessary to discharge the same to be determined by Agent in its sole discretion, and such payments made by Agent to become obligations of Borrower to Agent, due and payable immediately without demand;

(f) to sign and endorse any invoices, freight or express bills, bills of lading, storage or warehouse receipts, assignments, verifications and notices in connection with Accounts and other documents (including without limitation financing statements, continuation statements and other documents necessary or advisable to perfect the Security Interests) relating to the Collateral; and

(g) generally to sell, transfer, pledge, make any agreement with respect to or otherwise deal with any of the Collateral as fully and completely as though Agent were the absolute owner thereof for all purposes, and to do, at Agent's option and Borrower's expense, at any time or from time to time, all acts and things that Agent deems necessary to protect, preserve or realize upon the Collateral.

Borrower hereby ratifies and approves all acts of Agent made or taken pursuant to this Section 8. Neither Agent nor any person designated by Agent shall be liable for any acts or omissions or for any error of judgment or mistake of fact or law. This power, being coupled with an interest, is irrevocable so long as this Agreement shall remain in force.

SECTION 9. Transfers and Other Liens

Except as otherwise permitted by the Credit Agreement, Borrower shall not:

(a) Sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, except that Borrower may sell Inventory in the ordinary course of business.

(b) Create or suffer to exist any lien, security interest or other charge or encumbrance upon or with respect to any of the Collateral to secure indebtedness of any Person except for the security interest created by this Agreement or permitted under the Credit Agreement.

SECTION 10. Remedies

If any Event of Default shall have occurred and be continuing, Agent may exercise in respect of the Collateral, in addition to all other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral) and also may: (a) require Borrower to, and Borrower hereby agrees that it will, at its expense and upon request of Agent forthwith, assemble all or part of the Collateral as directed by Agent and make it available to Agent at a place to be designated by Agent which is reasonably convenient to both parties; (b) withdraw all cash in the Depository Accounts and apply such monies in payment of the Secured Obligations in the manner provided in Section 13; (c) without notice or demand or legal process, enter upon any premises of Borrower and take possession of the Collateral; and (d) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Agent's offices or elsewhere, at such time or times, for cash, on credit or for future delivery, and at such price or prices and upon such other terms as Agent may deem commercially reasonable. Borrower agrees that, to the extent notice of sale shall be required by law, at least ten days notice to Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. At any sale of the Collateral, if permitted by law, Agent may bid (which bid may be, in whole or in part, in the form of cancellation of indebtedness) for the purchase of the Collateral or any portion thereof for the account of Agent (on behalf of Lenders). Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further

notice, be made at the time and place to which it was so adjourned. To the extent permitted by law, Borrower hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now

existing or hereafter enacted.

SECTION 11. License of Intellectual Property

Borrower hereby assigns, transfers and conveys to Agent, effective upon the occurrence of any Event of Default hereunder, the nonexclusive right and license to use all Intellectual Property owned or used by Borrower together with any goodwill associated therewith, all to the extent necessary to enable Agent to realize on the Collateral and any successor or assign to enjoy the benefits of the Collateral. This right and license shall inure to the benefit of all successors, assigns and transferees of Agent and its successors, assigns and transferees, whether by voluntary conveyance, operation of law, assignment, transfer, foreclosure, deed in lieu of foreclosure or otherwise. Such right and license is granted free of charge, without requirement that any monetary payment whatsoever be made to Borrower by Agent.

SECTION 12. Limitation on Duty of Agent with Respect to Collateral

Beyond the safe custody thereof, Agent shall have no duty with respect to any Collateral in its possession or control (or in the possession or control of any agent or bailee) or with respect to any income thereon or the preservation of rights against prior parties or any other rights pertaining thereto. Agent shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property. Agent shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by Agent in good faith.

SECTION 13. Application of Proceeds

Upon the occurrence and during the continuance of an Event of Default, the proceeds of any sale of, or other realization upon, all or any part of the Collateral and any cash held in the Depository Accounts shall be applied: first, to all fees, costs and expenses incurred by Agent or any Lender with respect to the Credit Agreement, the other Loan Documents or the Collateral including, without limitation, those described in subsection 10.1 of the Credit Agreement and in Section 14 hereof; second, to all fees due and owing to Agent or any Lender; third, to accrued and unpaid interest on the Obligations (including any interest which but for the provisions of the Bankruptcy Code, would have accrued on such amounts); fourth, to the principal amounts of the Obligations outstanding; and fifth, to any other indebtedness or obligations of Borrower owing to Agent or any Lender.

SECTION 14. Expenses

Borrower shall pay all insurance expenses and all expenses of protecting, storing, warehousing, appraising, insuring, handling, maintaining and shipping the Collateral, all costs, fees and expenses of perfecting and maintaining the Security Interests, and any and all excise, property, sales and

use taxes imposed by any state, federal or local authority on any of the Collateral, or with respect to periodic appraisals and inspections of the Collateral, or with respect to the sale or other disposition thereof. If Borrower fails promptly to pay any portion of the above expenses when due or to perform any other obligation of Borrower under this Agreement, Agent or any other Lender may, at its option, but shall not be required to, pay or perform the same and charge Borrower's account for all costs and expenses incurred therefor, and Borrower agrees to reimburse Agent or such Lender therefor on demand. All sums so paid or incurred by Agent or any other Lender for any of the foregoing, any and all other sums for which Borrower may become liable hereunder and all costs and expenses (including attorneys' fees, legal expenses and court costs) incurred by Agent or any other Lender in enforcing or protecting the Security Interests or any of their rights or remedies under this Agreement shall be payable on demand, shall constitute Obligations, shall bear interest until paid at the highest rate provided in the Credit Agreement and shall be secured by the Collateral.

SECTION 15. Termination of Security Interests; Release of Collateral

Upon payment in full of all Secured Obligations and the termination of all Commitments, the Security Interests shall terminate and all rights to the Collateral shall revert to Borrower. Upon such termination of the Security Interests or release of any Collateral, Agent will, at the expense of Borrower, execute and deliver to

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Borrower such documents as Borrower shall reasonably request to evidence the termination of the Security Interests or the release of such Collateral, as the case may be.

SECTION 16. Notices

All notices, approvals, requests, demands and other communications hereunder shall be given in accordance with the notice provision of the Credit Agreement.

SECTION 17. Waivers, Non-Exclusive Remedies

No failure on the part of Agent to exercise, and no delay in exercising and no course of dealing with respect to, any right under the Credit Agreement or this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise by Agent of any right under the Credit Agreement or this Agreement preclude any other or further exercise thereof or the exercise of any other right. The rights in this Agreement and the Credit Agreement are cumulative and are not exclusive of any other remedies provided by law.

SECTION 18. Successors and Assigns

This Agreement is for the benefit of Agent and Lenders and their successors and assigns, and in the event of an assignment of all or any of the Secured Obligations, the rights hereunder, to the extent applicable to the Secured Obligations so assigned, may be transferred with such Secured Obligations. This Agreement shall be binding on Borrower and its successors and assigns.

SECTION 19. Changes in Writing

No amendment, modification, termination or waiver of any provision of this Agreement or consent to any departure by Borrower therefrom, shall in any event be effective without the written concurrence of Agent and Borrower.

SECTION 20. Applicable Law

THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES.

SECTION 21. Failure or Indulgence Not Waiver; Remedies Cumulative

No failure or delay on the part of Agent or any Lender in the exercise of any power, right or privilege hereunder shall impair such power, right or privilege or be construed to be a waiver of any default or acquiescence therein, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or any other right, power or privilege. All rights and remedies existing under this Agreement are cumulative to, and not exclusive of, any rights or remedies otherwise available.

SECTION 22. Headings

Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose or be given any substantive effect.

SECTION 23. Counterparts

This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

Witness the due execution hereof by the respective duly authorized officers of the undersigned as of the day first above written.

PROTECTION ONE ALARM
MONITORING, INC.

HELLER FINANCIAL, INC.

Title: Executive Vice President

Title: Vice President

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LIST OF SCHEDULES

- Schedule I - Locations of Equipment, Inventory, Books and Records, Chief Executive Office, Other Locations; FEIN
- Schedule II - Other Liens, Security Interests and Financing Statements; Bailees
- Schedule III - Trade-names and Fictitious Names (Present and Past Five Years)

AMENDED AND RESTATED CONTINUING
SECURITY INTEREST AND CONDITIONAL ASSIGNMENT
OF PATENTS, TRADEMARKS AND LICENSES

This AMENDED AND RESTATED CONTINUING SECURITY INTEREST AND CONDITIONAL ASSIGNMENT OF PATENTS, TRADEMARKS, COPYRIGHTS AND LICENSES ("Agreement") is dated as of June 7, 1996 between PROTECTION ONE ALARM MONITORING, INC., a Delaware corporation ("Borrower") and HELLER FINANCIAL, INC., a Delaware corporation, individually and as agent ("Agent") for the other Lenders under that certain Amended and Restated Credit Agreement dated as of the date hereof among Assignor, Agent and the other Lenders named therein (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Credit Agreement").

W I T N E S S E T H:

WHEREAS, it is a condition to the Credit Agreement that Assignor shall have executed and delivered this Agreement; and

WHEREAS, that certain Amended and Restated Security Agreement of even date herewith among Agent and Assignor (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Security Agreement") grants to Agent a Lien (as hereinafter defined) on Assignor's assets, including, without limitation, all of Assignor's Intellectual Property (as hereinafter defined);

NOW, THEREFORE, in consideration of the premises set forth herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor agrees as follows:

1. Incorporation of Security Agreement; Credit Agreement Definitions. The Security Agreement and the terms and provisions thereof are hereby incorporated herein in their entirety by this reference thereto. Capitalized terms used but not otherwise defined herein or in the Security Agreement shall have the meanings ascribed thereto in the Credit Agreement.

2. Grant of Lien. To secure the complete and timely payment and satisfaction of the Secured Obligations, Assignor hereby grants to Agent, for the benefit of the Lenders, a continuing Lien on Assignor's entire right, title and interest in and to all of its now owned or existing and hereafter acquired or arising:

(a) United States, Canada and all other foreign Patents, including, without limitation, the Patents listed on Schedule A;

(b) United States, Canada and WI other foreign Copyrights, including, without limitation, the Copyrights listed on Schedule B;

(c) United States, Canada and all other foreign Trademarks, including, without limitation, the Trademarks listed on Schedule C;

(d) United States, Canada and all other foreign Patent Licenses, Copyright Licenses, Trademark Licenses and all license agreements in which Assignor is or becomes licensed to use a patent, copyright, trademark or the knowhow of any other Person,

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including, without limitation, the Patent Licenses, Copyright Licenses, Trademark Licenses and all other license agreements listed on Schedule D (collectively, the "Licenses"); and

(e) the goodwill of Assignor's business connected with the use of and symbolized by the Trademarks and Trademark Licenses.

3. Assignment of Patents. In addition to all other rights granted to Agent under the Credit Agreement, the Security Agreement and this Agreement, as collateral security only for the payment, performance and observance of the Secured Obligations, Assignor hereby sells, assigns, transfers and sets over to Agent, effective upon the occurrence and during the continuance of any Event of Default, Assignor's entire right, title and interest in and to all Patents, including, without limitation, any Patents that may pertain to any other Collateral.

4. Assignment of Copyrights. In addition to all other rights granted to Agent under the Credit Agreement, the Security Agreement and this Agreement, as collateral security only for the payment, performance and observance of the Secured Obligations, Assignor hereby sells, assigns, transfers and sets over to Agent, effective upon the occurrence and during the continuance of any Event of Default, Assignor's entire right, title and interest in and to all Copyrights, including, without limitation, any Copyrights that may pertain to any other Collateral.

5. Assignment of Trademarks and Goodwill. In addition to all other rights granted to Agent under the Credit Agreement, the Security Agreement and this Agreement, as collateral security only for the payment, performance and observance of the Secured Obligations, Assignor hereby grants to Agent, effective upon the occurrence and during the continuance of any Event of Default, Assignor's entire right, title and interest in and to all Trademarks and the goodwill of Assignor's business connected with the use of and symbolized by the Trademarks, including, without limitation, any Trademarks or goodwill that may pertain to any other Collateral.

6. Assignment of Licenses. In addition to all other rights granted to Agent under the Credit Agreement, the Security Agreement and this Agreement, as collateral security only for the payment, performance and observance of the Secured Obligations, Assignor hereby sells, assigns, transfers and sets over to Agent, effective upon the and during the continuance of any Event of Default, Assignor's entire right, title and interest in, to and under all Licenses (other than Licenses which terminate or are terminable upon such assignment) and any license agreement with any other party, whether now existing or hereafter entered into and whether Assignor is a licensor or licensee under such license agreement, and the right to prepare for sale, sell and advertise for sale, all Collateral now or hereafter owned by Assignor and now or hereafter covered by such License and Assignor agrees that it will not take any action, or permit any action to be taken by others subject to its control, including licensees, or fail to take any action, which could affect the validity or enforcement of the rights transferred to Agent under this Agreement, which rights are used or usable in the conduct of Assignor's business. Assignor hereby covenants that it will promptly notify Agent if any Patent, Copyright or Trademark shall at any time hereafter become subject to any such license agreement and that it will promptly provide Agent with full identification thereof and with such further documentation as Agent may reasonably request to accomplish or assure the accomplishment of the purpose of this Section 6.

7. Royalties; Term. Assignor hereby agrees that the use by Agent of all Patents, Copyrights, Trademarks and Licenses shall be worldwide, to the extent of Assignor's rights and without any liability for royalties or other related charges from Agent to Assignor. The term of the grant of the Lien granted herein shall extend until the expiration of each of the respective Patents,

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Copyrights, Trademarks and Licenses assigned hereunder, or until Assignors obligations under the Credit Agreement have been finally paid in full and the Credit Agreement and the Security Agreement terminate, whichever first occurs.

8. Reports of Applications. The United States, Canada and all other foreign Patents, Copyrights, Trademarks and Licenses constitute all of the material patents, copyrights, trademarks, applications and licenses now owned by or licensed to Assignor. Assignor shall provide Agent on a quarterly basis with a list of all new applications for United States and foreign letters patent, copyrights and registered trademarks and licenses, which new applications, patents, copyrights, trademarks and licenses shall all be subject to the terms and conditions of the Security Agreement and this Agreement.

9. Effect on Credit Agreement Cumulative Remedies. Assignor acknowledges and agrees that this Agreement is not intended to limit or restrict in any way the rights and remedies of Agent under the Credit Agreement or the Security Agreement but rather is intended to supplement and facilitate the

exercise of such rights and remedies. All of the rights and remedies of Agent with respect to the Patents, Copyrights, Trademarks and Licenses, whether established hereby, by the Credit Agreement or the Security Agreement, by any other agreements, or by law, shall be cumulative and may be exercised singularly or concurrently. NOTWITHSTANDING ANY PROVISION CONTAINED HEREIN OR IN ANY OTHER DOCUMENT TO THE CONTRARY, AGENT SHALL NOT HAVE THE RIGHT TO USE AND ENFORCE THE PATENTS, COPYRIGHTS, TRADEMARKS AND LICENSES UNLESS AND UNTIL THE OCCURRENCE OF AN EVENT OF DEFAULT THE CREDIT AGREEMENT; PROVIDED, THAT AGENT SHALL HAVE THE RIGHT HEREUNDER PRIOR TO THE OCCURRENCE OF A DEFAULT, TO EXERCISE ANY RIGHTS OF ASSIGNOR UNDER OR IN RESPECT OF ANY OF THE LICENSES TO RENEW OR EXTEND THE SAME.

10. Binding Effect; Benefits. This Assignment shall be binding upon Assignor and its respective successors and assigns, and shall inure to the benefit of Agent and its respective successors and assigns.

11. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO CONFLICT OF LAWS PROVISIONS.

12. Severability. The invalidity, illegality or unenforceability of any provision in or obligation under this Agreement, the Security Agreement or the Credit Agreement shall not affect or impair the validity, legality or enforceability of the remaining provisions or obligations under this Agreement.

13. Counterparts. This Agreement and any amendments, waivers, consents or supplements may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all of which counterparts together shall constitute but one and the same instrument. This Agreement shall become effective upon the execution of a counterpart hereof by each of the parties hereto.

14. Effect of Amendment and Restatement. This Agreement amends, restates and supersedes the Continuing Security Interest and Conditional Assignment of Patents, Trademarks, Copyrights and Licenses dated November 3, 1993 between Assignor and Agent (the "Existing Agreement"); provided, that (i) the liens and security interests in favor of Agent for the benefit of Lenders securing payment of the Obligations are in all respects continuing and in full force and

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effect with respect to all Secured Obligations and (ii) all references in the other Loan Documents to the Existing Agreement shall be deemed to refer without further amendment to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their duly authorized representatives as of the date first written above.

PROTECTION ONE ALARM MONITORING, INC.,
a Delaware corporation

By: JOHN W. HESSE

Title: Executive Vice President

Accepted and Agreed to:

HELLER FINANCIAL, INC.,
a Delaware corporation,
individually and as
Agent for the Lenders

By: TIMOTHY CANON

Title: Vice President

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List of Schedules

- Schedule A - United States, Canada and Other Foreign Patents
- Schedule B - United States, Canada and Other Foreign Copyrights
- Schedule C - United States, Canada and Other Foreign Trademarks
- Schedule D - United States, Canada and Other Foreign Patents Licenses,
Copyrights, Licenses and Trademark Licenses

PROTECTION ONE, INC.

1994 STOCK OPTION PLAN
(As amended through October 3, 1996)

1. PURPOSE.

The purposes of this 1994 Stock Option Plan (THIS "PLAN") are to provide long-term incentives and rewards to directors, officers and key employees of Protection One, Inc., a Delaware corporation (THE "COMPANY"), and of the Company's subsidiaries, to assist the Company and its subsidiaries in attracting and retaining such individuals on a basis competitive with industry practices, to align their interests with those of the Company's stockholders, and to provide additional compensation to them.

2. EFFECTIVE DATE.

This Plan shall be effective as of the date of its adoption by the Board of Directors of the Company (THE "ADOPTION DATE"), subject to the approval of this Plan by the holders of a majority of the issued and outstanding shares of the Class A Common Stock of the Company (THE "COMMON STOCK") and the voting preferred stock of the Company, voting together as a single class and with each share of such preferred stock entitled to the number of votes determined in accordance with Section 9(a) of Article IV of the Company's Restated Certificate of Incorporation (THE DATE ON WHICH THE HOLDERS SO APPROVE THE PLAN TO BE REFERRED TO HEREIN AS THE "APPROVAL DATE"). Grants of "Options" (as hereinafter defined) may be made under this Plan on and after the Adoption Date, but all rights of the participants shall be subject to such stockholder approval of this Plan. In the event such stockholder approval is not obtained, all Options under this Plan shall be null and void ab initio.

3. ADMINISTRATION OF THIS PLAN.

3.1 This Plan shall be administered by the Board of Directors or a committee thereof designated by the Board of Directors, which committee (THE "COMMITTEE") may be the Compensation Committee of the Board of Directors as shall be designated by the Board of Directors; provided, however, that with respect to grants of Options to persons who are then subject to Section 16 of the Securities Exchange Act of 1934, as amended (THE "1934 ACT"), the Plan shall at all times be administered so as to permit the Plan to comply with Rule 16b-3 under the 1934 Act or any successor thereto ("RULE 16B-3") and that any Committee shall be so constituted so as to satisfy the legal requirements

relating to the administration of incentive stock option plans, if any, of Delaware corporate and securities laws and of the Internal Revenue Code of 1986, as from time to time amended (THE "IRC"). Once appointed, the Committee shall continue to serve in its designated capacity until otherwise directed by the Board. If permitted by Rule 16b-3, the Plan may be administered by different bodies with respect to directors, non-director officers and employees who are neither directors nor officers of the Company. If and to the extent the Plan is then being administered by the Board, the Board shall have all authority and each and all of the powers granted to the Committee by this Plan (including, without limitation, Sections 3.2, 3.3, 3.4 and 6).

3.2 The Committee shall have full power and authority in its discretion, subject to and not inconsistent with the express provisions of this Plan, to take any and all actions required or permitted to be taken under this Plan. Such full power and authority shall include, without limitation, the

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actions set forth in Section 6, the making of all required or appropriate determinations under this Plan, and the adoption, amendment and rescission of such rules and regulations relating to this Plan as the Committee shall determine in its discretion (THE "RULES"); in each case subject to the express provisions of this Plan.

3.3 The interpretation or construction by the Committee of this Plan, any Option or "Agreement" (as hereinafter defined) or any Rule and all determinations by the Committee shall in each case be final, binding and conclusive with respect to all interested parties, unless otherwise determined by the Board of Directors. No member of the Committee shall be personally liable for any action, failure to act, determination, interpretation or construction made in good faith.

3.4 The Committee shall determine the "fair market value" of the Common Stock from time to time for purposes of this Plan in accordance with such procedures for the determination thereof as the Committee shall determine.

4. PARTICIPANTS.

Participants in this Plan shall be directors, officers and key employees of the Company or its subsidiaries selected by the Committee. Nothing set forth in this Plan or in any Agreement shall confer upon any director, officer or employee any right to continue in the employ of the Company or its subsidiaries or as an officer of the Company, nor limit in any manner the right of the Company to terminate such office or employment for any reason whatsoever, with or without good cause. No employee or other person shall have any right to be granted an Option.

5. SHARES OF STOCK SUBJECT TO THIS PLAN.

The shares of Common Stock available for issuance under this Plan pursuant to the exercise of "ISOs" or "NQSOs" (as each such term is hereinafter defined), shall consist of 944,000 shares of Common Stock in the aggregate, subject to adjustment as provided in Section 13. Such number of shares shall be set aside out of the authorized but unissued shares of Common Stock not reserved for any other purpose or out of Common Stock held in or acquired for the treasury of the Company. Should an Option be terminated for any reason without being exercised, or be cancelled in whole or in part, the shares of Common Stock subject to such Option shall again be available for issuance under this Plan.

6. GRANT OF OPTIONS.

The Committee may from time to time, in its sole discretion, award to such directors, officers and key employees as the Committee designates options to purchase shares of the Common Stock (THE "OPTIONS"). In connection therewith, the Committee shall have full and final authority in its discretion, subject to the express provisions of this Plan, (i) in the case of each Option, to determine whether the Option shall be an incentive stock option (AN "ISO") pursuant to Section 422 of the IRC, as such section may from time to time be amended or supplemented ("SECTION 422"), or an Option that does not qualify under such Section 422 (AN "NQSO"), (ii) to determine the time or times at which Options will be awarded, (iii) to determine the number of shares that may be purchased upon the exercise of each Option, (iv) to determine the amount payable by the participant upon the exercise of such Option (THE "EXERCISE PRICE"), which price shall not be less than the minimum specified in

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Section 7.1, (v) to determine the time or times when each Option shall become exercisable, the objectives or conditions, if any, to such exercise and the duration of the exercise period, and (vi) to prescribe the form or forms of the agreement or instrument reflecting the terms and conditions of each Option (THE "AGREEMENTS").

The Committee also shall have full power and authority to delegate to one or more of the executive officers of the Company, as the Committee deems appropriate, (i) the selection of participants to whom Options shall be granted; (ii) the determination of the number of shares of Common Stock purchasable upon the exercise of each such Option and the Exercise Price thereof; (iii) the other terms and conditions of each such Option and the applicable Agreement, including without limitation establishing the objectives and conditions, if any, for the earning or vesting of such Option; and (iv) the right to interpret and construe each provision of this Plan as applicable to such Option; provided, however, that no Option may be granted or other determination made pursuant to this paragraph to any person who (i) is a "covered employee" within the meaning of Section 162(m) of the IRC or who, in the Committee's judgment, is likely to be a covered employee at any time during the period the Option granted to such employee would be outstanding or (ii) an officer or other person subject to

7. EXERCISE PRICE AND CONSIDERATION.

7.1 The Exercise Price shall be determined by the Committee at the time of each grant of Options; provided, however, that the Exercise Price for an ISO shall not be less than 100% of the fair market value of the Common Stock on the date on which the ISO is granted and that the Exercise Price of any ISO granted to a person who, at the time of such grant, owns capital stock possessing more than 10% of the total combined voting power of all classes of capital stock of the Company or of subsidiary of the Company (A "TEN PERCENT HOLDER") shall be the price (currently 110% of fair market value of a share of Common Stock) required by the IRC in order to constitute an ISO.

7.2 The Exercise Price shall be paid in cash, by check payable to the order of the Company, by the surrender of shares of the Common Stock having a fair market value (determined in accordance with Section 3.4 above) equal to the Exercise Price on the date on which the Option is exercised, or any combination of the foregoing. Notwithstanding the foregoing, the Exercise Price may also be paid by delivery to the Company or its designated agent of an executed irrevocable option exercise form together with irrevocable instructions to a financial institution or broker-dealer approved by the Company to sell or margin a sufficient portion of the shares and deliver the sale or margin loan proceeds directly to the Company to pay the Exercise Price, such instructions to be in such form is acceptable to the Committee; provided, however, that a participant may pay the Exercise Price pursuant to this sentence if and only if either (x) the Option being exercised is an NQSO, or (y) the Option being exercised is an ISO and the Company is satisfied that the participant understands that the effect of such arrangement will be to cause a "disqualifying disposition" of the participant's shares and a loss to the participant of the favorable tax treatment of such ISO provided by the IRC. The Committee may determine to cause the Company to lend directly to a participant some or all of the funds required to pay the Exercise Price, on such terms and subject to such conditions as the Committee may establish.

8. MANNER OF EXERCISE.

Unless and to the extent otherwise provided in the applicable Agreement, and subject to the limitations set forth in this Plan, each Option may be exercised from time to time in whole or

in part by the participant delivering to the Company at its main office (to the attention of the President and the Chief Financial Officer) written notice of the number of shares with respect to which the Option is being exercised accompanied by full payment to the Company of the Exercise Price of the shares being purchased; provided, however, that in the event the consideration is other

than cash, such written notice shall include the participant's election to pay some or all of the Exercise Price as otherwise permitted by Section 7.2, in which case the participant shall have a reasonable time (as determined by the Committee) to arrange for the delivery to the Company of the balance of the Exercise Price or the agreement that will reflect the terms of such payment; and provided, further, that if payment of the Exercise Price is to be made in shares of Common Stock, the participant shall deliver to the Company stock certificates evidencing such shares properly endorsed for transfer in negotiable form. If someone other than the participant is exercising an Option, the person or persons so exercising the Option shall be required to furnish to the Company appropriate documentation that such person or persons have the full legal right and power to exercise the Option on behalf of and for the participant.

9. DURATION AND PERIOD FOR EXERCISE OF OPTIONS.

9.1 Each Option shall be exercisable on such date or dates and during such period as shall be determined by the Committee at the time of grant; provided, however, that (i) no ISO shall be exercisable after the expiration of 10 years after the grant date, (ii) no ISO granted to a Ten Percent Holder shall be exercisable after the expiration of five years after the grant date, and (iii) no Option shall be exercisable unless and until either a registration statement under the Securities Act of 1933, as amended, is in effect registering the shares of Common Stock to be issued upon exercise of the Options or, in the opinion of counsel for the Company, an exemption from registration is available. Subject to the foregoing, the Committee shall specify at the time each Option is granted, and shall set forth in the corresponding Agreement, the time or times at which, and in what amounts, the Option may be exercised.

9.2 Upon the termination of the employment by the Company or its subsidiaries of a participant, such participant's rights to exercise an Option then held shall be as follows, subject to the authority of the Committee to shorten or extend the exercisability of an Option in its sole discretion (with the consent of the participant or the participant's legal representative in the case of an ISO):

(a) Death or Permanent and Permanent and Total Disability. If the employment is terminated by reason of the death or "permanent and total disability" as defined in Section 22(e) (3) of the IRC of the participant, each Option held by the participant on the date of termination shall terminate on the fixed expiration date of such Option; provided, however, that in the case of ISOs the date of termination shall be the date that is 12 months after the date of termination of employment if such date is earlier than the fixed expiration date of the Option.

(b) Other Disability. If the employment is terminated by reason of a disability of the participant that is not a "permanent and total disability" as defined in Section 22(e) (3) of the IRC, each Option held by the participant on the date of termination shall terminate on the fixed expiration date of such Option; provided, however, that in the case of ISOs the date of termination shall be the date that is three months

after the date of termination of employment if such date is earlier than the fixed expiration date of the Option.

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(c) Other Termination. If the employment is terminated by any reason other than death or disability, each Option held by the participant on the date of termination shall terminate on the earlier of (i) the date that is three months after the date of termination of employment, or (ii) the fixed expiration date of such Option.

9.3 If the employment of a participant is terminated by reason of the "death or permanent and total disability" (as defined in Section 22(e)(3) of the IRC) of the participant, all Options held by such participant shall become immediately vested, notwithstanding any conditions to the vesting of such Options set forth herein or in the Agreement reflecting such Options. If the employment of a participant is terminated by any reason other than the death or permanent and total disability of the participant, all Options not vested as of the time of termination shall be forfeited, subject to the authority of the Committee to authorize, in the applicable Agreement, at the time of termination or otherwise, the immediate vesting of all or such portion of such Options as it may determine. The Committee shall have the authority to accelerate the vesting of all or some portion of the Options notwithstanding any conditions to vesting of such Options set forth herein or in the Agreement reflecting such Options.

9.4 The Options of a participant who dies shall be exercisable by a legatee or legatees of such Options under the participant's last will, or by such participant's executor, personal representative or distributee. However, in the event of a participant's death after the date of termination of employment (which termination was for a reason other than the death of the participant), such deceased's participant's Options shall expire in accordance with their terms as if such participant were still living.

9.5 The Committee shall have the authority to determine the reason for and date of termination of employment of each participant (including but not limited to determining whether a termination is by reason of disability), which determination shall be final, binding and conclusive on all interested parties.

10. LIMITATION ON GRANT OF ISO'S.

10.1 The aggregate fair market value (determined as of the time the Option is granted) of the shares of Common Stock for which ISO's may first be exercisable by an participant during any calendar year shall not exceed \$100,000 or such other amount as may be established by the Code.

10.2 No ISO may be granted under this Plan after the 10th anniversary of the Adoption Date.

10.3 No ISO may be granted to any employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company.

11. ACCELERATION OF OPTIONS.

11.1 In the event that the Company enters into one or more agreements to dispose of all or substantially all of its assets or the Company's stockholders dispose of or become obligated to dispose of 50% or more of the outstanding shares of Common Stock, other than to the Company or a subsidiary of the Company, in either case by means of a tender offer, sale, merger, reorganization or liquidation, in one or a series of related transactions (AN "ACCELERATION EVENT"), then each outstanding

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Option shall become exercisable during the 30 days immediately prior to the scheduled consummation of the Acceleration Event with respect to the full number of shares for which such Option has been granted: provided, however, that no Acceleration Event shall be deemed to occur for purposes of this section (unless otherwise provided in the applicable Agreement) in the event that (i) the term of the agreements pursuant to which such transaction is occurring require as a condition to the consummation thereof that each Option shall either be assumed by a successor corporation or parent thereof or be replaced with a comparable option to purchase shares of capital stock of the successor corporation or parent thereof, and (ii) the transaction is approved by a majority of the directors who have been in office for more than 12 months prior to the scheduled consummation of the transaction. Any exercise of Options during such 30-day period shall be conditioned upon the consummation of the Acceleration Event and shall be effective only concurrently with the consummation of the Acceleration Event, and in the event the Acceleration Event is not consummated all exercises of Options made pursuant to this section shall be of no further force or effect; unless, with respect to any such Option, such Option was otherwise exercisable in accordance with its terms without regard to this section and the participant exercising such Option indicates in writing that such exercise is not conditioned on the consummation of the Acceleration Event. Upon consummation of the Acceleration Event, all outstanding Options, whether or not accelerated pursuant to this section, shall terminate and cease to be exercisable, unless assumed by the successor corporation or a parent thereof.

11.2 In the event of the occurrence of an Acceleration Event in which the Company will not be the surviving entity or in which all of the shares of Common Stock of the Company are being acquired, any participant who is then subject to the filing requirements imposed under Section 16(a) of the 1934 Act with respect to the Company shall receive a payment of cash equal to the difference between the aggregate fair market value of the shares of Common Stock subject to such accelerated Option and the aggregate Exercise Price of such shares. Payment shall be made within 10 days after the consummation of the Acceleration Event.

The foregoing payments under this section shall be made in lieu of and in full discharge of any and all obligations of the Company with respect to all subject Options of the participant.

11.3 The grant of Options under this Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

12. CANCELLATION AND REPRICING OF OPTIONS.

12.1 The Committee shall have the authority to effect, at any time and from time to time, with the consent of the affected participant, the cancellation of any or all outstanding Options and the grant in substitution therefor of new Options under this Plan (subject to the limitations hereof) providing for the purchase of the same or a different number of shares of Common Stock and, in the case of ISO's, the grant is at an Exercise Price not less than 100% of the fair market value of the Common Stock on the new grant date. The Agreement reflecting the terms of the new Options may, in the discretion of the Committee, include the same terms and conditions as the Agreement reflecting the terms of the old Options including, without limitation, the same vesting schedule.

12.2 The Committee may, in its discretion, amend the terms of any Agreement, with the consent of the affected participant, to provide that the Exercise Price of the shares remaining subject to the original Option shall be reestablished at a price not less than 100% of the fair market value of the Common Stock on the effective date of such amendment.

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13. ADJUSTMENTS AND CHANGES IN THE COMMON STOCK.

13.1 In the event that the shares of Common Stock as presently constituted shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company, or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, then unless such change results in the termination of all outstanding Options pursuant to the provisions of Section 11, there shall be substituted for or added to each share of Common Stock theretofore appropriated or thereafter subject or which may become subject to an Option, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed, or for which each share shall be exchanged, or to which each such share shall be entitled, as the case may be. Each Agreement shall be deemed amended appropriately as to price and other terms as may be necessary in the determination of the Committee to reflect the foregoing events. In the event there shall be any other change in the number or kind of the outstanding Common Stock, or of any stock or securities into which such shares have been changed,

or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change requires an adjustment in the terms of any Option granted or that may be granted, such adjustment shall be made in accordance with such determination and each Agreement reflecting such terms shall be deemed amended. Fractional shares resulting from any adjustment in Options pursuant to this section shall be rounded down to the nearest whole number of shares.

13.2 Notwithstanding the foregoing, any and all adjustments in the terms of ISO's shall comply in all respects with applicable sections of the IRC and the regulations thereunder.

13.3 Notice of any adjustment in the terms of Options shall be given by the Company to each holder of an Option that has been so adjusted. However, such adjustment shall be effective and binding for all purposes whether or not such notice is given or received.

14. APPLICATION OF RULE 16B-3.

With respect to grants of Options to persons are then subject to Section 16 of the 1934 Act, this Plan shall be governed by Rule 16b-3.

15. NO RIGHTS AS STOCKHOLDER.

No participant shall have rights as a holder of Common Stock with respect to Options unless and until certificates for shares of such stock are issued to the participant or the participant's legal representative.

16. WITHHOLDING TAXES.

The Company shall have the right to withhold from the participant, at the time of the issuance by the Company of any shares, any federal, state or other taxes required by law to be withheld with respect to such issuance or to require, through withholding from the participant's salary or otherwise, the payment by the participant of any such taxes. An Agreement may provide that the participant may satisfy any such obligation by any of the following means: (i) a cash payment to the Company by the participant, (ii) delivery to the Company of previously owned shares of Common Stock that the participant has held for at least six months prior to the delivery of such shares or that the

participant purchased on the open market and for which the purchaser has good and marketable title, free and clear of any security interest, lien or encumbrance, having an aggregate fair market value, determined as of the date the obligation to withhold or pay taxes arises in connection with the Option (THE "TAX DATE"), equal to the amount necessary to satisfy any such obligation, (iii)

a cash payment to the Company by a broker-dealer acceptable to the Company to whom the purchaser has submitted an irrevocable notice of exercise, or (iv) the withholding by the Company from the shares of Common Stock to be issued upon exercise of the Option that number of shares having a fair market on the Tax Date equal to the amount required to be withheld; provided, however, that the Committee shall have sole discretion to disapprove of an election pursuant to clauses (ii) or (iii) and that if the participant is a person subject to Section 16 of the 1934 Act, the Company may require that the method of satisfying any such withholding obligation be in compliance with said Section 16 and Rule 16b-3 thereunder.

17. TRANSFERABILITY.

No Incentive Stock Option may be in any way transferred, assigned, pledged or hypothecated by the participant to which it was granted or awarded, other than by will or the laws of descent or distribution, and an Incentive Stock Option may be exercised during the participant's lifetime only by the participant or the participant's legal representative.

No NQSO may be in any way transferred, assigned, pledged or hypothecated by the participant to which that NQSO was granted or awarded other than by will or the laws of descent or distribution or, if and to the extent that the Agreement governing such NQSO so provides, to a family member of such participant, to a trust established for the benefit of such participant or family member or to a qualified charity (as defined in the Agreement). A NQSO may be exercised during the participant's lifetime only by the participant or the participant's legal representative or, if applicable Agreement so provides, by a permitted transferee or his or her legal representative. Notwithstanding the foregoing, the Committee may upon request consent to such additional transfers of NQSO's as the Committee may determine in its sole discretion subject to such conditions as the Committee may require and provided such transfer will not cause the Plan to no longer comply with Rule 16b-3 or any other regulatory requirements.

18. AMENDMENTS AND TERMINATION.

18.1 In addition to such amendments as are provided for in Section 12, with the consent of the affected participant the Committee may amend any outstanding Agreement in a manner not inconsistent with this Plan.

18.2 Unless the holders of at least a majority of the issued outstanding shares of Common Stock shall have approved thereof, no amendment of this Plan shall be effective which would cause the Plan to no longer comply with Rule 16b-3 or other regulatory requirements. In the event that the Committee or the Board of Directors determines at any time or from time to time that Rule 16b-3 requires that the terms of any outstanding Option be modified, the Committee or the Board of Directors shall have the right and power to amend any outstanding Agreement, or otherwise modify the terms of any outstanding Option, without the consent of the affected participant(s) and irrespective of whether such

modification is (i) consistent with the terms of this Plan, or (ii) adverse to such participant(s). For the purposes of this section, any (I) cancellation and reissuance, or (II) repricing

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of any Options granted at a new Exercise Price as provided in Section 12 shall not constitute an amendment of this Plan.

18.3 The Board of Directors may at any time terminate or from time to time amend this Plan in whole or in part, but no such amendment shall adversely affect any rights or obligations with respect to any Options theretofore granted under this Plan (except as contemplated by Section 18.2).

19. GOVERNING LAW.

The validity and construction of this Plan and the Agreements shall be governed by the laws of the State of Delaware.

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List of Subsidiaries

Protection One, Inc.

Protection One Alarm Monitoring, Inc., a Delaware corporation

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Protection One, Inc. and Subsidiaries on Form S-3 (File Nos. 33-83484, 33-99220, 333-05849, 333-09401 and 333-13733) and Form S-8 (File Nos. 33-95702, 33-97542, 333-02892 and 333-02828) of our report, which includes an explanatory paragraph with respect to a change in method of accounting for certain subscriber account acquisition and transition costs, dated December 10, 1996, on our audits of the consolidated financial statements and financial statement schedule of Protection One, Inc. and Subsidiaries as of September 30, 1996 and 1995, and for each of the three years in the period ended September 30, 1996, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Portland, Oregon
December 30, 1996

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<OTHER-SE>	28,698
<TOTAL-LIABILITY-AND-EQUITY>	290,075
<SALES>	73,457
<TOTAL-REVENUES>	73,457
<CGS>	24,093
<TOTAL-COSTS>	24,093
<OTHER-EXPENSES>	108
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<INTEREST-EXPENSE>	22,697
<INCOME-PRETAX>	(15,744)
<INCOME-TAX>	(247)
<INCOME-CONTINUING>	(15,745)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(15,745)
<EPS-PRIMARY>	(1.40)
<EPS-DILUTED>	(1.40)

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