

Security Finance Newsletter

September 2008

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Volume IV, Issue 3

SOKOLOFF RANKINGS

The second quarter Sokoloff Rankings* show that several companies performed exceptionally well. Enterprise value to sales (EVS) multiples soared for **ICx Technologies** (*Nasdaq: ICXT*), **Magal Security Systems, Ltd.** (*Nasdaq: MANT*) and **ManTech International Corporation** (*Nasdaq: MANT*).

Both **ICx Technologies** and **Magal Security Systems** were the comeback kids. **ICXT**, a developer and integrator of sensor technologies, jumped an impressive thirteen spots from 22 to 9 having resurrected itself after a major downspin which started on February 29 at \$8.20, plummeting to \$4.24 by March 17; the lowest in its history. The first quarter earnings announcement had reported weak guidance and a bottom-line loss of \$6.6 million. The company went public in November of last year with an initial offering of \$16.00 a share; barely four months later, shareholders had lost nearly 75% of their initial investment.

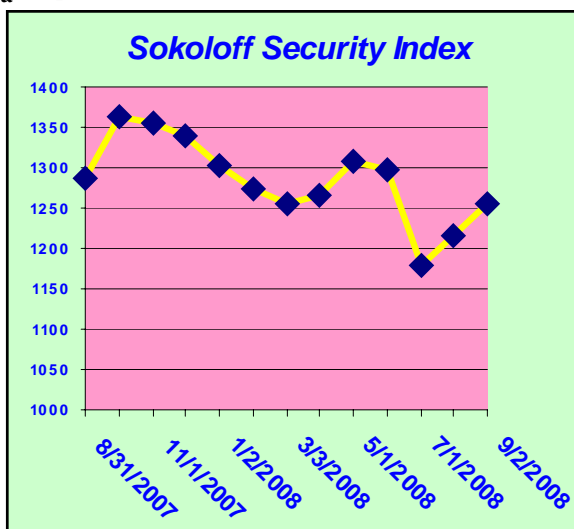
Then, in a dramatic turnaround, **ICx** regained momentum with their stock moving as high as \$8.61 on August 20th; nearly doubling the share price from its doomsday low on March 17. Several factors contributed to this success.

On May 29th, **ICx** acquired **S3I, LLC** a bio-detection company for \$5.3 million. **Dr. David Silcott, president of S3I** said "The technological, cultural, and sales synergies with **ICx** made this an easy decision for us... we believe **ICx** offers the best platform for a broad commercial roll out." **Colin Cumming, president of ICx Detection** further stated that, "**S3I** sensors together with our advanced bio samplers and rapid identification tools will provide us with one of the broadest and most compelling technology platforms in this huge emerging market."

The company also went on to announce a slew of awarded contracts including a multi million dollar transportation upgrade project, a surveillance contract for the US Army, another border patrol project, and a security deal for the Olympics.

Finally, their second quarter earnings release reported a 12% increase in revenues and a 39% improved Adjusted EBITDA loss in comparison to the first quarter. **Hans Kobler, president and CEO of ICx** said "While we

strong second quarter earnings release, showing a 78% revenue year-over-year increase. **CEO, Ishar Dekel** said "This year is shaping up as exceptionally strong in terms of revenue growth, which increases our confidence in realizing our target of doubling revenues within the next four to five years. We are also encouraged by our operating margin improvement which represents the initial fruits of our efforts to focus on increasing profitability."



ManTech International (MANT), a provider of technologies and solutions for national security programs, has had a good ride this quarter, moving up from 21 to 16. The stock hit its low on March 10 at \$40.22 but recovered nicely over the next few months rising to \$61.42 on August 11th. This was a result of consistent good news from the company. Announcements of numerous contracts including a \$118 million project for the **US Army**, a \$151 million IT task order for the **Navy** and \$124 million dollar contract from the **U.S. Department of State** occurred nearly back to back over the second quarter.

MANT also released very strong second quarter results including increases in revenue, operating income, net income, diluted earnings per share and contract awards. They further raised their 2008 Full Year Revenue and EPS Guidance. On August 19th they went on to announce that they would be acquiring **Emerging Technologies Group**, a provider of cyber security and mission critical services to the Intelligence Community and **DoD**.

expect our new channels to further drive gross profit growth, our continued focus on streamlining infrastructure should keep our operating expenses at bay and lead to sustainable profitability."

Magal Systems, Inc., a manufacturer of systems in the intrusion detection arena, also had a nice recovery, dropping from the number 24 spot to 31 in the first quarter and bouncing right back to 24 this quarter. Around January 22nd, **Magal's** stock fell to \$5.30 (it's lowest ever). Over the next few months **MAGS** struggled but gradually climbed and now hovers above the \$8.00 mark (As of late August). **The company also reported a**

*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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The Indian Security Industry Market -The Growing Opportunity

GB Singh

Indian trade magazine SECURITY TODAY conducted an online survey of the electronic security systems industry. The industry, largely import based, is close to US \$350 million and growing by about 26%. The unregulated private guarding sector, has more than 5,000 guard companies employing some 1 million people.

With a Land Area of 3.29 million square kilometers, roughly one third the size of the United States, India has a population of 1.05 billion, making it the world's second most populous nation. As the largest democracy, it follows a federal system of governance, with 28 States and 7 Union Territories.

The Services Sector

The huge private manned guarding sector dominates the protection industry in India. Born in the 60's this sector started with a handful of large players. Today, companies like G4S, SIS, Tops, SDB, CISCO, Peregrine, Checkmate, Premier and GI Security operate through their various regional and city offices to offer protection services nationwide.

The concept of Central Monitoring Services (CMS) of alarms has not really caught on in India, as the end-user expects a private response rather than a police or a state response. There are less than 5 companies offering CMS, the majority of them, including G4S having started such services in the last couple of years. The reason for the poor growth of this sector is not hard to find. As Mr. Suresh Sawhney, the Vice President & Country Head of Ingersoll-Rand International (India) puts it, "Inherently the Indian society is not crime prone. The general population does not perceive this to be a threat area. There is also the fact that the education level of the decision makers about security systems is low. This will change in the next 5 - 10 years."

In a bid to regulate the guarding sector, the Indian Government passed the 2005 Private Security Agencies Regulation Act which has not been widely implemented.

The Systems Sector

The height of terrorism in the 70's saw the birth of the systems sector with nondescript Bank Alarm manufacturers and installers providing substandard, locally-assembled alarms.

Import liberalization in the mid 80's saw the emergence of Systems Integrators (SI), with rapid acceleration in the 90's. Most systems were imported, and even indigenously assembled systems in those days were largely import based.

Further trade liberalization resulted in the influx of global players like Honeywell, GE, BOSCH, Tyco, Siemens and HID. Other international companies are making their presence felt by appointing distributors, and more recently, opening their Indian offices and offering sales and after-sales support. Large government and infrastructure security system projects are beginning to happen as end users realize the advantages of electronic protection.

Electronic Protection Systems

The Indian market for electronic security equipment has a total number of about 50 larger players (more than 25

Solus, MBux and Kantech.

The smaller intrusion detection systems market is supplied by Jablotron, GE (Caddx), Tyco (DSC), Securico, Texecom, Honeywell, DSC, Magal, Senstar Stellar and Gallagher.

The writing on the wall is very clear-
"NOBODY CAN AFFORD NOT TO
ENGAGE IN INDIA!"

How does business gets transacted?

The manufacturer typically sells to the distributor, who usually is also a system integrator (although recently a few pure distributors such as ADI (Honeywell) have emerged). The distributor markets the products to other SI's, installers and end-users, does sales promotion, renders technical assistance and after sales & warranty services on behalf of the manufacturer. The distributor at times also sells components that are part of an overall security system to Original Equipment Manufacturers who further sell to installers and end-users. Recently some local and off-shore (Hong Kong & Singapore based) traders have entered the scenario. These entities typically source, supply and often finance the transaction between the manufacturer and the distributor. A more recent trend has been for manufacturers to establish their wholly owned subsidiary and open local offices. The staff employed by them does product promotion with the System Integrators, Consultants, Specifiers and End-Users.

Amongst the multinational brands, perhaps Honeywell has the best broad based set-up in India. It has a software development centre in Bangalore serving its global needs, a systems integration unit (Honeywell Building Solutions) in Pune, a dedicated distribution unit in Gurgaon (selling to big SI's for large and middle level projects), a general distribution unit (ADI), located in Gurgaon, Mumbai & Bangalore, selling to small and medium level independent installers and a manufacturing unit in Gurgaon producing fire alarm systems.

Market Assessments

As no coordinated, structured and research-based assessment has yet been made about the status and

Product Sector	Proportion	Market Size in (Million)
CCTV (Commercial & Industrial Cameras, Housings, Monitors, DVR/NVR's)	55%	192.5
Access Control (Controllers, Readers, Locking Hardware, Barriers, Cards)	30%	105
Intrusion Detection (Perimeter & Building Alarm Controllers & Detectors, Incl. Electric Fences)	2%	7
Intercom (Audio & Video Doorphones)	2%	7
Others (Metal Detectors, X-Ray etc)	11%	38.5
TOTAL	100%	350

the girth of the Indian Protection Systems Industry, the results of a mini-survey conducted recently by SECURITY TODAY gives a fairly good indication of the size of the major market areas.

Estimated at USD 350 million, the systems sector in India can broadly be divided into five categories. The largest amongst these is CCTV, with some 55 percent of the market. Security conscious

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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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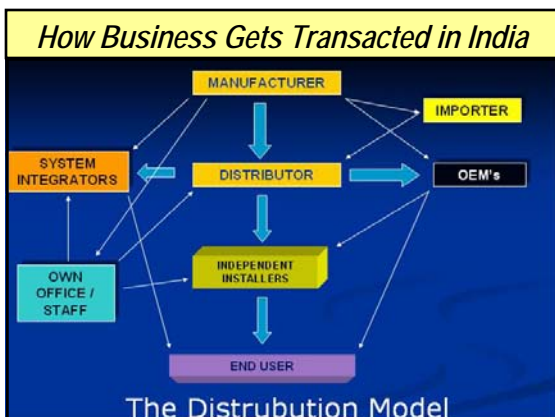
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employees) and there are about 800 smaller firms. Many Indian companies have collaborated with foreign manufacturers and are marketing foreign products in India.

Security equipment is imported mainly from USA, UK, Germany, Singapore, Italy, Hong Kong, Israel, Japan, Korea, China, and Taiwan.

CCTV vendors active in the market include Bosch, Honeywell, GE, Pelco, Samsung, Yoko, Meritt Lilin, Hanse, Hi Sharp, CBC, Sanyo, American Dynamics, Vicon and more recently Sony, Axis, DVTel and Verint.

The Access Control market is dominated by players like HID, Europlex, Cardax, GE (Casi Rusco), Lenel, Syris, Poris, Pegasus, Elid, IDTEK, Tyco (Sensormatic), JCI (Card Key)



organizations (both government and non-government) in India are setting aside budgets for implementing CCTV surveillance, reflecting an annual expected growth rate of around 40 percent. **The market of fixed Dome type cameras is nearly 4 times that of Box type 'C/CS' mount cameras.** Acceptance of Speed Dome cameras is fast increasing as costs get reduced.

Access Control systems account for about 30 percent of the market share. While access regulation is definitely very desirable, the cost factor restricts the installation of good access controls systems to only large organizations.

Unlike the rest of the world, Intrusion Detection Systems have not found a very good market in India till now, presumably due to lack of awareness as well as education. The majority of installations are purely residential. **Rajeev Bajaj, MD – Alba Control Systems Ltd.,** attributes the slow growth of this segment to community living, strong family ties and the joint family system. "The market will increase with the increase in nuclear families," he said. "Moreover, with apartment complexes and condominiums being designed as gated complexes, the inmates do not feel the necessity of intrusion alarms," he added. Yet another reason for the non-acceptability of intruder detection systems is the high rate of false alarms caused by environmental conditions.

Mr. Roop Singh Kuntal of Amron Associates says, "If the government was to make the use of intrusion alarms mandatory in mid and high-end dwelling units, we will see many more alarms being installed."

While **RS Mann, MD – Blue Beacon Security Systems,** thinks that unprofessional promotion and approach is the reason for the slow growth of the Intruder Detection Systems market, **Mr. Avnish Mehrotra, Business Manager for Zicom's Security Solutions Group,** attributes it to a lack of public awareness coupled with a lack of proper market coverage.

Market Size in INR (Crores)	Expected Annual Growth
866	45%
473	30%
32	20%
32	30%
173	30%
1575	26%

While Door Intercoms, both Audio as well as video-types are considered desirable, they are used mostly by apartment dwellers. Even here, retro-fitting is not the accepted practice. Thus it is left to the builder to provide dwelling units equipped with door phones. Despite this detrimental factor, this segment controls about 2 percent of the market, with an expected annual growth rate of about 30 percent.

Other equipment like Metal Detectors, X-Ray scanners and baggage scanners command about 11 percent of the market share, with all but the most rudimentary metal detectors being deployed by government and semi-government organizations. With security being beefed up at airports, railway stations, bus and metro stations, this segment is expected to grow by about 30 percent annually.

GB Singh, the author of this piece, is a sought after speaker at security conferences in the Asia Region, possesses over twenty years of experience and is the Editor of Security Today. He can be reached at editor@securitytoday.in



Growth Drivers
Economic liberalization and development continues to be the largest single factor contributing to growth, with the falling of prices of electronic systems worldwide coming in a close second.

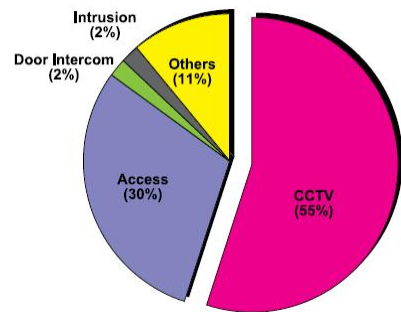
Down from the prohibitive 250% Import Customs Duty of the 80's, the current rate of 35% is also considered a growth driver.

Rapid infrastructure growth in telecom, ports, airports, aviation, railways, roads, energy, construction and retail, coupled with the influx of multinational companies also contribute to a large extent.

D-Link into the security systems arena
 - Intelligent Facility Management Systems
 - Emergence of Security Industry Publications
 - More Exhibitions and Seminars
 - Industry Associations getting professionally active

Useful Tips for Overseas Players
 - Many find it beneficial to partner with experienced local players. Take time to choose local partners.

- Have **LOTS OF PATIENCE**
- Be willing to invest in brand development and customer awareness. Being a large country, this takes time in India.
- Have good local technical support and after sales service set-up with warranty repairs workshop. Most large companies and



government organizations make their purchases of security equipment by inviting tenders or soliciting quotations from supplier companies. Influential local partners come in handy in such cases.

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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digitech
 INTERNATIONAL

has been acquired by

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The undersigned advised Digitech International.

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Furthermore, increased Government allocations to modernize Police services and the recent setting up of city surveillance projects in almost all the metros have created more business.

An increase in the standard of living, bolstered by an enhanced purchasing power saw a substantial increase in crime rates and security needs.

Future Trends
 - Trend towards one stop shopping in the commercial and industrial markets as customers seek to decrease their systems integration costs.
 - Move from Analog to Digital
 - IP Based systems gaining ground. Players such as **Axis, Sony, Verint, DVTel, Lenel** increasing awareness
 - Convergence of IT and Physical Security
 - Arrival of IT network players such as CISCO and

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

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

Q2 2008 Reports and Stock Prices as of August 18, 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:
FirstService's (FSRV) security division was acquired by ADT Security.

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 8/18/2008	52 Week Range	Market Cap 8/18/2008	2005 Revenue (000s)	2006 Revenue (000s)	2007 Revenue (000s)	2nd Q 08 Revenue (000s)	Over Q2 2007 2nd Q 08 Incr/Decr	EVS	P/E	EVM						
1	11.11	1 Cogent, Inc.	COGT	38.70	8.28-17.02	992,90M	159,889	101,657	105,794	26,041	-16.8%	6.95	31.03	21.42						
2	38.70	3 Flir Systems, Inc.	FLIR	29.35	23.50-45.49	5.39B	508,561	575,000	779,397	260,978	41.6%	5.83	37.14	20.34						
3	29.35	4 General Electric Co.	GE	5.95	25.60-42.15	291,97B	147,956,000	163,391,000	173,000,000	46,891,000	10.6%	4.62	13.65	20.77						
4	5.95	5 Taser Corp.	TASR	9.03	4.85-19.10	367.18M	47,694	67,718	100,727	21,101	-18.4%	3.19	38.39	17.18						
5	9.03	2 AuthenTec	AUTH	15.60	8.65-19.81	257.18M	19,243	33,174	52,344	18,410	49.7%	3.18	114.30	394.13						
6	15.60	7 L-1 Identity Solutions Inc.	ID	16.10	10.66-19.54	1.21B	66,224	164,386	389,508	144,952	60.9%	3.04	39.49	22.73						
7	16.10	6 Gentex Corporation	GNTX	32.75	13.27-22.60	2.29B	536,484	572,267	653,933	170,492	4.3%	2.81	19.49	10.47						
8	32.75	2 Zebra Technologies Corp.	ZBRA	8.55	27.50-39.09	2.14B	702,271	759,524	868,300	253,782	21.5%	2.14	19.84	10.65						
9	8.55	22 Icx Technologies, Inc.	ICXL	5.35	3.81-15.50	294.55M	31,400	90,160	136,162	37,442	12.0%	1.69	N/A	N/A						
10	5.35	9 Lasecard Corp.	LCRD	39.25	4.18-12.94	64.26M	28,544	39,857	32,270	10,722	36.5%	1.67	N/A	N/A						
11	39.25	25 Ingersoll Rand**	IR	22.72	33.56-55.94	12.50B	10,546,900	8,033,700	8,763,100	3,080,800	38.5%	1.64	3.45	12.67						
12	22.72	11 The Geo Group	GEO	44.49	21.69-32.93	1.16B	612,900	860,882	1,027,832	281,539	9.4%	1.49	23.16	11.84						
13	44.49	10 Nappco Security Systems, Inc	NSSC	50.06	4.05-6.67	84.20M	65,229	69,548	66,202	No report	N/A	1.39	15.15	13.92						
14	78.78	12 DRS Technologies, Inc.	DRS	4.46	46.50-80.25	3.27B	1,308,600	1,735,532	2,821,000	951,900	29.4%	1.38	18.71	10.53						
15	4.46	13 Secure Computing Corp.	SCUR	57.76	3.46-10.54	304.07M	109,175	176,697	237,905	61,704	7.0%	1.34	N/A	81.28						
16	57.76	21 ManTech International	MANT	65.83	34.78-62.06	2.03B	980,290	1,137,000	1,448,000	464,970	33.3%	1.27	25.02	13.93						
17	65.83	16 United Technologies Corp.	UTX	44.49	58.87-82.50	63.48B	42,725,000	47,829,000	54,759,000	15,667,000	12.7%	1.24	14.22	8.06						
18	44.49	17 Tyco International	TYC	50.06	31.01-47.95	21.12B	17,959,000	17,336,000	18,781,000	5,215,000	10.9%	1.22	16.84	7.59						
19	50.06	14 Honeywell	HON	15.82	46.67-62.99	37.27B	27,653,000	31,367,000	34,589,000	9,724,000	13.3%	1.21	14.15	8.12						
20	15.82	18 L-3 Communications Holdings	LLL	115.25	13.77-23.40	12.86B	9,444,700	12,477,000	13,961,000	3,722,000	9.2%	1.16	15.17	9.76						
21	115.25	15 First Advantage Corp.	FADV	47.41	90.44-117.04	45.68B	37,213,000	39,620,000	41,862,000	11,039,000	6.9%	1.13	6.98	6.20						
22	47.41	23 Lockheed Martin Corp.	LMT	7.90	40.56-59.28	3.73B	3,285,300	4,018,600	4,483,800	1,154,200	5.3%	1.11	15.20	8.69						
23	7.90	24 Magal Security Systems Ltd.	MAGS	21.30	5.09-10.00	102.70M	61,282	63,600	72,375	25,021	77.6%	1.02	69.30	14.22						
24	21.30	20 Checkpoint Systems, Inc	CHKP	111.88	17.97-30.50	822.65M	717,992	687,775	834,156	236,200	20.7%	0.97	15.02	9.11						
25	111.88	26 Siemens AG	SI	70.09	102.79-160.37	98.11B	90,896,136	98,203,790	106,035,000	28,150,000	9.5%	0.94	8.65	8.31						
26	70.09	29 RAE Systems, Inc.	RAE	1.52	1.03-3.68	89.94M	60,293	67,721	90,836	24,700	22.9%	0.94	N/A	N/A						
27	1.52	24 Brinks Company	BCO	38.00	49.04-74.61	3.32B	2,793,300	2,800,000	3,219,000	931,700	19.6%	0.91	18.33	6.26						
28	38.00	38 Diebold**	DBD	25.01	23.07-47.36	2.5B	2,587,049	2,933,000	2,953,000	771,000	11.0%	0.88	34.4	12.87						
29	25.01	30 OSI Systems	OSIS	70.66	24.73-25.56	442.05M	385,041	452,686	532,300	171,173	12.0%	0.84	34.78	12.87						
30	70.66	32 Northrop Grumman Holdings	NOG	1.52	64.10-85.21	23.85B	30,113,000	30,148,000	32,018,000	8,628,000	9.5%	0.82	14.39	7.60						
31	1.52	37 Directed Electronics	DEIX	2.88	.99-6.00	38.77M	304,558	437,778	401,140	75,041	-13.1%	0.80	N/A	5.31						
32	2.88	37 ActivIdentity Corp.	ACTI	46.65	2.14-5.25	131.86M	42,156	53,375	59,553	14,298	-12.2%	0.77	N/A	N/A						
33	46.65	28 URS Corporation	URS	32.70	30.75-64.19	3.94B	3,917,565	4,222,869	5,383,007	2,530,944	103.5%	0.63	19.14	11.98						
34	32.70	33 Johnson Controls	JCI	6.14	26.00-44.46	19.42B	27,479,000	32,236,000	34,624,000	9,865,000	10.7%	0.62	13.77	8.51						
35	6.14	34 Henry Bros Electronics	HBE	6.97	3.48-6.85	36.36M	42,156	42,132	57,852	15,124	11.9%	0.60	44.49	14.00						
36	6.97	36 Richardson Electronics, Ltd.	RELL	1,267.83	3.59-7.85	124.85M	578,724	529,097	567,291	155,093	6.0%	0.25	N/A	7.84						
Sokoloff Index												1,267.83	462,581,405	504,131,326	546,598,686	150,935,872	Over Q1 2008:	Quarterly		
Growth over previous period												8.5%	9.0%	8.4%	8.5%	Growth				
No report - As of press time, these companies had not yet announced their Q2 Results.												Average	Median	18.26%	11.4%					

*Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues. EVS has also been normalized to reflect the acquisition of Trane
 ** Ingersoll Rand (IR) discontinued operations on several businesses. They have not yet filed their adjusted 2005 Revenue numbers.
 ***Diebold (DBD) As DBD is not yet fully reporting, estimates were used to determine EVS.



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