

# Security Finance Newsletter

September 2007

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Volume III, Issue 3

## SOKOLOFF RANKINGS

Once again, **Geo Group (NYSE:GEO)** appears in the **Sokoloff and Company Rankings**. \* We started tracking **GEO** in the fourth quarter of 2005 where it made its debut at #37. Other than one tiny blip last quarter (it moved down from #17 to #20) we have watched it steadily climb every newsletter. **This quarter, it takes a huge leap, moving from #20 to #11.** Since March 31<sup>st</sup> 2006, **GEO** stock, adjusted for splits, has soared by 145%.

The **GEO Group** offers correctional, detention, and residential treatment services to federal, state and local government agencies. *A steady stream of new business, a few well planned acquisitions, and the consistent paying down of its long-term debt has kept the business growing.* Last period saw a 49% increase in revenues quarter over quarter, and this period shows a 24% increase in revenues.

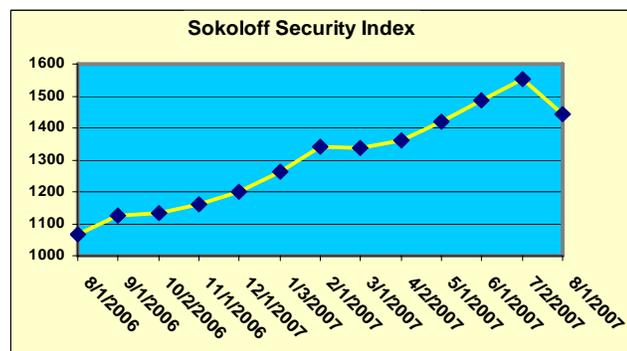
Crowded prisons across the country have driven states to turn to companies like **GEO** to fill the demand. **GEO has announced new contracts or renewing of business on a consistent basis.** In March, the company signed an agreement with the State of Indiana which caused them to raise their forecast an extra 3 cents a share. **In May they secured more business with a Florida correctional facility and went on to announce a 2-for-1 stock split effective June 1.** In July the company announced an agreement with a Texas facility that is expected to generate \$10 million in annual operating revenues as well as a contract with Louisiana to house immigration detainees.

**Finally, GEO's stock hit a high on August 9 of \$32.19 after it announced its second quarter earnings.** Net income surged to 96% and they raised their 2007 guidance. Since the end of Q1, **GEO's** share price has risen 42%.

Another mover in the rankings that we haven't

seen before is **ManTech International Corporation (NasdaqGS:MANT)**. **ManTech** made a nice jump from its spot at #31 to #25. **MANT** is a provider of technologies and solutions for mission-critical national security.

**ManTech's rise in the rankings began with the unloading of its subsidiary, MSM Security Services, LLS in February to MSMS Holdings, LLC for \$3 million in cash.** **MSM** is a Personnel Security Investigation Service that was not giving the company the value expected when originally purchased. **George J.**



**Pedersen, MANT's Chairman and CEO,** said "this subsidiary has sustained losses over the past three years and has been a persistent cause of concern for our shareholders." He also stated, "The subsidiary is not aligned with **ManTech's** core business."

**ManTech** then went on to acquire a company that was in line with their strategic direction. In early May they **purchased SRS Technologies for \$195 million in cash.** **SRS** specializes in space-based radar and communications, detection and defeat programs, imagery intelligence, and aeronautic, space and information systems development. **Robert A. Coleman, President and COO,** said, "SRS deepens our position as a leading player in the national security marketplace and provides us access to new markets in national defense agencies."

Finally, the company received the Department

of Defense **Cogswell Award** for Maintaining Excellent Security at a Cleared Facility in June and was awarded two major contracts from the Department at the end of July. **The stock jumped by 12% in early August after MANT announced in their earnings release a 23% increase in revenue, record backlog, \$330 million in contract awards, and an operating cash flow of over \$33 million.**

The quarter did not bode as well for **Directed Electronics, Inc. (NasdaqGM:DEIX)** which dropped from #21 to #28. Investors shied away from **DEIX** due to merger concerns between satellite radio providers **XM** and **Sirius**. **DEIX**, who manufactures alarm systems for automobiles, also provides equipment through a deal with **Sirius** which expires in 2008. **RBC Capital Markets** analyst, **Scott Ciccarella** stated "we were already concerned about the pending expiration of **DEIX's** contract, but the pending merger of the two satellite operators magnified our concerns."

**DEIX also acquired Trilogix Electronic Systems, Inc.** in May.

Though the announcement raised their share price for a few weeks, the purchase may have concerned investors as **Directed's** stock price didn't hold and went on to drop in July. Lastly, a poor earnings release and the subsequent slashing of their outlook for the year caused the stock to hit a 52 week low on August 13.

**Between August 1<sup>st</sup> 2006 and August 1<sup>st</sup> 2007, the Sokoloff Security Index has shown a Security Industry on the rise, moving up 35.3% over the trailing year. Security stocks significantly outperformed the DOW (20% rise) and the NASDAQ (23.8%) in the same period.**

*\*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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## KEYS TO SUCCESSFULLY OPENING A BRANCH

Expanding a Security systems integration operation outside of its immediate region is a challenging yet necessary means of sustaining growth and building a business. Making the right choices when opening a branch is tricky. Identifying the best opportunities, avoiding pitfalls and determining the best course of action requires excellent planning and execution.

Sokoloff and Company interviewed three experienced systems integrators: **Cynthia Freschi, Founder & President of North American Video, Marty Guay, Chief Operations Officer for Securitas Systems** and **Barry Katsof, former CEO of Frisco Bay, now Consultant to Stanley Security Solutions**. All three have effectively expanded by opening successful branches across the United States.

### How do you identify the opportunity to open a new branch?

**Cyndi Freschi** said that there are several factors to be weighed when evaluating opening a new branch location. **These include proximity to primary potential targets, availability of infrastructure to support internal operations, travel accessibility, overhead in terms of office expenses and staffing, and business potential in the geographic region.** "Each of the locations we have were established with specific business objectives in mind and in response to closeness to key customers and/or impending business opportunities."

Having a customer base in the area is a key driver in evaluating possible sites for a branch, says **Barry Katsof**. "When I was with **Frisco**, we primarily went to other geographies because of client demand. **We didn't just decide to arbitrarily open a branch; we did it because we had business there.**" Not starting from ground zero makes it more economically viable, and stacks the odds in your favor that you'll have a thriving branch.

### According to Marty Guay, it comes down to external market factors as well as internal company factors.

Both are needed to produce a favorable outcome. "Market factors show us where there is a strong security market and a prospective customer base willing to pay for the types of services we provide." Internal company factors include the people available to properly handle and develop the market.

*What is the best way to ensure a success?*

**"Regardless of business location, there is no substitute for knowing your industry,"** states

**Freschi**. Her company primarily services casinos. Staying in tune with the specialized needs of certain types of clients will open doors in new geographies. Having experience with available technologies and being an expert on new developments on the horizon can go a long way to winning new customers. Promoting an understanding of a specialized market niche creates opportunity in areas where there may



### Cynthia Freschi President, North American Video

Cynthia formed NAV in 1995 with one salesperson and a secretary. Working from her home, she went on to grow NAV into one of the most successful systems integrators in the country. In addition to NAV, she also started **www.cctvproducts.com** in 2000 to establish a distribution arm to sell security systems products via the Internet.

region is important for the future success of the branch. If the branch is focused on a particular customer segment such as retail or healthcare, then opening a specialized branch is the best way to success. If the branch is unspecialized in its market segmentation, then it is best to follow an existing customer into a new market. Either way, it begins with knowing the customers' needs.

**Katsof** simply says "Give good service."

### Pitfalls

Since the main drivers to opening a branch are following a customer into an area or identifying a specialized business niche, it can be easy to ignore the big picture - signaling to the market that you are committed, disciplined, and well focused on having a presence in the area. **Guay says it is very important that there is a long term vision.** "The project or customer may be the impetus, but you must go into the area with the foresight to build a business and not just take on a project or customer."

**Freschi** calls it a balancing act. "As business continues to grow, so do your responsibilities to both the client base and employees. **The key to managing growth is through controlled growth and you must capitalize on new business opportunities without sacrificing current business strongholds.**" This requires constant attention and planning but is a critical component to long term success and profitability, says **Freschi**. She also stated that time differences and language barriers can be difficult challenges as well.

**Katsof says that finding the right people to run the branch is a very difficult task.** "You have to hire a whole staff, knowing that they will make all the difference in ensuring the branch works. Keeping a

company running with multiple locations and being able to provide the same level of service is necessary for success. You don't want a company that is great in Chicago but not somewhere else." Maintaining a standard of service in all areas comes down to the people you hire.

### Preparations and cost

Every situation is different. Accordingly, **no formula can be applied to the process.** Says **Guay**, "A lot of planning, discussion and preparation has to take place. Each opportunity and market needs a different level of investment and the initial costs are a strong signal of the long term optimism." **Freschi** explained "Different

## What folks are saying about Peter A. Sokoloff & Company:

### Moshe Levy, CEO, Safeguards Technology LLC

"I cannot say enough about the wonderful care and expert guidance that Sokoloff provided during every step of the complex process through negotiations, due diligence, documentation and closing. Thanks to Pete and his staff for a job very well done."

### Gilbert Jullien, CEO, Jullien Enterprises

"We were committed to sell the company only if the right partner could be found and the right terms reached. We chose Peter A. Sokoloff & Co. because they had dedicated their efforts to our specific market segment. They ran a highly professional and confidential process from beginning to end, advising and helping us at every step."

### Nancy Kersten, President, AllCom Global Services

"I would recommend Peter A. Sokoloff & Co. to anyone who is considering the M&A process. Over the course of the engagement, we developed a personal relationship that allowed us to discuss any topic at any time of the day or night. Their professional manner and advice was just the right thing we needed to help us through this demanding process."

### Dave Charles, CEO Redhawk Industries LLC

"Working with Sokoloff & Co. was a pleasure. They understood Redhawk's need to expand our capabilities to provide full security across both physical and network infrastructure. Sokoloff supported both sides well throughout the process, providing timely, accurate information and good counsel."



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not be a company that has the know-how to fill that particular niche.

**Guay goes on to explain that everything starts with the customer.** "You must understand the client, their unique issues, operating environment,

and business drivers. If you grasp these things, you can design a solution for them." Transitioning this knowledge into a new

### Marty Guay COO, Securitas Systems

Marty has been with Securitas since 2000 and prior to this he was VP for First Security Services Corporation, which was acquired by Pinkerton. In his current position he is responsible for strategic and operational objectives of the organization's systems integration and monitoring businesses. Marty has a BA and MBA from George Washington University.



**geographical regions have different economic factors at play.** Our Mississippi branch for example, presented us with staffing and housing issues because we needed to bring in personnel from other locations to establish operations. During the initial phases we actually brought in mobile homes to house our people." It depends on how big the installation is, how many people you need, and many other factors. There's no template to work from, stated **Katsof**.

**What causes a branch to fail/succeed?**

**Guay** said that failure typically comes in not understanding the environment or being unable to execute. If ample time is not spent identifying and analyzing the opportunity in a market before opening the branch, problems can follow. "It is important that a market perspective is taken and not just a large opportunity. **An opportunity should only be followed if a long term business can be built around it.**" He also said that patience, discipline, and specialization positions the branch for far greater long term success.

**Personnel and service are also keys to maintaining a profitable and productive branch location.** "Our people are critical, they deal directly with customers, must complete projects, and keep the customer satisfied" said **Freschi**. If good service and a level of expertise are not given in one location it can not only harm the branch but the rest of the company, says **Katsof**.

**How do you find and qualify the person to run the branch?**

According to **Katsof**, it depends on whether you're searching for regional or district managers. "If it's regional, we're more likely to look for one of the shining stars in our existing companies and promote them. When dealing with a district manager which is a bigger geographic area, we often go outside the box, meaning not only outside the company, but outside the industry." **Katsof** says they're more concerned with finding a competent manager than someone who knows the industry. "The industry is easily learned, but management is not."

Industry newcomers also bring a fresh approach to solving customer problems which helps to differentiate your business from the competition. "It's harder for someone who has been in the industry for 25 years to bring new ideas to the table. Not to say that we dismiss bringing in someone from within or looking for people with lots of industry experience but that it's important to be open to finding untraditional talent."

Having a good reputation can also attract top talent to the company. Says **Freschi**, "We have been very fortunate in this regard, and we get a lot of our people that way. However, we also mine talent from the industries we service most. These people know what the markets need and want and how to get it done." **Guay** stated that finding the right

leader to build the business is far more important than any other factor. **That means finding someone who is market focused, resilient, creative, and entrepreneurial.**

**How long will it take for a successful branch to start paying for itself?**

If it's customer driven, it should be paying for itself to begin with. **Katsof** said, "We were very keen on recurring revenue, not just selling

**Barry Katsof  
Consultant, Stanley Security Solutions**

Barry was the Co-Founder, Chairman, and CEO of **Frisco Bay Industries**, a provider of electronic security solutions. During his leadership, he grew the company from one to twelve regional and district facilities across the country. Frisco Bay was sold in January 2004 to **StanleyWorks**, where Barry continues on as a consultant.



differentiate ourselves by organizing our business in a specialized fashion and offer a comprehensive value chain for the customer." Differentiation is crucial, and **Katsof** says it comes down to service. "Basically everybody sells the same stuff; it's the service and expertise that puts you ahead of someone else."

**Freschi** stated that the competitive environment is one of the evaluation criteria you should look at very early in the process of establishing a branch office. However, "If business opportunities arise such as existing customers planning to populate the region, then the competitive environment is not as big a factor since you have already established a foothold in the area."

**The path to success**

**Marty Guay, Barry Katsof, and Cynthia Freschi** have all led their companies in the successful opening of branches across America. They have consistently met the challenge by focusing on their ability to handle specific customer requirements, following existing customers into the area, understanding the characteristics of each new geographical market, hiring top personnel, and committing to a long term presence.

**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](mailto:mschwartz@sokoloffco.com)

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



**Alba Control Systems Limited, India**

Is being acquired by



*The undersigned advised Alba Control Systems Limited*



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equipment and walking away. There was always some kind of service, an ongoing involvement with the customer." The key is to start off with a nucleus of business instead of knocking on doors from day one. This relates back to the planning aspect of opening a new facility. "If you have traction in a geographic region and have carefully cultivated business opportunities, profitability will follow," says **Freschi**.

**How do you handle incumbent competition in your new city?**

**Guay** says to treat the competition with respect. "The competitors are in place because they've done a good job for their customers. However, all markets can handle more competition. We

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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

### Q2 2007 Reports and August 14, 2007 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, 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. Changed from previous list: Authentec (AUTH) had its IPO on June 19th and has been added. Armor Holdings (AH) was acquired by BAE Systems on July 31. General Electric Company (GE) has been added. Tyco International (TYC) completed its spin off of its healthcare and electronics businesses, and numbers reflect their new consolidated business of fire and security and engineered products & services.

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Current Rank*	Previous Rank*	Company	Symbol	Stock Price 8/14/2007	52 Week Range	Market Cap 8/14/2007	(000s) 2004 Revenue	(000s) 2005 Revenue	(000s) 2006 Revenue	(000s) 2nd Q 07 Revenue	2nd Q 07 Incr/Decr	EVS	P/E	EVM	
1	3	Faserv Corp.	TASR	14.26	7.39 - 19.36	885.19M	67,640	47,694	67,700	25,863	59.4%	11.49	96.07	53.12	
2	2	Cogent, Inc.	COGI	13.89	10.10 - 15.73	1.32B	87,688	159,889	101,700	31,300	136.8%	7.91	38.75	22.03	
3	New	Authentec	AUTH	10.16	10.08 - 10.38	270.97M				12,300	51.1%	6.98	N/A	N/A	
4	1	L-1 Identity Solutions Inc.	ID	16.93	13.50 - 21.87	1.27B	67,466	66,224	164,400	90,100	262.3%	5.26	N/A	40.66	
5	4	Flir Systems, Inc.	FLIR	47.34	28.25 - 54.49	3.19B	482,651	508,561	575,000	184,296	33.0%	5.07	31.08	16.66	
6	New	General Electric Co.	GE	37.68	37.51 - 38.19	386.08B	134,291	147,956	163,391	42,316	12.1%	5.04	18.66	24.19	
7	6	Laserteck Corp.	LGRD	11.82	9.51 - 14.02	138.01M	16,963	28,544	39,857	7,855	-25.6%	4.18	N/A	N/A	
8	5	Genetex Corporation	GNLX	19.96	13.60 - 22.37	2.87B	505,666	536,484	572,300	163,480	14.8%	4.16	24.58	14.67	
9	7	Secure Computing Corp.	SCUR	7.76	6.15 - 9.77	524.83M	93,378	109,175	176,700	57,648	48.8%	2.88	N/A	55.14	
10	7	Zebra Technologies Corp.	ZBRA	34.80	32.93 - 42.50	2.41B	663,054	702,271	759,524	208,912	11.5%	2.73	35.37	12.68	
11	20	The Geo Group	GEO	28.23	16.49 - 32.61	1.42B	614,548	612,900	860,882	258,183	23.7%	1.97	35.97	13.82	
12	11	Napco Security Systems, Inc	NSSC	5.78	4.50 - 6.99	114.53M	58,093	65,229	69,548	No report	NA	1.87	21.19	12.46	
13	9	RAE Systems, Inc.	RAE	2.28	1.90 - 3.97	135.22M	45,540	60,293	67,986	20,093	26.4%	1.69	N/A	N/A	
14	15	United Technologies Corp.	UTX	72.78	61.80 - 77.82	72.18B	37,445,000	42,725,000	47,829,000	13,904,000	13.4%	1.54	18.99	10.24	
15	10	First Advantage Corp.	FADV	19.30	17.58 - 26.90	1.14B	266,537	643,749	817,600	220,971	7.7%	1.50	16.62	7.35	
16	14	Honeywell	HON	56.37	40.77 - 61.90	42.19B	25,601,000	27,653,000	31,300,000	8,540,000	8.1%	1.47	19.61	10.05	
17	19	The Stanley Works	SWK	54.81	46.58 - 64.25	4.50B	3,043,400	3,285,300	4,018,600	1,123,000	10.3%	1.42	14.20	8.12	
18	17	Ingersoll Rand	IR	47.81	35.85 - 56.66	14.55B	9,393,600	10,546,900	11,400,000	2,224,600	8.6%	1.39	9.42	9.64	
19	13	Magal Security Systems Ltd.	MAGS	8.40	8.53 - 12.00	87.31M	60,974	61,282	66,900	14,949	0.5%	1.32	82.32	14.68	
20	16	DRS Technologies, Inc.	DRS	47.80	43.10 - 58.47	1.95B	1,308,600	1,308,600	1,735,532	735,600	16.7%	1.28	18.83	10.22	
21	23	L-3 Communications Holdings	LLL	95.51	74.40 - 102.97	12.04B	6,896,997	9,444,700	12,480,000	3,407,500	10.5%	1.24	17.81	10.57	
22	25	Checkpoint Systems, Inc	CKP	25.70	16.81 - 28.56	1.01B	778,679	717,992	687,775	195,702	19.4%	1.23	22.43	10.51	
23	22	ActivIdentity Corp.	ACTI	4.50	4.10 - 5.69	205.77M	26,910	42,156	53,375	16,284	25.8%	1.22	N/A	N/A	
24	24	Diebold	DBD	46.60	41.41 - 54.50	3.07B	2,380,910	2,587,049	2,910,000	No report	NA	1.21	43.88	13.34	
25	31	ManTech International	MANT	33.36	29.71 - 38.04	1.14B	842,422	980,290	1,137,000	348,700	21.3%	1.06	22.13	11.71	
26	26	Lockhead Martin Corp.	LMT	96.06	82.70 - 107.33	39.58B	35,526,000	37,213,000	39,620,000	10,700,000	7.4%	1.03	14.64	8.66	
27	30	Siemens AG	SI	121.79	88.50 - 154.35	109.92B	92,688,428	90,896,136	110,797,960	27,832,810	8.0%	1.02	21.51	11.64	
28	21	Directed Electronics	DEIX	5.60	4.88 - 16.14	141.23M	189,869	304,558	437,778	85,634	11.4%	1.00	13.69	7.40	
29	29	Northrop Grumman Holdings	NOC	77.50	64.33 - 80.35	26.81B	29,853,000	30,067,000	30,148,000	7,929,000	4.3%	1.00	16.95	9.01	
30	27	Brinks Company	BCO	57.09	52.10 - 68.47	2.77B	4,718,100	2,549,000	2,800,000	790,800	13.4%	0.93	12.68	6.82	
31	28	OSI Systems	OSIS	24.81	18.53 - 29.80	421.27M	247,069	385,041	452,686	152,700	21.6%	0.90	N/A	20.99	
32	33	Johnson Controls	JCI	112.73	66.75 - 129.20	22.30B	26,553,400	27,479,400	32,235,000	8,911,000	6.2%	0.81	19.40	10.83	
33	32	FirstService	FSRV	32.79	21.81 - 38.29	980.26M	441,333	651,376	1,068,134	419,312	28.8%	0.80	24.80	9.19	
34	36	ComputDyne Corporation	CDCY	6.67	4.88 - 8.79	56.28M	142,782	141,650	147,462	35,596	-7.3%	0.63	N/A	22.67	
35	35	URS Corporation	URS	50.05	39.20 - 56.80	2.67B	3,381,963	3,917,565	4,240,150	1,246,798	16.5%	0.62	20.53	9.41	
36	12	Tyco International	TYC	43.55	42.09 - 137.92	21.58B	17,454,000	17,959,000	18,595,000	5,085,000	7.8%	0.59	N/A	3.05	
37	34	Henry Bros Electronics	HBE	3.90	3.20 - 6.42	22.99M	29,726	42,156	42,204	No report	NA	0.56	N/A	N/A	
38	37	Richardson Electronics, Ltd.	RELL	8.14	6.82 - 10.30	133.19M	520,069	578,724	637,940	146,246	1.9%	0.37	3.67	9.03	
<b>Total</b>							<b>1381.91</b>	<b>302,560,106</b>	<b>315,178,150</b>	<b>359,209,384</b>	<b>95,142,685</b>	<b>Quarterly Growth</b>			
<b>No report - As of press time, these companies had not yet announced their Q2 Results.</b>							<b>4.1%</b>	<b>4.2%</b>	<b>14.0%</b>	<b>-1.7%</b>	<b>Average</b>	<b>25.92%</b>	<b>2.10</b>	<b>24.46</b>	<b>14.46</b>
<b>* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.</b>							<b>13.4%</b>	<b>Median</b>	<b>13.4%</b>	<b>13.4%</b>	<b>20.07</b>	<b>10.83</b>			



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