

Security Finance Newsletter

June 2006

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Volume II, Issue 2

Each quarter our company is pleased to bring you timely information about the security market, corporate valuations and some of the major financial decisions which continue to impact the market's growth and development. We welcome comments and suggestions.

— Pete Sokoloff

Assa Abloy Pairs Fargo with HID

Assa Abloy's recent May announcement of the acquisition of Fargo (NASDAQ, FRGO) by the unit which includes HID is unique because of the premium price that was negotiated. \$25.50 a share resulted in a \$300 million dollar cash deal. This is a hefty price tag considering that just before the announcement

Fargo was trading at \$16.23 a share. What does Assa Abloy see in Fargo that justifies paying over 57%

more than the publicly traded price?

The decision revolves around a long standing relationship between the two companies and the desire to establish a leadership position in the area of secure card issuance. Will West, Director of Business Development for Assa Abloy HID traces the relationship back six years ago. "Fargo and HID had discussed the possibility of a merger prior to the IPO of Fargo in 2000. Since that time, not only did Fargo complete its IPO, but HID was acquired by Assa Abloy. Obviously the context of the business had changed considerably for both organizations as a

result of these events. We returned to more formal discussions on a business combination early this year."

Assa Abloy and Fargo's shared vision in the issuance arena, especially in the area of RFID propelled the talks. According to Cronus' Homeland Security Sector Report, 3rd Quarter, RFID is considered one of the most compelling areas in the investment community, and research firm, Frost and Sullivan, estimated that the market will reach \$10 billion by 2009.

HID pioneered RFID, focusing on readers and access control cards. Fargo concentrates on the technology of printing on these cards and the printers themselves. Gary Holland, CEO of Fargo, stated "We are one of only three companies in the world that has developed the technology of high definition

printing. This type of printing enables us to print on smart cards (ID cards that are implanted with computer chips or RFID) without damaging the card. We're also totally unique

in the perspective of producing unparalleled printer security."

Fargo's move forward in the area of printer security was spurred by the events of 9/11. Terrorists were able to get access to printers (not Fargo's) and that's how they got ID's. Holland says "This was a wake up call that something had to be done about the vulnerability of printers." Fargo now occupies a very exclusive niche of homeland security and with the merger, Assa Abloy and Fargo are now positioned to be at the forefront of the field.

Objectives like the Homeland Security Presidential Directive 12 (HSPD 12 requires a common identification credential for all federal agencies as well as employees of

Frost & Sullivan estimates that the RFID market will reach \$10 billion by 2009

government contractors) are expected to drive huge growth in the RFID and security card issuance market. Holland also sees the opportunity for an eventual overhaul of the magnetic stripe cards like driver's licenses and national ID cards: "The smart card has been developing over the last 30 years, it's starting to become fairly cheap, accessible and ready. China, the Middle East, the Italians...they're all moving toward the smart card."

Fargo and Assa Abloy's co-existence in the area of card security was one in which both parties were destined to gradually intersect; Fargo has been a long time customer of HID. West stated: "The companies agreed that, at the very least, a strong business partnership would help each achieve their goals more quickly." Synergies included the combining of marketing resources, the savings that both companies will gain from buying components from Asia together, and being in a prime position with increasing market share in the RFID field.

Assa Abloy's plans for integration will allow Fargo to operate largely as an independent entity. West says "We recognize the value of the Fargo management, employees, and brand and will work to leverage those in the marketplace by drawing on HID's international reach and other resources." The

(Continued on page 2)

HID/FARGO BY THE NUMBERS		
	Fargo	Assa Abloy
Purchase Price	\$300M	Mkt. Cap. \$7369.84M
Premium Paid	57.12%	
TTM Revenue	\$82.48M	\$3794.39M
Revenue Multiple	3.64X	1.94X
TTM EBITDA	\$14.9M	\$558.2M
EBITDA Multiple	20.13X	13.20X
Number of Employees	226	30,000

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management of Fargo is in full agreement with the merger and the integration should be very smooth with no changes on the production side and minimal changes on the management side. **Gary Holland** will continue to direct the organization and will report directly to **Denis Hebert, CEO of HID Global Corporation.**

If history is any indicator, those who think **Assa Abloy** paid too much need only look to the HID acquisition in 2000. Assa Abloy's purchase of HID was similar in magnitude to the Fargo merger. HID was an extremely successful acquisition and according to **Assa Abloy's CEO & President, Johan Molin:** "6 years later and the return on capital for HID is clearly above the overall 16% growth we are experiencing for the rest of the group."

West further states "this secure card issuance model—one that covers the entire card issuance process from beginning to end—is increasingly vital". **It is expected that the purchase of Fargo will help HID continue its growth in all product areas .**

The merger is expected to close by the end of the third quarter subject to stockholder and regulatory approval.

What's Hot Among the Analysts

Taken from a report by Frost & Sullivan titled "European Biometrics Market: Investment Analysis and Growth Opportunities-- February 2006."

The European Biometrics market is the next hot destination for venture capitalists. Post 9/11 the European market has seen a steady climb of over 50 percent and though still in infancy it offers a prime target for investment; having progressed in its CAGR (compound annual growth rate) from 25% in early 2000 to 36.9% between 2005-2008.

Combined with its innovation-centric approach vs. the project size-oriented approach of the American market, and a probable ideal exit strategy of an IPO, the European market is in prime position for funding. In a comparison of Non-AFIS (non-automated fingerprint identification system), AFIS, Facial Recognition, Eye Scan (iris and

retina), Hand Geometry, Voice Verification, and Signature Verification growth segments, AFIS and Facial Recognition were the leaders in 2005.

The European Biometrics market is estimated to grow at a CAGR of 36.9% between 2005-2008.

A forecasting for the years 2005-2008 predicts that Facial Recognition, Voice Verification, and Non-AFIS will be the new industry players. There is also a

80% of the market is already funded by venture capitalists. Within the next five years, it is expected that the number will fall to 50/55% as issues of standardization are raised. Due to the growing concern toward intellectual property (IP) rights, companies will seek to mitigate the risk by depending on government or research development agencies for funding.

www.frostsullivan.com

Taken from a report by CRONUS titled "Homeland Security Sector Report—3rd Quarter 2005."

Since 9/11 defense firms have benefited from an increased federal focus on security. With the massive restructuring of government and private companies to meet the demands of protecting our homeland, defense spending has soared.

Growth since 2001 has been approximately 30%. Iraq and Afghanistan are the main cause of this expansion and the federal government is currently seen as the driving force in the Homeland Security marketplace due to the intensified commitment to protection.

Of the \$31.9 billion budget earmarked for the Department of Homeland Security's 2006 budget, 39% is tagged for border and transportation security with 31% to critical infrastructure protection close behind. Counterterrorism, defined catastrophic threats, emergency preparedness and intelligence and early warning follow. Though coming from a smaller base, both **intelligence and early warning**

and defending against catastrophic threats account for the highest year over year growth.

The commercial opportunities for this new era include biometrics, vaccines/ pharmaceuticals, RFID (radio frequency identification), screening, scanning, surveillance, border security, chemical industry, transportation industry, cyber security, information, communication, and services which include armored transport, home and personal security and other intelligence equipment and systems.

(Continued on page 3)

May 30, 2006
This notice appears as a matter of record only.



GP Investments, Inc.

Has acquired a majority interest in



ALLCOM
Global Services

The undersigned advised AllCom Global Services.



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growing market for multi-modal biometrics (the application of several biometric procedures at the same time) because of the move toward large-scale integration of technologies.

The shift toward a national ID program, tougher government regulations, and the new **Schengen** information system—II (a database that will store biometric data and digital photographs for use across Europe to ease issuance of visas and border patrol problems) are expected to drive more revenue to the European market as well.

Due to public and private demand, as well as federal legislation (requirements for countries that enter the U.S. to have biometric information encoded in their passports), the drive for biometric innovation is expected to leap from \$1 billion in revenue

Biometric innovation is expected to leap from \$1 billion in revenue to \$5 billion by 2008.

to \$5 billion by 2008. The RFID market is projected to reach \$10 billion by 2009 and IT spending is estimated to grow 30% to 92 billion by 2010.

Homeland security stocks have also enjoyed escalated share prices. **Lehman Brothers concluded that its security stocks appreciated 320% in a three-year period while the S&P 500 returned only 5% during that period.**

The bigger firms such as **Tyco, Honeywell, and General Electric** are the major players in the market place. Defense Companies, and medium-size firms like **The Brink's Company** and **Identix** will continue to be serious competitors as well.

www.cronuscapitalmarkets.com

Excerpted from Morgan Keegan's Homeland Security Technology Conference Report, May 23, 2006.

Most experts agree that Homeland Security funding will continue to see significant increases over the next five to ten years. The proposed budget for the DHS, 2007 is \$35.6 billion which is an increase of 7% from 2006.

The following areas are proposed for the funding: new technology for border patrol, technology at passenger checkpoints, TSA baggage screening, deployment of 10-Print Scans for US-VISIT (the updating of

10-print fingerscans to make them operable with the FBI's fingerprint database), upgrade to FBI IAFIS (Integrated Automated Fingerprint Identification System), increased funding for sensors, continued increase in Coast Guard funding, and the establishment of a guest worker program.

As evidenced by this budget, the top priority for the DHS is the prevention and/or minimizing effects of nuclear, chemical or biological attacks. The threat of potential terrorist activity continues to draw attention and drive funding for homeland security as well.

Kidde PLC, Brady Corp's purchase of Identocard Systems, Inc., and Viisage Technology's purchase of Identix. Recent years have also been characterized by active capital raising by the security

The proposed budget for the DHS, 2007 is \$35.6 billion which is an increase of 7% from 2006.

companies in the public and financial markets.

Morgan Keegan's Homeland Security Index significantly outperformed the NASDAQ Composite and S&P over the past 5.5 years. It is expected that as federal funding continues to grow, the homeland security sector will stand firmly to benefit in the coming years.

Government initiatives such as border protection and tracking visitors and citizens are shifting from experimental or pilot phases into deployments. New contracts are anticipated and this should improve its performance, potentially causing additional appreciation to the Homeland Security group.

www.morgankeegan.com

Contact Sokoloff & Company

Please contact **Mark Schwartz, Managing Director, New Business Development**, for a confidential consultation about your company's merger and acquisition needs.
(818) 547-4500
mschwartz@sokoloffco.com

December 30, 2005
This notice appears as a matter of record only.



NATIONAL
Network Services

Has been acquired by



RED HAWK
INDUSTRIES

The undersigned advised National Network Services.



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Continued public concern about terrorism and security within and beyond the national borders, fear of increasingly random and violent attacks, military campaigns in the Middle East, expanding global reach of US corporations into less stable geographic regions, increasing economic losses from crime/fraud, and growing threat of cyber crime also continue to propel the security industry.

Consolidation is expected to continue in the coming years. Some of the largest security acquisitions by public companies in the last 12 months include **United Technologies Corp's purchase of Lenel Systems** and

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"Always do right. This will gratify some people and astonish the rest."
- Mark Twain (1901)

DHS Funding for 2007 (in millions)	
Border Patrol	100
Passenger Checkpoints	80
TSA Baggage Screening	690
10-Print Scans for US-VISIT	63
Upgrade to FBI IAFIS	71
Sensors	536
Coast Guard	7100
Guest Worker Program	247

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

Q1 2006 and June 5, 2006 Closing Prices

Sokoloff & Company compiles a quarterly review of selected public security companies (and companies that dedicate a portion of their business to security) and compares how each is valued by the public marketplace. Comparative values for each company are expressed as: **EVS**, which is Enterprise Value divided by Sales and **P/E**, Price to Earnings (market cap divided by earnings). **EVM** is Enterprise Value Multiple; the Enterprise Value divided by EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). All multiples are based on trailing twelve months (TTM) numbers through the most recently reported quarter.

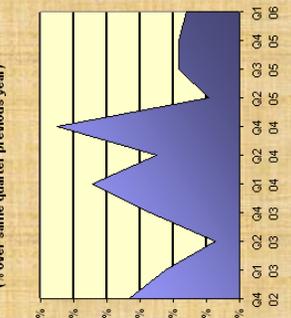
Note: The quarterly revenue percentage column is the increase (or decrease) from the same quarter in the previous year. Where fiscal year has differed from calendar year, the most recently reported information is used.

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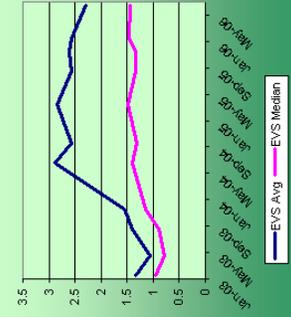
Current Rank	Previous Rank	Company	Symbol	Price 6/5/2006	52 Week Range	Market Cap 6/5/2006	2003 Revenue (000s)	2004 Revenue (000s)	2005 Revenue (000s)	4th Q 05 Revenue (000s)	1st Q 06 Revenue (000s)	1st Q 06 Incr/Decr	1st Q 06 EVS	PIE	EBITDA	EVM										
1	2	Taser Corp.	TASR	9.40	5.37-11.80	583,271M	24,456	67,700	47,684	12,600	13,900	36.2%	11.37	267.59	5.1M	114.52										
2	1	Cogent, Inc.	COGT	15.77	15.00-33.10	1,498	32,200	87,700	159,889	46,200	22,700	-36.7%	7.97	22.30	75,78M	15.43										
3	3	Vericor Incorporated	DNX	6.33	4.30-8.48	567,81M	92,514	55,200	73,852	22,200	20,800	2.7%	6.62	N/A	-3,82M	N/A										
4	5	Village Technology Inc.	VISG	13.99	9.07-19.25	406,75M	37,371	67,500	66,224	15,000	23,400	39.2%	5.23	N/A	7,27M	52.38										
5	4	Lasercard Corp.	LCRD	16.73	5.65-22.75	26,300	17,000	196,31M	28,544	10,100	14,100	144.0%	4.53	189.42	3.29	54.88										
6	10	RAE Systems, Inc.	RAE	4.29	2.84-4.54	248,59M	31,300	45,800	60,293	18,300	12,400	1.2%	3.73	N/A	987,00K	228.23										
7	9	Flir Systems, Inc.	FLIR	25.16	20.47-36.36	1,748	312,000	482,700	508,561	156,200	117,300	8.3%	3.55	20.79	147,26M	12.49										
8	11	Fargo Electronics, Inc.	FRGO	24.85	16.01-24.98	317,68M	65,491	72,400	81,028	21,000	20,100	7.7%	3.41	32.46	14,9M	18.87										
9	8	Genex Corporation	GNTX	14.26	13.90-21.00	2,198	469,019	505,700	536,484	138,300	139,000	8.9%	3.15	20.39	159,68M	10.80										
10	12	Napco Security Systems, Inc.	NSSC	15.12	4.08-11.84	201,10M	57,340	58,100	65,229	17,200	17,100	8.6%	2.99	24.47	12,16M	16.87										
11	7	Secure Computing Corp.	SCUR	8.80	8.05-15.29	476,26M	76,213	93,378	109,175	30,200	42,600	66.4%	2.98	73.18	26,75M	14.04										
12	6	First Advantage Corp.	FADV	23.08	21.75-31.07	1,338	166,500	266,500	643,749	170,100	194,300	168.5%	2.25	20.41	135,73M	11.56										
13	14	Internet Security	ISSX	20.16	19.88-25.58	901,68M	245,800	289,900	329,772	91,000	80,800	5.2%	2.1	22.71	77,08	9.10										
14	18	Tyco International	TYCO	27.30	24.85-31.29	55,60M	36,800	40,153,000	39,727,000	9,706,000	10,206,000	-2.4%	1.59	15.00	7,50B	8.48										
15	15	United Technologies Corp.	UTX	61.45	49.20-66.39	62,12B	30,725,000	36,700,000	42,725,000	11,772,000	10,446,000	11.0%	1.58	18.90	6,66B	10.41										
16	15	Megal Security Systems Ltd.	MAGS	9.99	7.82-14.20	103,49M	59,400	61,000	60,974	20,000	13,600	-2.2%	1.48	50.79	N/A	N/A										
17	16	DRS Technologies, Inc.	DRS	51.40	45.55-59.50	2,058	572,701	883,600	1,308,600	369,500	645,700	144.8%	1.47	18.23	234,99M	10.84										
18	20	Ingersoll Rand	IR	42.78	35.13-49.00	14,068	9,876,200	9,393,600	10,546,900	2,713,300	2,711,000	10.3%	1.47	12.29	1,61B	9.83										
19	21	The Stanley Works	SWK	47.69	43.31-54.59	3,868	2,978,100	3,045,400	3,285,300	610,200	968,700	20.1%	1.47	15.94	561,7M	9.03										
20	13	Safenet Inc.	SFNT	16.28	14.53-38.22	448,45M	66,200	201,600	263,061	76,700	63,500	6.2%	1.4	N/A	39,77M	9.39										
21	22	Honeywell	HON	40.16	32.68-44.48	33,25B	23,103,000	25,601,000	27,653,000	7,275,000	7,241,000	12.2%	1.34	18.39	3,37B	10.08										
22	25	ActivIdentity Corp.	ACTI	4.28	3.15-5.35	195,14M	38,282	26,900	42,156	11,500	11,100	21.2%	1.33	N/A	-24,79M	N/A										
23	17	L-3 Communications Holdings	LLL	74.46	70.64-88.50	9,068	5,061,600	6,897,000	9,444,700	2,900,200	2,903,900	48.0%	1.31	16.35	1,24B	10.96										
24	24	Amor Holdings, Inc.	AH	55.99	36.90-65.11	1,988	365,200	979,700	1,636,930	452,700	445,400	22.0%	1.19	13.14	276,45M	7.41										
25	23	Checkpoint Systems, Inc.	CHKP	22.39	16.91-29.91	877,06M	2,732,82	2,776,700	2,721,018	193,400	142,200	-21.9%	1.18	21.53	77,18M	10.80										
26	26	Deleoid	DELD	42.41	33.10-51.29	2,868	2,109,673	2,380,900	2,587,049	810,600	623,700	15.4%	1.18	34.35	260,95M	12.10										
27	27	ManTech International	MANI	32.25	24.53-38.75	1,088	701,601	842,400	980,290	261,000	275,300	26.6%	1.1	21.59	100,27M	11.43										
28	37	The Geo Group	GEO	36.76	20.10-41.40	367,79M	567,441	614,548	612,900	158,400	185,900	20.7%	1.06	37.46	60,02M	11.46										
29	33	Lockheed Martin Corp.	LMT	72.68	58.50-77.95	31,398	31,824,000	36,526,000	37,213,000	10,229,000	9,214,000	8.6%	0.88	15.25	3,60B	9.27										
30	34	Northrop Grumman Holdings	NOC	64.81	52.17-71.37	22,26B	26,206,000	29,853,000	30,721,000	7,860,000	7,184,000	-3.6%	0.88	16.78	2,95B	9.05										
31	32	Henry Bros Electronics	HBE	5.80	3.10-7.09	34,20M	18,261	29,700	42,156	12,000	9,200	6.8%	0.83	24.38	3,05M	11.58										
32	30	FIRSTSERVICE	FSRV	25.22	17.83-27.75	759,50M	609,794	812,300	1,068,134	342,000	122,100	-48.0%	0.8	11.14	91,51M	9.28										
33	38	Brimks Company	BCO	55.34	31.05-57.90	2,688	3,998,600	4,718,000	2,549,000	663,100	663,600	-45.8%	0.78	5.61	27,1M	7.51										
34	29	OSI Systems	OSIS	19.44	14.41-23.34	322,49M	182,600	247,100	395,041	117,100	108,100	14.8%	0.78	N/A	16,06M	20.72										
35	28	Siemens AG	SI	83.36	71.54-99.53	74,26B	86,088,010	93,455,000	90,896,136	24,521,000	26,059,000	8.3%	0.78	25.99	7,64B	10.86										
36	36	Johnson Controls	JCI	88.65	54.57-90.00	17,26B	22,646,000	26,553,400	27,479,400	7,527,600	6,167,000	17.6%	0.76	16.14	2,05B	10.34										
37	35	CompuDyne Corporation	CDCY	6.99	4.74-9.40	56,75M	193,263	142,762	141,650	40,700	40,500	11.6%	0.57	N/A	-2,39M	N/A										
38	39	Richardson Electronics, Ltd.	RELL	7.15	6.24-9.40	115,09M	464,517	520,069	578,724	158,100	155,800	10.1%	0.36	N/A	20,05M	10.72										
Total													1192.96	Consecutive Growth over previous period:		12.3%	4.0%	287,314,489	322,524,277	335,379,593	102.2%	20.34%	2.30	36.50	23.37	10.90

* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.

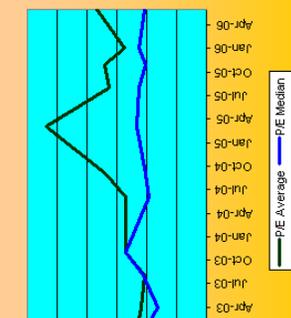
Security Industry Quarterly Revenue Growth (% over same quarter previous year)



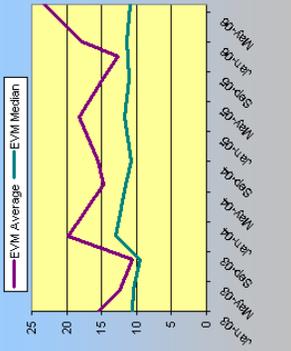
Enterprise Value to Sales



Price to Earnings (P/E)



Enterprise Value Multiple (EBITDA/Sales)



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