

# Security Finance Newsletter

September 2009

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Volume V, Issue 3

## Security Industry Recovery

**The second quarter brought good news for the security industry as the Sokoloff Index\* continues to rise.** From its low in March of 619.91 the Index has steadily moved upward. At September 1st it was 905.04; the highest since last September when it was 1,193.24. The 46% increase beat the overall DOW Index which grew 38% over the same period.

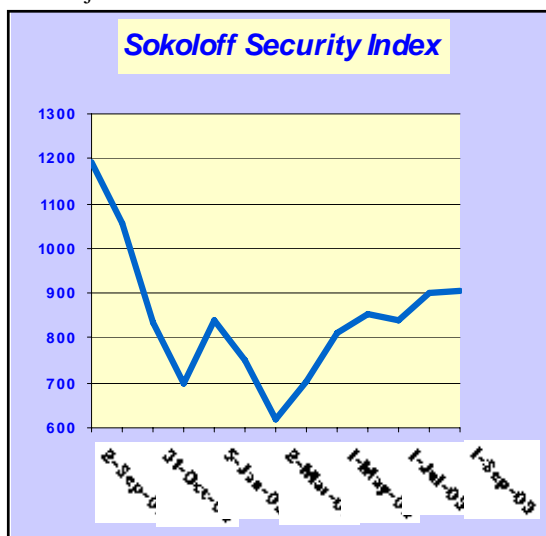
This quarter, we added **Sourcefire (Nasdaq:Fire)** to the Sokoloff Index, a business that has shown significant growth in their stock price despite the difficult economy. **Sourcefire** offers hardware and software solutions that protect and unify computer networks. Last Spring, Security appliance maker, **Barracuda Networks** made an unsolicited offer for the company of \$7.50 per share, then raised it to \$8.25. **Sourcefire** said this was an undervalued offer and refused to sell. This turned out to be a wise decision for the shareholders.

At the time of **Barracuda's** bid on May 29, 2008 of \$7.50, **Sourcefire's** share price was \$6.63. The share price continued to rise and by July 30, 2009 the stock hit a two-year high of \$17.39 making it one of the top percentage gainers on the **Nasdaq**.

Continuing the ascent, they came in at their highest price ever of \$20.07 on August 14. **As journalist, Brendon Daly from Seeking Alpha stated "Sourcefire's decision to stay independent has created more than \$300m of additional value for its shareholders than the Barracuda bid would have delivered."**

**Strong quarterly numbers and most recently, forecasting their second quarter**

**above market estimates, have been the prime driver of Fire's stock price.** For the second quarter they grew international revenues 23% and U.S. federal sector revenues 202% over last year. **John Burris, Sourcefire's CEO,** commented: "When I joined **Sourcefire** a year ago, we said we would grow revenue, control expenses, leverage our channel relationships, and achieve full year profitability on an adjusted basis. I am very excited by the progress that **Sourcefire** has made and confident in our ability to continue to execute against these objectives."



Defense technology company, **ManTech International (Nasdaq:MANT)** and **Checkpoint Systems, Inc. (NYSE:CKP)** which specializes in identification, tracking and security for the retail industry, also had very strong showings this quarter. **ManTech** moved from 22 to 16 and **Checkpoint**, rose from 27 to 19 in the rankings.

After dipping to an all time low on March 9 of \$6.29, **CKP** steadily climbed to reach their share price high on July 30 of \$17.70, just before their earnings release on August 6. Though **CKP's** revenues for the quarter

dipped (23% lower than last year), shareholders seemed to approve of **CKP's** announcement on July 31 to acquire **Brilliant Label Manufacturing Ltd.**, a China-based manufacturer of woven and printed labels. Stock prices still hovered around the \$16-\$17 at the time of this writing regardless of their poor quarterly numbers.

"With the **Brilliant** acquisition, **Checkpoint** takes a significant step to strengthen and expand its core apparel labeling offering," said **Chairman, President and CEO, Rob van der Merwe.** "**Brilliant's** woven and printed label manufacturing capabilities move us closer to our previously announced strategy of becoming the recognized number two global provider of apparel labeling solutions."

**ManTech** has also been enjoying a gradual uptick since its low on May 5 of \$34.90 to \$54.70 on August 13 (the highest since February 25 of this year). The top share price of the quarter happened on August 3 of \$54.16 (a jump of .93 cents from \$53.23 the previous day), right after the announcement of their earnings on July 29. **MANT reported a 30% gain in profit, 21% in operating income and 11% in revenue. They also raised their 2009 outlook.**

**George J. Pedersen, Chairman and CEO** said "We delivered solid results across all operating metrics and dramatically improved cash flow. In fact, we now have a net cash position of over \$13 million at the end of the second quarter down from \$86 million of net debt at the end of the first quarter. Our clean balance sheet allows us flexibility to fund organic growth and execute on strategic acquisitions to enhance shareholder value."

*\*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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## Global Technology Solutions Christopher Cavallo

**Global Technology Solutions** (GTS™) is a systems integrator focused on wireless solutions. In 2009 they acquired three regional 2-way radio dealers, executing on a strategy to bring a strong emphasis on Security projects integrated with “nearly every major wireless communications technology.” GTS solutions include biometric/ access control, CCTV/video surveillance and RFID, monitoring capabilities, detection systems and license plate recognition products for a variety of businesses. **President, Christopher Cavallo** talks about the company.

*Tell us about the background of GTS and how it got started.*

A Group of skilled executives representing the Technology, Communication and Security (TCS) Industries founded GTS in 2007. We spent the first 12-18 months writing our business plan, identifying our partners, reviewing and deciding on what technologies we would represent and formulating our team so when we went to market in April 2009 we hit the ground running! In the first 75 days we completed three acquisitions.

*How does GTS differ from other companies that are in the same field?*

GTS has taken the position that only the best in class solutions will be represented through direct partnerships at the premium level. Most companies in our industry typically specialize in one area whether it's telecommunications, communication or security (in some cases two but rarely all three). We cover all three spaces.

We say that we have ‘partner’, rather than ‘vendor’ relationships. **Our partners know that once we have committed to representing their products and/or solutions we will rarely guide our customers elsewhere.** This level of dedication and the standards by which GTS operates ensures our customers receive outstanding service and support.

*What is the corporate culture of GTS?*

**CEO, Rich Schubiger** and I have instituted a corporate culture that is innovative and open yet structured so as to deliver common standards. Our key managers and employees know that at GTS all

egos are left at the front door and decision making is generally pushed to our business managers on the front line.

*Tell us about GTS' experiences with M&A.*

Primarily we look for those opportunities that are synergistic to our business model. We seek businesses that are profitable or have the ability to be profitable by incorporating our infrastructure as well as those that are in an area where we want to operate. Typically the business lacks the resources to expand. **The acquired company must be able to take their business to the next level by being a part of GTS.** Our executive team has been involved in numerous mergers and acquisitions and are well versed in how the process works best and the importance of the first 100 days after the acquisition has been concluded.

*Motorola is one of your partners. How do you work with one another, do you develop products together, use each others' sales channels... what is the primary focus of the partnership?*

**Rich Schubiger** is a Motorola veteran and has maintained his relationships at every level of the company. **Motorola is our core partner for the**

“Most companies in our industry typically specialize in one area whether it's telecommunications, communication or security. We cover all three spaces.”

**communications aspect of our business and also was one of the reasons why we acquired the companies that we did in the first 75 days.** We are a premium Motorola partner and just recently worked together on developing a deployable wireless technology that can be read about on our website, [www.gtsla.com](http://www.gtsla.com).

We are presently working with Motorola on nationwide initiatives in Colombia and Panama as well as the rest of Central and South America. Through a partnership agreement with a US defense contractor we are also working on a rollout of Motorola's portfolio of communication services in two countries in the Middle East.

*GTS has a few subsidiaries. How do you work with your subsidiaries to insure that the same quality, expertise and innovation is constant across the company?*

In as much as we acquired our subsidiaries, our subsidiaries acquired the GTS brand, operating philosophy and vision. All of our subsidiaries are instructed to continue doing what they were doing before we acquired them. In addition, they get the extra benefit of support and infrastructure which allows them to take their individual businesses to the next level. Then, each member of our executive team works with the subsidiary GM of each business unit and supports them in their particular area of responsibility whether it be sales, operations, product development or customer satisfaction.

*GTS has many community partners and a focus on reaching out to impoverished areas especially in Latin America. Tell us about some of the programs and what GTS hopes to achieve by being part of them.*

After my first visit to Colombia I was blessed to be introduced to a foundation called **Proyecto Union** which primarily helps terminally ill children and the homeless. We started working with this group prior to even establishing GTS and continued to do so with the support of GTS and our partnering relationships in Colombia. We have spoken about this cause to other mayors throughout the country and have suggested to them that GTS target certain projects in their municipalities and make investments back into the communities where we will be working.

***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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*Is an IPO in the future for GTS™? What might drive such a decision?*

That's not our strategy. However, building the most recognizable and independently owned brand in the industry and the vertical markets we serve is in our plans.



**Christopher M. Cavallo**  
President GTS

Chris brings over 25 years of corporate management experience to every facet of the Security Industry. A former owner of RSI, one of the premier background investigation companies in the United States, he has been published in numerous publications and has appeared on MSNBC. He recently left an International Systems Integrator as President of Latin America to form GTS.



The biggest problem right now in Colombia and the majority of Latin American countries is their inability to educate their children. **Technology can clearly build a bridge between those areas that have no teachers and facilities for learning by installing wireless infrastructures and make e-learning a priority.** We are working with the US Embassy and USAID to assist some of these impoverished rural areas in getting additional funding for education. As long as we work in Colombia and other Latin American countries that face these same challenges we will continue to make re-investments when and where we are able!

**GTS products are used all over the world. Do you create products specific to different geographies? How do other countries look at security in comparison to America?**

We market different products to different areas of the world. For example, secure and encrypted communication is very prevalent in many Latin American countries as well as the Middle East, especially in Iraq where there is no infrastructure to support every day landline conversations.

Every region has different levels of awareness and concerns based on criminal/terrorism activity so the response is wide ranging. In Colombia and Panama the security levels are very high in the airports, seaports, office buildings and schools (mostly because of kidnapping activity which is far better then it was 5-8 years ago but still remains on the forefront of every Security Director's desk).

**Outside the US, price is always a factor in preliminary discussions but generally gets put on the back burner when it comes to the very sophisticated technology that GTS represents.** For some reason in the US, price oftentimes becomes more the determining factor then "value." Many customers end up purchasing a "solution" only to have to replace it because either the technology was already becoming second generation when purchased or the needs of the customer outgrew the solution in the first twelve to eighteen months.

The US is still the leader in technology, communication and security applications. We're far ahead of most countries especially in comparison to Latin America which is at least three and in some cases five years behind. Companies such as GTS that truly understand the needs and stay abreast of the differences are able to implement their products effectively and cost efficiently.

**Are you working on any new products that you can talk about? What types of products do you see a need for in the industry that hasn't been filled?**

I'm not at liberty to discuss all of our product lines or technologies in development but the one that we can discuss is the Deployable Cell System, which allows up to 500 users to speak within a 40-mile radius securely on a Motorola phone that is at minimal cost. This system can sit on a flat bed truck, be air-dropped by helicopter or cargo plane and only one person is needed to set this system up in less than an hour. There is nothing of this kind that we are aware of available for either commercial or government use. Can you imagine if this technology was around on 9-11, Hurricane Katrina or the recent volcano in Italy? Multiple agencies would have been able to communicate with each other much easier. With this system you are able to have an extended range of coverage, speak securely and not have to be concerned about lost equipment which normally would cost \$3500-

"Outside the US, price is always a factor in preliminary discussions but generally gets put on the back burner when it comes to the very sophisticated technology that GTS represents."

to make investments in areas outside the US that will provide healthy returns even during economic times like we are experiencing presently.

**Where do you see the future of the security industry heading and how will GTS be a part of that?**

Interesting question. With the following answer you'll understand why GTS was founded.

Rich, myself and our other partners have been in the TCS industries in excess of 75 years. Needless to say, we have seen tremendous change and incredible advances made in all three areas. The biggest transformation for me personally has been witnessing the Security Industry becoming so dependent on the Communication Industry. **If you're a security company that does not have technology/communications incorporated in your businesses portfolio I would assume that you are on your way out and not planning on being in business for the long term.**

The success of most technologies and security applications, i.e. IP cameras, analytic software, biometrics etc., must have a communication platform that will support these various technologies. I have to give my partner Rich credit on this part of the business, seeing as we made three acquisitions all in the communications sector with no real advanced technology or security product line to their businesses. It would be a lot more difficult building a security company with no T&C than it will be for us to build a total TCS company.

**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.*



A subsidiary of Orad Group Ltd. 

**has been acquired by**



*Cool down.  
Fire Protection by*

**MINIMAX**

*The undersigned advised Orad Group Ltd.*



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\$4,000 per radio vs. less then \$300! We believe that this technology will be the talk of the communication industry for years to come.

**What is your plan for continuing growth in today's more challenging economic environment?**

When customers come to GTS they are buying a brand that represents "The Best in Class" and when we say that we are talking about our employees, our operating methodology and our vision. That doesn't mean we are the most expensive either. We will always be competitive and we are committed to delivering the best solution available for the right price. No question these are difficult times but we are also servicing customers around the world. This operating philosophy allows GTS

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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 2009 Reports and Stock Prices as of August 18, 2009

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 quarter: Sourcefire, Inc. (Nasdaq: Firc) 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 8/18/2009	52 Week Range	Market Cap 8/18/2009	(000s) 2006 Revenue	(000s) 2007 Revenue	(000s) 2008 Revenue	(000s) 2nd Q 08 Revenue	(000s) 2nd Q 09 Revenue	Over Q2 2008 Incr/Decr 2nd Q 09	P/E	EVS	EVM								
1	1	Copent, Inc.	COGT	10.54	7.88-14.40	944.86M	101,657	105,794	125,861	26,041	31,771	22.0%	23.27	4.74	12.42								
2	2	New Sourcefire, Inc.	FIRE	18.98	3.89-20.33	504.96M	44,926	55,859	75,673	16,018	22,171	38.4%	6326.67	4.58	182.32								
3	2	General Electric Co.	GE	13.59	5.87-30.31	144.42B	163,391,000	172,488,000	182,515,000	46,840,000	39,082,000	-16.6%	10.63	3.53	21.66								
4	4	Genetex Corporation	GNTX	14.15	6.50-17.76	1.95B	572,267	653,933	623,800	170,492	117,342	-31.2%	126.34	3.17	17.36								
5	3	Fir Systems, Inc.	FLIR	22.26	18.81-39.43	3.37B	575,000	779,397	1,076,974	146,614	161,948	10.5%	15.38	2.73	8.29								
6	5	Taser Corp.	TASR	4.83	2.54-7.63	299.07M	67,718	100,727	92,846	21,101	21,833	3.5%	94.71	2.52	75.65								
7	6	L-1 Identity Solutions Inc.	ID	6.95	3.23-17.22	629.16M	164,386	389,507	562,872	144,952	168,053	15.9%	N/A	1.72	15.76								
8	9	Zebra Technologies Corp.	ZBRA	24.00	16.00-33.40	1.42B	759,524	868,279	976,700	253,782	187,676	-26.0%	N/A	1.51	9.55								
9	7	Protection One, Inc.	PONE	3.59	83-10.12	90.92M	270,552	347,871	372,021	92,401	92,146	-0.3%	N/A	1.47	6.95								
10	10	Brady Corporation	BR	29.42	14.39-39.49	1.54B	1,018,436	1,362,631	1,523,016	381,900	287,200	-24.8%	18.32	1.35	7.99								
11	8	The Geo Group	GE	17.64	10.98-26.96	904.81M	860,882	976,299	1,043,006	269,994	276,379	2.4%	14.4	1.31	8.39								
12	13	First Advantage Corp.	FADV	16.90	6.99-17.77	1.01B	797,801	824,271	779,963	195,545	178,009	-9.0%	30.78	1.29	7.97								
13	12	The Stanley Works	SWK	40.72	22.61-49.58	3.23B	4,018,600	4,426,200	4,426,200	1,151,700	919,200	-20.2%	11.75	1.13	7.85								
14	11	United Technologies Corp.	UTX	56.81	37.40-67.95	53.47B	47,829,000	54,759,000	58,681,000	15,944,000	13,196,000	-17.2%	12.91	1.10	7.12								
15	14	Honeywell	HON	35.02	N/A-N/A	26.34B	31,367,000	34,589,000	36,586,000	9,674,000	7,586,000	-21.8%	11.39	0.98	8.31								
16	22	ManTech International	MANT	53.74	32.86-61.46	1.92B	1,137,000	1,870,000	1,870,000	464,970	514,068	10.6%	18.96	0.98	10.29								
17	16	LaserCard Corp.	LCRD	7.49	2.05-8.49	90.73M	39,857	32,270	37,008	10,722	16,308	52.1%	39.84	0.95	9.28								
18	19	Tyco International	TYC	30.74	15.17-45.00	14.57B	17,336,000	18,477,000	20,199,000	5,215,000	4,240,000	-18.7%	N/A	0.93	6.16								
19	27	Checkpoint Systems, Inc	CHKP	15.96	6.06-22.19	749.51M	687,775	834,156	917,082	236,200	181,913	-23.0%	N/A	0.91	9.66								
20	18	Ingersoll Rand	IR	28.96	11.46-40.77	9.24B	8,033,700	8,763,100	13,227,400	3,080,800	3,473,800	12.8%	N/A	0.90	8.90								
21	17	L-3 Communications Holdings	LLL	73.06	57.12-107.01	8.52B	12,477,000	13,961,000	14,901,000	3,722,000	3,929,000	5.6%	9.66	0.80	6.70								
22	20	Napco Security Systems, Inc	NSSC	1.37	.01-4.46	26.16M	69,548	66,202	68,367	22,103	N/A	N/A	N/A	0.79	N/A								
23	30	Magill Security Systems, Ltd.	MWGS	4.23	3.79-9.30	43.98M	63,600	72,375	70,355	25,021	N/A	N/A	N/A	0.77	N/A								
24	26	Diebold	DBD	29.93	19.02-39.81	1.98B	2,940,000	2,947,481	3,170,080	768,676	700,496	-8.9%	25.05	0.71	7.32								
25	21	Lockheed Martin Corp.	LMT	74.10	57.41-120.30	28.31B	39,620,000	41,862,000	42,731,000	11,039,000	11,236,000	1.8%	9.86	0.68	8.04								
26	24	ICX Technologies, Inc.	ICXT	5.09	3.60-9.24	161.73M	90,160	136,162	171,739	37,442	45,421	21.3%	N/A	0.67	50.86								
27	25	RAE Systems, Inc.	RAE	1.20	28-2.23	71.33M	67,721	90,836	95,383	24,647	19,907	-19.2%	N/A	0.66	N/A								
28	23	Henry Bros Electronics	HBE	5.75	4.30-7.52	34.62M	42,132	57,852	62,358	15,124	13,972	-7.6%	24.16	0.63	10.40								
29	31	Johnson Controls	JCI	25.24	8.35-36.00	15.03B	32,236,000	34,624,000	38,062,000	9,865,000	6,979,000	-29.3%	N/A	0.63	14.52								
30	28	OSI Systems	OSIS	18.91	10.15-25.56	328.88M	452,686	532,284	623,088	171,173	139,063	-18.8%	27.01	0.57	7.55								
31	15	Siemens AG	SI	79.34	43.89-113.68	68.74B	84,651,000	92,241,000	98,453,000	27,121,000	25,942,000	-4.3%	N/A	0.53	6.20								
32	29	Northrop Grumman Holdings	NOC	47.29	33.81-72.19	15.04B	30,148,000	33,887,000	33,887,000	8,628,000	8,957,000	3.8%	N/A	0.51	4.74								
33	33	URS Corporation	URS	47.52	19.94-53.12	3.95B	4,222,869	5,383,007	10,086,289	2,530,944	2,297,608	-9.2%	15.86	0.46	8.10								
34	32	ActivIdentity Corp.	ACTI	2.45	1.07-2.92	112.31M	53,375	59,553	59,009	14,298	15,369	7.5%	N/A	0.41	N/A								
35	34	Brinks Company	BCO	26.39	18.19-70.95	1.20B	2,837,600	2,735,000	3,164,000	797,800	751,900	-5.8%	9.63	0.39	4.03								
36	35	Richardson Electronics, Ltd.	RELL	3.80	2.47-7.00	68.05M	529,097	557,291	568,409	155,093	114,565	-26.1%	N/A	0.15	8.43								
37	36	AuthenTec	AUTH	2.18	N/A-9.41	62.42M	33,174	52,344	63,948	18,410	8,446	-54.1%	N/A	0.09	N/A								
<b>Sokoloff Index</b>												900.14	489,607,043	529,421,981	571,918,447	149,291,963	131,883,564	Over Q2 2008:					
Growth over previous period													4.9%	8.1%	8.0%	Average	2.7%	Growth	-5.26%	327.46	1.28	18.32	
Growth over previous period																Median				-7.6%	18.32	0.91	8.35



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