

# Security Finance Newsletter

June 2008

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## *Biometrics continues to be a Hot Commodity in the Investment Community*

Despite a long history of reliability issues, deployment delays and privacy concerns, the market remains convinced that biometric applications will ultimately penetrate many facets of our lives. This belief in the future, probably more than historical performance, drives today's publicly held biometric company values.

Three biometrics companies have continually placed in the top ten on the **Sokoloff Back Page** rankings\*: **AuthenTec (NASDAQ:AUTH)**, **Cogent, Inc. (NYSE:COGT)**, and **L-1 Identity Solutions, Inc. (NYSE:ID)**. The current state of policy in countries around the world, moves toward mandated credentialing, a belief that at least some of the technology has finally reached acceptable reliability standards and recent strong operational performances underpin current investor thinking.

**AuthenTec, which joined the rankings in Q2 2007 when it went public on the NASDAQ, has shown strong, steady growth with comparative year over year quarterly revenues topping fifty percent.** AUTH has hovered in the top three since hitting the Sokoloff Rankings and this quarter is no exception as it moves into its comfortable number two spot.

**Cogent, Inc.** has consistently ranked well, returning this quarter to the number one spot in the Sokoloff Rankings. At first glance, this was surprising as **Cogent** didn't report strong revenue numbers, having a decrease of 18% in quarter over quarter revenue.

Looking at **Cogent's** stock prices of the last few months, they hit a low on March 10<sup>th</sup> of \$8.38 then steadily climbed, approaching \$12 at this writing in late May. The release on May 28<sup>th</sup> of Q1 numbers showed that, despite the revenue decrease from Q1 2007, earnings soared by 120%. **COGT** continues a streak of profitability which would be the envy of almost any public company, which probably best explains its #1 position.

**COGT** recently made a small niche acquisition of **Maximus' Security Solutions Division (SSD)** for \$5 million. SSD has over fifteen years in applying and designing systems for using biometric technologies and has a focus in implementing the integration and structures necessary for Personal Identity Verification (PIV) Cards.

**Ming Hsieh, President and CEO of Cogent** said, "We expect this acquisition to enable us to enter the growing identity management and credentialing integration business with a wide range of established customers, strong personnel and a steady revenue stream." Further, SSD has manufactured more HSPD 12 (the federal mandate requiring federal agencies to have compliant credentials based on "smartcard" technology) cards for federal employees than any other integrator. This squarely positioned Cogent to be a leader in the area.

**L-1 Identity Solutions, Inc.** moved from sixth to seventh place in the rankings. Quarter over quarter revenue comparison showed a 65.5% increase, in part due to acquisitions, but the company still was able to report organic growth in excess of 20%. **ID's** upcoming acquisition of **Digimarc (NASDAQ, DMRC)** and a healthy

backlog which grew from \$715 million to \$750 million during the quarter continue to invite investor interest. **Another contributing factor was the May 12th announcement of the launch of their next generation VisionAccess 3D Face Reader** (available in the third quarter of 2008).

Clearly, healthy financials are what buyers seek, but it's obvious with the track record these three companies have sustained that it's more than just a strong balance sheet. **In the past decade, the uses of biometrics has been hyped but only recently has technology and sales caught up with the buzz.** The future of biometrics appears to have arrived and companies that specialize in the area such as **AuthenTec, Cogent, and L-1** seem to be well positioned as that future unfolds.

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*In the past decade the uses of biometrics has been hyped, but only recently has technology and sales caught up with the buzz.*

The move toward merging logical and physical security is now a reality evidenced by the fact that former physical security companies consistently talk of hiring IT professionals in order to be competitive in the current market. Take a look at the remarks about this and other elements of the business from **Brett Bontrager, Stanley Security** President, beginning on the next page.

\*Determination of rankings is based on the Enterprise Value to Sales Multiple (EVS). This is market cap plus debt and any preferred stock, less cash, divided by trailing twelve month sales. EVS is an indicator of the relative value of the company compared to others in the same market.

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**BRETT BONTRAGER, PRESIDENT  
STANLEY CONVERGENT SECURITY  
SOLUTIONS**

Stanley Security Solutions is a division of The Stanley Works (NYSE:SWK) and consists of several integrated businesses that deal in the electronic and mechanical areas of access control. The company has in-house R&D manufacturing capabilities and offers product technology, integration, service, and finance. Since 2002, Stanley Security Solutions has been working to solidify its name in the security industry and has become active in growing the business both organically and acquisitively. **Peter A. Sokoloff & Co.** interviewed **Brett Bontrager, President, Stanley Convergent Security Solutions**, to understand the inner workings of the company and how it has become and continues to be a major player in the market.

***Tell us about Stanley's  
entrance into Security.***

Stanley Works has been in the automatic door business for a long period of time and in July of 2002, we acquired a small company, **Senior Technologies**, which provides wireless security systems and solutions in the healthcare vertical. The goal was to build out the security platform based on bringing a solution to the door business which we were already in. **Then, in November 2002, we purchased Best Access Solutions which was the first significant acquisition in the security area.** Twenty percent of Best Access' revenue was their electronic security business. We made the decision to continue building that area. **Today, Stanley Security Solutions is around a billion four in revenue with approximately seven thousand employees.** Of the billion four, about eight hundred million is on the mechanical access side and about six hundred million is on the electronic security solutions or systems integration and monitoring side.

***Tell us about other major acquisitions  
in the security area that helped to  
further define and strengthen  
Stanley's Security Solution's business.***

**We acquired Blick plc in the UK in 2003, Frisco Bay in Canada in 2004, and HSM in 2007.** Pure access and security has been the focus of Stanley Security Solutions since 2002. All three of these companies added to our goal.

**Both Blick plc and Frisco Bay were integrators and the combination of the two helped us to offer our solutions on a global basis.** HSM, which we acquired in January of last year for \$545 million in cash, was the second largest commercial security monitoring

***"The number one major growth spot in the Security industry is the convergence of physical and logical security."***

company in the US. Up to then, we had been concentrating more on the integration side of the business with Blick plc and Frisco Bay so this was an opportunity for us to round out and build up our recurring revenue side of the

security business.

***How does Stanley Security Solutions support and work within the rest of the company?***

Stanley Works is approximately a four and a half billion dollar revenue company which consists of three business segments: construction and DIY (tools), industrial tools, and security solutions. They work separately, but from time to time cross over opportunities occur. For example, Stanley Security Solutions deals in access control, but the mechanical engineered locks which are used are actually

manufactured in our industrial tool group.

***How would you describe Stanley Security Solution's corporate culture?***

**We're very customer focused with a vision to be the number one service provider in the electronic security area.** We've always had a direct commercial model with very little residential exposure. We go right to the end user in the commercial space which makes us different than a lot of our competitors who go through various channels to reach them.

***What is unique about Stanley Security Solution's products and the way the company goes to market?***

Because we go direct, we have a large field of salespeople that take care of everything from the system design to the install to the service. It's all done through our field network. The second value proposition, is that we can go from a mechanical lock to an electro mechanical lock to a low end electronic solution to a fully integrated enterprise wide security solution including monitoring. **So, we have the mechanical solution all the way through the network enterprise solution and we're able to deliver that directly to our base.** We also have the scale that many of our competitors don't have. From the amount of technicians doing install and service to the salespeople in the field, we are able to offer an efficient, easy solution to the customer.

***How does the company tailor their products and customer service to fit different geographical areas?***

All services and solutions are standardized globally and as the mechanical part of the business expands internationally, its solutions will meet the architectural needs of the geographies in which it competes.

***What does Stanley Security Solutions see as major growth spots in the Security Industry and what are you doing to assure your competitiveness in these areas?***

**Number one is the convergence of physical and logical security.** As converged solutions become more prominent, we obviously want to be in a position to offer our products and services. **One way we're doing this is by matching the convergence growth that we**

***This notice appears as a matter of record only.***



**UTC Fire & Security**  
A United Technologies Company

Has acquired a stake in



**Alba Control Systems Limited, India**

***The undersigned advised Alba Control Systems Limited.***



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see in the industry with technical support by adding IT employees to assist our customers.

The number two area we see is that of data sharing. **What we hear most often from customers is that they need real time data to efficiently manage their security needs.** I think that is the most relevant phenomenon that's taken place in the industry and HSM has been in the forefront of addressing these requests.

**The last area we see is the ability to offer remote access, video and solutions to the end user, all of which we're doing.**

For us to stay ahead, we're growing both organically and acquisitively. Organically, we're adding more employees. This includes technicians, sales people, and a support group so that we're able to drive converged solutions. Acquisitively, we will acquire when we see an opportunity to advance our positions in these growth areas of the market.

**Concern for the environment has been in the forefront of politics, news, and world opinion. Please tell us what Stanley Security Solutions is doing in this area.**

There's a lot of opportunities for our customers to monitor parts of their business to assure that they're being as environmentally sound as possible. **By having products that are able to provide them with the data needed and by being able to take different types of info into our monitoring area and feed it back to them we're helping them be environmentally responsible.**

**Tell us about your commitment to research & development and how you cultivate new ideas.**

On the mechanical side of the business, Stanley has always had the reputation for delivering the highest quality mechanical products. **We have customer forums on a regular basis and we acquired a wireless lock company in 2007 which will further our portfolio of electro mechanical solutions to meet the needs of our education vertical.** We have been and continue to be mechanical

**Brett Bontrager**  
President, Convergent Security Solutions, The Stanley Works

Mr. Bontrager joined Best Access Systems in April 2000 and worked in a variety of positions. After the purchase of BEST by Stanley, he went on to serve as President of Convergent Security Solutions and has been instrumental in leading the portfolio shift that has taken place at Stanley including key strategic acquisitions the Security sector.



innovators.

**On the electronic side we're much more focused on how we efficiently deliver data and remote services to the end user as opposed to developing new electronic hardware/software products.** Once we're comfortable that we are providing the best

vision of Stanley Security Solutions with them. They understand that the customer and customer service is first priority, and that's something they can rally around. We also do a significant amount of training and just finished creating a million dollar plus training center in Indianapolis that is solely for training employees. **We run classes on a regular basis, as well as work very closely with primary vendors to train our employees on new products.**

**What short and long term goals does Stanley Security Solutions have for the business?**

**We will continue to gain scale in North America and solidify our position as one of the few truly national providers.** We will expand both organically and acquire geographically. We are also always looking at near neighbor opportunities for products and services that we don't deliver to the market today. In addition, we will continue to bring new products to the mechanical industry everyday, while on the electronic side, we will continue to develop new services.

**Contact**  
**Sokoloff & Company**

**Please contact Mark Schwartz,**  
**Managing Director,**  
**New Business Development**  
**For a confidential consultation**  
**about your company's merger**  
**and acquisition needs.**  
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*This notice appears as a matter of record only.*



**digitech**  
INTERNATIONAL

has been acquired by



**CHAMBERLAIN**<sup>®</sup>

*The undersigned advised Digitech International.*



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services to our installed base we will begin to bring proprietary products and technology to the industry. So, it's a focus of ours. Our number one priority in the electronics area is best in class service.

**How do you train and retain your employees and what do you look for in new hires?**

Since convergence has become a bigger part of the market we're hiring a lot of IT technicians on the electronic side of the business. We retain our employees because we share our

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**While at our website, surf around. There's plenty of useful information, including our archive of M&A Transaction Case Histories.**

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

# SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

## Q1 2008 Reports and Stock Prices as of May 15, 2008

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 Taxes, Interest, Depreciation and Amortization). All multiples are based on trailing twelve months (TTM) numbers through the most recently reported quarter. Changed from previous list: ICx Technologies, Inc. (ICXT) has been added.

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	Stock Price 5/15/2008	52 Week Range	Market Cap 5/15/2008	2005 Revenue (000s)	2006 Revenue (000s)	2007 Revenue (000s)	1st Q 08 Revenue (000s)	1st Q 08 Incr/Decr	EVS	P/E	EVM	
1	5	Cogent, Inc.	COGT	10.75	8.28 - 17.02	1.02B	159,889	101,657	105,794	24,631	-18.2%	6.32	35.52	35.52	
2	3	AuthenTec	AUTH	13.99	9.88-17.62	394.20M	19,243	33,174	52,344	15,514	66.9%	5.78	N/A	N/A	
3	2	Fir Systems, Inc.	FLIR	34.92	19.80 - 36.42	4.78B	508,561	575,000	779,397	236,906	46.8%	5.66	37.08	20.36	
4	4	General Electric Co.	GE	32.37	31.55 - 42.15	322.64B	147,956,000	163,391,000	173,000,000	42,243,000	7.8%	4.94	14.80	22.79	
5	1	Taser Corp.	TASR	7.87	7.21 - 19.36	498.39M	47,694	67,718	100,727	22,487	47.0%	4.15	31.46	18.54	
6	7	Gentex Corporation	GNTX	19.34	13.46 - 22.60	2.76B	536,484	572,267	653,933	177,970	13.2%	3.50	22.19	12.82	
7	6	L-1 Identity Solutions Inc.	ID	15.19	10.66 - 21.87	1.14B	66,224	164,386	389,508	115,996	65.7%	3.12	43.65	23.80	
8	10	Zebra Technologies Corp.	ZBRA	37.63	27.50 - 42.50	2.45B	702,271	759,524	868,300	246,277	18.1%	2.53	22.93	12.69	
9	8	LaserCard Corp.	LCRD	7.87	5.87 - 12.94	94.28M	28,544	39,857	32,270	7,255	-21.5%	2.40	N/A	N/A	
10	11	Napco Security Systems, Inc	NSSC	4.84	4.28 - 6.99	92.40M	65,229	69,548	66,202	16,222	4.2%	1.57	25.69	16.27	
11	12	The Geo Group	GEO	23.60	22.01 - 32.93	1.20B	612,900	860,882	1,027,832	274,960	16.0%	1.55	24.28	12.35	
12	18	DRS Technologies, Inc.	DRS	78.46	44.11 - 79.25	3.25B	1,308,600	1,735,532	2,821,000	939,400	17.6%	1.54	24.39	12.58	
13	9	Secure Computing Corp.	SCUR	5.26	5.05 - 10.54	354.61M	109,175	176,697	237,905	60,703	12.9%	1.52	N/A	55.39	
14	17	Honeywell	HON	62.43	52.05 - 62.71	46.29B	27,653,000	31,367,000	34,589,000	8,895,000	10.6%	1.47	18.36	9.85	
15	14	First Advantage Corp.	FADV	19.66	14.00 - 25.06	1.17B	643,749	797,801	842,902	202,279	-1.5%	1.44	8.09	7.49	
16	16	United Technologies Corp.	UTX	74.29	65.20 - 82.50	72.30B	42,729,000	47,829,000	54,759,000	13,700,000	11.6%	1.41	16.48	9.30	
17	21	Tyco International	TYC	45.93	31.01 - 137.92	22.15B	17,959,000	17,336,000	18,781,000	4,865,000	8.4%	1.30	N/A	8.46	
18	19	L-3 Communications Holdings	LLL	110.98	90.11 - 115.33	13.61B	9,444,700	12,477,000	13,961,000	3,506,200	6.3%	1.24	17.65	10.37	
19	20	The Stanley Works	SWK	50.14	43.69 - 64.25	3.93B	3,285,300	4,018,600	4,483,800	1,096,900	3.3%	1.16	12.22	7.37	
20	26	Checkpoint Systems, Inc	CKP	25.32	21.24 - 30.50	1.01B	717,992	687,775	834,156	209,620	22.4%	1.13	17.99	10.49	
21	22	Mantech International	MANT	46.19	29.71 - 51.00	1.60B	980,290	1,137,000	1,448,000	425,072	44.4%	1.10	21.6	12.21	
22	New	ICx Technologies, Inc.	ICXT	6.33	3.81 - 15.50	213.40M	31,400	90,160	136,162	36,253	34.5%	1.09	N/A	N/A	
23	25	Lockheed Martin Corp.	LMT	109.06	88.86 - 113.74	43.62B	37,213,000	39,620,000	41,862,000	9,983,000	7.6%	1.07	14.97	8.57	
24	28	Brinks Company	BCO	73.50	49.04 - 74.61	3.48B	2,793,300	2,800,000	3,219,000	920,600	24.3%	1.02	21.47	7.04	
25	15	Ingersoll Rand**	IR	44.74	34.46 - 56.66	12.36B	10,546,900	8,033,700	8,763,100	2,163,300	9.5%	1.01	3.31	7.24	
26	23	Siemens AG	SI	116.92	102.79 - 160.37	104.57B	90,896,136	98,203,790	106,035,900	28,200,000	1.4%	1.00	8.22	9.16	
27	27	Northrop Grumman Holdings	NOC	75.13	68.44 - 85.21	25.70B	30,113,000	30,148,000	32,018,000	7,724,000	5.6%	0.90	15.67	8.28	
28	34	URS Corporation	URS	45.07	30.75 - 64.19	3.76B	3,917,565	4,222,869	5,383,007	2,259,027	99.6%	0.90	19.77	17.05	
29	13	RAE Systems, Inc.	RAE	1.39	1.07 - 3.68	82.23M	60,293	67,721	90,836	17,869	-0.4%	0.80	N/A	N/A	
30	30	OSI Systems	OSIS	23.94	19.64 - 28.83	423.14M	385,041	452,886	532,300	156,708	23.9%	0.80	33.57	12.24	
31	24	Magal Security Systems Ltd.	MAGS	6.30	5.09 - 10.76	74.34M	61,282	63,600	72,375	26,290	86.3%	0.77	50.97	N/A	
32	29	Directed Electronics	DEIX	1.82	0.99 - 9.41	46.32M	304,558	437,778	401,140	60,548	-22.3%	0.77	N/A	5.53	
33	32	Johnson Controls	JCI	35.54	29.47 - 44.46	21.09B	27,479,000	32,236,000	34,624,000	9,406,000	10.8%	0.68	15.59	9.28	
34	33	Henry Bros Electronics	HBE	6.06	3.40 - 6.85	35.95M	42,156	42,132	57,852	15,906	46.3%	0.65	N/A	38.18	
35	35	FirstService	FSRV	19.76	19.46 - 38.29	590.92M	651,376	1,068,134	1,180,990	371,686	34.8%	0.49	14.06	5.97	
36	37	Richardson Electronics, Ltd.	RELL	5.90	3.59 - 9.90	105.40M	578,724	529,097	557,291	138,866	3.7%	0.25	2.88	11.52	
37	36	ActivIdentity Corp.	ACTI	2.78	2.14 - 5.25	127.27M	42,156	53,375	59,553	13,631	-8.4%	0.20	N/A	N/A	
38	31	Diebold V	DBD	40.24	23.07 - 54.50	N/A	2,587,049	2,933,000	2,953,000	700,187	8.1%	0.10	N/A	N/A	
V has not filed recent reports											Quarterly Comparative				
<b>Total</b>											<b>Average</b>	<b>19.66%</b>	<b>1.81</b>	<b>21.25</b>	<b>14.80</b>
											<b>Median</b>	<b>11.2%</b>	<b>1.16</b>	<b>19.07</b>	<b>11.52</b>

\* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues. \*\* Ingersoll Rand (IR) discontinued operations on several businesses. They have not yet filed their adjusted 2005 Revenue numbers.



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