

# Security Finance Newsletter

September 2011

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Volume VII, Issue 3

## 2nd QUARTER ANNOUNCED MERGERS & ACQUISITIONS

**Buyer: HONEYWELL**

**Seller: EMS TECHNOLOGIES** (NASDAQ:ELMG) is a provider of connectivity solutions for mobile networking, rugged mobile computers, and satellite communications. EMS is headquartered in Norcross, Georgia and has 1,160 employees with 2010 revenue of \$355 million.

**Buyer: BAIN CAPITAL & HELLMAN & FRIEDMAN**

**Seller: EQT PARTNERS AB** sells Swedish company **SECURITAS DIRECT**. 2010 revenues were \$854 million. The company provides a full range of security services, from alarm to response.

**Buyer: PIXIM, INC.** is a provider of imaging chips for security enterprise cameras.

**Seller: ADVANSENSE TECHNOLOGIES, LTD.** is a developer of next generation CMOS image sensor technology. The company is headquartered in Ra'anana, Israel.

**Buyer: STANLEY BLACK & DECKER** (NYSE:SWK)

**Seller: NISCAYAH** is a Swedish commercial security and monitoring company. Their 2011 revenue is estimated at \$1 billion.

**Buyer: ORACLE** (NASDAQ:ORCL)

**Seller: PILLAR DATA SYSTEMS** is headquartered in San Jose, CA with 325 employees. Majority-owned by Oracle's CEO, Larry Ellison, the company's storage systems solutions can be applied to the video surveillance area.

**Buyer: GUARDIAN ALARM COMPANY** is a provider of security monitoring and alarm system management services.

**Seller: CINCINNATI BELL** (NYSE: CBB) sold off its **COMPLETE PROTECTION** security monitoring business. They will continue to offer the services through a marketing agreement with Guardian.

**Buyer: TYCO INTERNATIONAL** (NYSE:TYC)

**Seller: CHEMGUARD, INC.** is a provider of fire suppression products and specialty chemicals. The company is based in Mansfield, Texas.

**Buyer: RICHMOND ALARM** is an electronic security systems provider.

**Seller: MULTRA-GUARD** is a full service security company based in Norfolk, Virginia. It has approximately 12 employees and is family-owned.

**Buyer: BENDIX COMMERCIAL VEHICLE SYSTEMS, LLC (MEMBER OF KNORR-BREMSE GROUP)** develops and supplies leading-edge active safety technologies, air brake charging and control systems for commercial vehicles.

**Seller: ITERIS, INC.** (NYSE:ITI) sold its Vehicle Sensor Business. Iteris offers a broad range of Intelligent Transportation Systems.

**Buyer: CACI** (NYSE:CACI) provides professional services and IT solutions in the areas of defense, intelligence, homeland security and IT modernization and government transformation.

**Seller: PARADIGM HOLDINGS, INC.** specializes in comprehensive information assurance solutions involving cybersecurity and forensics as well as continuity of operations and disaster recovery planning. Headquartered in Rockville, Maryland they have approximately 185 employees.

**Buyer: SAFRAN** (PARIS:SAF.PA) is a French aerospace and defense company.

**Seller: L-1 IDENTITY SOLUTIONS** (NYSE:ID) is based in Connecticut and generated sales of more than \$450 million in 2010. The company's face recognition software products are used by border security agencies and financial institutions.

**Buyer: STANLEY CANADA CORPORATION** is a subsidiary of **STANLEY BLACK & DECKER** (NYSE:SWK).

**Seller: MICROTEC SECURITY SYSTEMS** is a residential alarm company. The company is headquartered in Alberta, Canada.

**Buyer: BIO-KEY INTERNATIONAL, INC.** (OTCBB:BKYI.OB) is a provider of finger biometric identification technology solutions.

**Seller: S.I.C. BIOMETRICS** is a manufacturer of biometric plug-in mobile fingerprint scanners and proximity cards and access control solutions. The company is headquartered in Quebec, Canada.

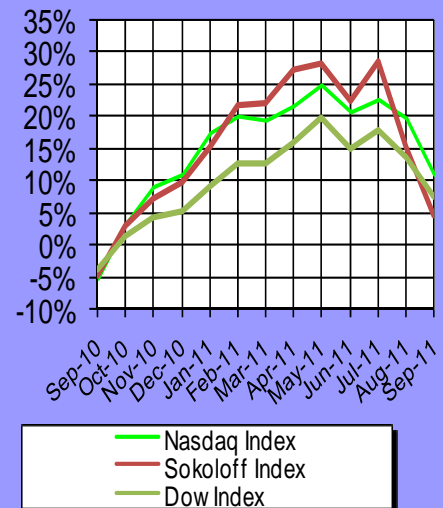
**Buyer: XTRALIS** is a global provider of early fire, gas, and security threat detection solutions.

**Seller: HEITEL DIGITAL VIDEO GMBH** is a developer, manufacturer and distributor of hardware and software solutions for video intervention and remote monitoring. The company is headquartered in Germany.

**Buyer: NORTH AMERICAN VIDEO** is a provider of security systems integration technology and services.

**Seller: NEXUS TECHNOLOGIES** is a subsidiary of **HOMELAND SECURITY CAPITAL CORPORATION** (OTCBB:HOMS.OB). Headquartered in Hawthorne, NY, Nexus provides integrated security solutions for the corporate and government security markets.

## Sokoloff Security Index



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## *Sokoloff & Co. Interviews Jim Coleman of Generation3 Capital*

This quarter Sokoloff & Company decided to get a viewpoint on the security industry from private equity player **Generation3 Capital**. The firm specializes in recapitalizations, buyouts and growth capital in security, automatic identification and data capture and collection, life safety and custom electronics as well as other sensing and control industries. Having worked as both an entrepreneur and a corporate development executive in the security arena, **Jim Coleman**, Principal of Generation3, offers a unique perspective.

### ***Tell us about Generation3's entrance into the PE world.***

Generation3 was founded in the fall of 2008. I started the fund after having spent 30 years building companies from the ground up and growing them both organically and through strategic acquisitions. I had experience in the full range of exit strategies having sold our businesses to large and small PE firms and public entities.

Prior to starting Generation3 Capital, I ran Honeywell Security's M&A group. That was a tremendous learning experience for me. Honeywell's process is extremely well thought out and disciplined. The work of the M&A group didn't just end with closing the transaction - we were required to develop and execute an integration plan. Being tasked with determining what kind of company would fit best into the existing business added an extra level of responsibility.

**I came away with the belief that while large companies can certainly acquire businesses of any size, it is far more efficient for them to focus on larger businesses that can "move the needle" for the company and stand up better to the integration process.**

I left Honeywell in July 2007 and began looking for companies to acquire. Shortly thereafter I brought in my son-in-law, Brandon Nagler, as my partner. He was able to lead our search efforts, generate deal flow, handle contracts, develop deal structures and essentially bring private equity skill sets to the business.

Next we determined that the structure of a PE firm best suited our goals. We closed our first acquisition in May 2008 (RMS Technologies)

and closed our Fund in Sept 2008.

### ***What makes Generation3 different than other PE firms?***

**Our approach is unique in that our partners have extensive business experience.**

Up until forming Generation3 Capital our people had spent their entire careers in manufacturing, marketing, sales, finance, and other departments in small, medium, and large companies. Bill Vranek was CFO of Coleman Cable and oversaw the growth of that business

**"We chose Security because that is the market we know best."**

Automation to HDMI cables for the business.

This makes us different. Because of our extensive experience, we are able to embed our people into the acquired companies where needed. Most small businesses are strong in a certain area (engineering for example); we add strength to areas of weakness that allows them to grow and become more profitable. Our contacts bring opportunities that they most likely would not have had otherwise and we allow management to focus on what they do well while wrapping the missing skills sets around the business as needed.

### ***Why has Generation3 chosen to invest in security businesses? What is appealing about the industry?***

**We chose Security because that is the market we know best.**

Coleman Cable's Signal Cable unit and Genesis Cable Systems are the leading cable producers for the Security Industry. Wire and cable is a ubiquitous part of virtually all security products, systems and installations. This not only gave us a great understanding of all facets of the Security Industry but it also fostered great relationships and contacts.

**In addition, the Security Industry has been a steady solid growth market for the last 3 decades. Lastly, there is a convergence of other products and markets that are poised for tremendous growth, including Energy Management, Lighting Control, Home Automation, Life Safety and**

a myriad of other areas that are adjacent to and coupled with Security.

### ***What does the company look for when investing in a security business? How many businesses do you look at in a year?***

Our ideal acquisition candidate has sales between \$2-20M, is cash flow positive, and has ownership that is willing to stay on and roll back some of the purchase price to maintain some ongoing equity (10-30%).

**We probably look at 3-5 businesses per week**

**"... the Security Industry has been a steady solid growth market for the last 3 decades."**

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



**Wellsco** INC.

has been acquired by



**Infotech**

Creating Business Impact

*The undersigned advised Infotech Enterprises Ltd.*



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from approx. \$20M to over \$200M when he left to join startup Genesis Cable Systems as part owner, CFO/COO. Ultimately Honeywell acquired Genesis Cable Systems and Bill stayed on in Operations where he managed the cable business as well as building a new factory in Juarez, Mexico. Bill joined Generation3 as a founding partner.

David Coleman started in Sales at Genesis Cable but soon after the acquisition by Honeywell he was moved into marketing of Custom Electronic product lines. He eventually became Business Leader of the Custom Electronic group after developing complementary product lines from Home

(200 per year). That would be a cursory read. Of those, we probably schedule meetings with an average of two per month (24 per year).

**How do you find businesses and how do you suggest businesses reach out to you if they feel they are a candidate for investment?**

We get deal flow from brokers, trade shows, seminars and other companies in the industry. Also, we are a small firm so reaching out to us puts the caller in direct contact with a Principal of the firm.

**How does your firm value security businesses?**

There are no strict cookie cutter valuation rules. **What goes into our valuation is the trajectory of revenues and earnings, market potential, sustainability of earning streams and strength of the management team.** Management's willingness to maintain some ownership is also a positive sign as an investor.

**What trends do you see in the security industry and what do you believe are the hot areas to invest in?**

As I mentioned earlier, there is a convergence of markets and products in both residential and commercial settings. This convergence is both a risk and an opportunity for those in the Security Industry. **All of the competitors in Energy Management, Home Automation, even Cable TV can become serious players in the security business.** On the other hand security businesses can expand their offerings to include these adjacent markets/technologies and grow horizontally if they are willing to develop products or acquire capabilities outside of their immediate comfort zone.

**How do you work with newly acquired companies? How do you help them to grow and succeed?**

It is very hands on. A plan is developed with management during the due diligence process. It is prepared in a completely

**"All of the competitors in Energy Management, Home Automation, even Cable TV can become serious players in the security business."**

transparent fashion as we want both input and buy-in from management. By doing this, we get off to a strong start and don't run into obstacles or unexpected resistance to the changes that are intended to take place. This is a great way to complete our due diligence as it allows us to work with management and understand their strengths, weaknesses, and their willingness to make changes. It also is important to get feedback on our ideas to see where they may be flawed.

Once we close, we work the plan. Members of

**Jim Coleman**  
Principal



Jim Coleman has over 30 years of entrepreneurial, operational and M&A experience in the security arena. The founder of **Genesis Cable**, he sold the company to **Honeywell** in 2004 and went on to be their global head of business development before starting **Generation3 Capital**.

and **Avrio** which we merged (Wireless Security System Integrators for Wide Area Outdoor Video Surveillance), **EZ Watch** (ecommerce business which designs and sells video surveillance systems for small commercial businesses), and most recently, **Fluidmesh** which is a manufacturer of wireless products for security, video surveillance, condition monitoring and data communication in large at risk areas.

All of the business are growing well and are positioned well for the future. We will likely make one more acquisition before our fund is fully invested.

**What do you find most enjoyable about working in the investment world?**

I like having the ability to be opportunistic and take advantage of new trends and markets.

Investing allows you to see the whole spectrum of opportunities and put your money where you see the most dynamic opportunities.

**Contact**  
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Please contact **Bernie Walko**,  
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While at our website, surf around. There's plenty of useful information, including our archive of newsletters tracking historical industry performance.


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

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




**GLOBAL EQUITY CAPITAL, LLC**

Has sold **Voicecom Telecommunications, LLC**




**INTELLIVERSE**  
communications solved.

to



**Amvensys**  
Amvensys Telecom Holdings, LLC

The undersigned advised the seller.



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our team will embed where necessary to execute the programs we are putting in place. Each company is different but if the company needs more robust accounting systems, cost systems or business development, etc., the appropriate person from our firm will rotate into that company and act as a member of the portfolio companies' team.

**Tell us some of your most successful investments and why you believe they were so successful.**

We are just in our 3<sup>rd</sup> year so it may be early to judge which investment will be the most successful. We have made 4 acquisitions. RMS

# SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES\*

Q2 2011 Reports and Stock Prices as of August 23, 2011

USA LISTED COMPANIES

\*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. The companies are ranked comparatively by **EVS**, which is Enterprise Value divided by Sales. Other comparative indicators shown are **P/E**, Price to Earnings (market cap divided by earnings) and **EVM**, which 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. Changes from last quarter: Mace Security International (MACE.PK) and Anixter International, Inc. were 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. **This information is provided strictly for informational purposes to industry senior executives. Sokoloff & Co. makes no representations as to its accuracy. Sokoloff & Co. does not advise public investors; therefore this information should not be used for investing purposes.**

Current Rank	Previous Rank	Company	Symbol	Stock Price 8/23/2011	52 Week Range	Market Cap 8/23/2011	2008 Revenue (000s)	2009 Revenue (000s)	2010 Revenue (000s)	2nd Q 11 Revenue (000s)	Over Q2 2010 2nd Q 11 Incr/Decr	P/E	EVS	EVM
1		1 Sourcefire, Inc.	FIRE	25.17	21.48-32.79	717.62M	75,673	103,465	130,572	36,454	19.1%	83.62	4.01	43.92
2		2 Gentex Corporation	GNTX	24.49	16.69-35.35	3.50B	623,800	544,523	816,263	243,002	20.6%	22.89	3.06	11.24
3		4 Roper Industries, Inc.	ROP	68.65	56.96-88.76	6.60B	2,306,371	2,049,668	2,386,122	699,871	23.4%	17.31	2.81	10.03
4		3 Flir Systems, Inc.	FLIR	23.45	21.86-37.29	3.75B	1,076,974	1,147,087	1,385,301	389,951	17.8%	17.89	2.18	8.41
5		5 Taser Corp.	TASR	4.11	3.52-5.10	244.53M	92,846	104,252	86,930	21,199	10.9%	N/A	2.13	21.14
6		6 Verint	VRNT	26.53	22.06-38.10	1.02B	534,543	669,544	703,633	176,332	2.2%	37.16	1.87	9.71
7		7 The Geo Group	GEO	20.69	18.22-26.95	1.34B	1,043,006	1,141,090	1,269,968	407,817	45.6%	19.54	1.79	11.31
8		9 AuthenTec	AUTH	2.55	1.48-4.08	111.65M	63,948	34,066	44,667	16,211	51.2%	N/A	1.52	N/A
9		8 Zebra Technologies Corp.	ZBRA	33.54	27.53-44.53	1.81B	976,700	803,585	956,848	245,541	12.3%	12.69	1.45	7.53
10		10 United Technologies Corp.	UTX	69.93	64.57-91.83	63.55B	59,757,000	52,425,000	54,326,000	15,076,000	9.2%	13.54	1.19	7.09
11		13 Tyco International	TYC	39.72	36.28-53.38	18.44B	20,199,000	16,882,000	17,016,000	4,293,000	0.4%	12.04	1.18	6.16
12		11 Stanley Black & Decker	SWK	58.77	52.32-78.19	9.89B	4,426,200	3,737,100	8,409,600	2,623,200	10.9%	16.37	1.15	7.96
13		19 Napco Security Systems, Inc	NSSC	2.69	1.55-3.02	51.37M	68,367	69,565	67,757	No report	N/A	N/A	1.04	64.04
14		14 Brady Corporation	BRC	26.09	24.44-38.73	1.38B	1,523,016	1,208,702	1,259,056	No report	N/A	13.74	1.02	6.21
15		12 Honeywell	HON	44.16	38.08-62.28	34.55B	36,556,000	30,908,000	33,370,000	9,086,000	14.6%	14.10	1.02	7.86
16		17 OSI Systems	OSIS	36.33	26.52-45.28	692.12M	623,088	590,361	595,111	183,429	10.9%	23.82	0.95	9.10
17		18 Siemens AG	SI	102.03	88.81-146.74	89.18B	104,308,000	103,292,000	102,374,000	25,619,000	2.4%	13.87	0.78	5.77
18		15 Ingersoll Rand	IR	29.11	27.11-52.33	9.63B	13,227,400	13,101,800	14,079,100	3,892,200	11.8%	22.12	0.77	5.98
19		16 Identiv Group	INVE	1.85	1.37-5.90	106.43M	28,362	41,315	84,843	25,612	20.9%	N/A	0.75	N/A
20		22 L-3 Communications Holdings	LLL	64.07	62.95-88.55	6.75B	14,901,000	15,615,000	15,680,000	3,766,000	-5.0%	7.49	0.67	5.32
21		21 Checkpoint Systems, Inc	CHKP	14.77	12.65-23.00	592.25M	917,082	772,718	834,498	219,931	5.6%	39.07	0.66	7.34
22		24 Magal Security Systems Ltd.	MAGS	2.90	2.37-3.68	30.62M	57,105	54,518	49,699	15,660	37.0%	N/A	0.65	N/A
23		20 Johnson Controls	JCI	30.08	26.10-42.92	20.45B	38,062,000	28,497,000	34,305,000	10,364,000	21.4%	13.46	0.63	9.34
24		23 Diebold	DBD	26.64	25.00-37.12	1.71B	3,081,838	2,718,292	2,823,793	662,382	-0.4%	N/A	0.63	7.42
25		25 Lockheed Martin Corp.	LMT	71.88	66.36-82.43	23.95B	42,731,000	43,995,000	45,803,000	11,551,000	2.4%	9.00	0.54	5.26
26		New Anixter International, Inc.	AXE	51.29	47.81-76.16	1.96B	6,136,600	4,982,400	5,472,100	1,612,800	18.0%	12.25	0.49	8.09
27		25 ManTech International	MANI	35.78	32.49-46.26	1.31B	1,870,879	2,020,334	2,604,038	752,673	13.8%	9.80	0.45	4.89
28		27 Northrop Grumman Holdings	NOC	51.48	49.20-72.50	14.31B	32,315,000	33,755,000	34,757,000	6,560,000	-9.6%	7.88	0.45	3.74
29		28 Brinks Company	BCO	23.12	18.85-34.46	1.08B	3,164,000	3,135,000	3,122,000	979,000	34.2%	15.46	0.36	4.10
30		30 URS Corporation	URS	32.84	30.35-48.32	2.61B	10,086,289	9,249,088	9,177,051	2,360,300	4.9%	10.08	0.30	4.51
31		New Mace Security International	MACE.PK	0.22	.15-.55	3.46M	50,857	18,591	18,395	3,466	-20.4%	N/A	0.20	N/A
32		31 Vicon Industries, Inc.	VII	3.35	3.10-5.24	15.08M	66,911	60,455	48,681	10,951	-16.3%	N/A	0.04	N/A

Sokoloff Index		1,048.28	400,950,855	373,726,519	394,057,026	101,892,982	Quarterly Growth Over Q2 2010
			Over Year 2008	Over Year 2009	Over Q1 2011		
			-6.8%	5.4%	5.4%	Average	12.3%
					Median	11.4%	19.38
							13.99
							0.87
							7.53

Growth over previous period



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