

Security Finance Newsletter

December 2007

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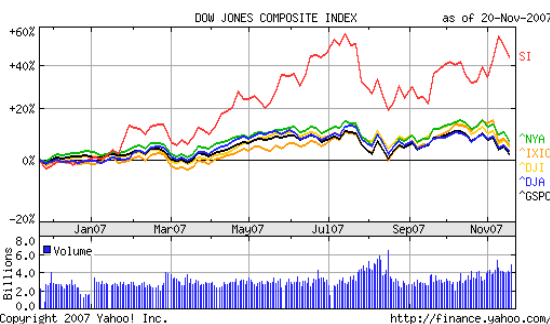
Volume III, Issue 4

Security Industry Companies' Growth Accelerating

Sokoloff and Company's Back Page of this newsletter shows the most recently reported quarterly growth in revenue compared to the same quarter the previous year for some 37 publicly traded security companies. Overall revenues are up 8.2% from Q3 2006 numbers. Since 2006, the Quarterly Comparative Growth* for Security companies has averaged over 22%. Over the same period companies in the middle of the list (median) have averaged about 14%.

Issues that have played a part in the accelerated growth of the security industry are government mandates for HSPD-12, border security and protection of critical infrastructure. IT convergence, video surveillance and demand for upgraded access systems are also contributing to growth in both the private and government sectors.

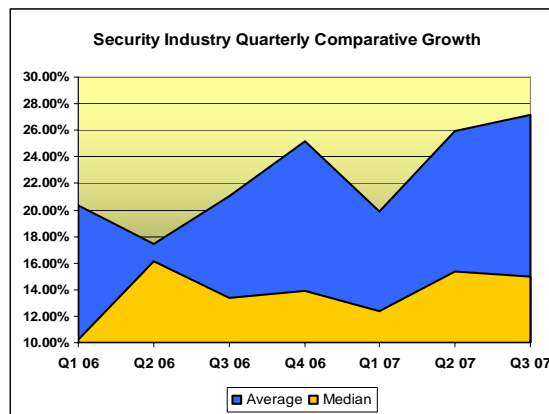
Several companies listed on the Sokoloff and Company Back Page rankings** had strong numbers, but most notable was **Siemens AG (NYSE:SI)**. Siemens, which includes security as a part of its worldwide business operations, **climbed from number 27 to 16**. If you bought **SI** stock at the beginning of 2007 you would have witnessed a steady climb in the stock price resulting in over a 60% gain by November. As the chart on this page shows, **SI** handily topped this year's performance of



the **Dow Jones, S&P, NASDAQ, and NYSE** indexes.

After growing revenues by nearly 21% in 2006, growth has settled down to the high single digits in 2007. Earnings have been growing consistently and the company's P/E of about 25 has been mildly above the industry median. Analysts are projecting around 16 as the forward P/E.

Siemens' CEO Peter Loescher and his board have made several pronouncements which



***Quarterly Comparative Growth:** This compares revenue growth rates among the companies on the Back Page. It is not indicative of overall revenue growth for the industry, which skews to a lower percentage, ranging between 7%-12% per quarter.

continue to buoy investors' expectations, despite some well publicized troubles.

Plagued with corruption allegations and investigations that bribes were made to land telecom deals, the company has initiated stronger compliance systems. **SI created a new executive board position to oversee legal and compliance matters, appointed a new Chief Compliance Officer, and merged all company audit activities under the corporate finance department headed by the CFO.** SI further announced their intent to cooperate with authorities on all investigations, and ended one of their investigations by

accepting a fine from the German court.

Mr. Loescher announced on October 5, that the company would be split into three segments and announced the final plans to the board on November 28th. The restructuring is aimed at making the company leaner and more flexible. The segments are health care, automation and infrastructure, and energy.

The company also received EU Antitrust Clearance for its seven billion dollar acquisition of diagnostics company Dade Behring Holdings, Inc. (NASDAQ:DADE) on October 25, enjoying a subsequent boost of about 6% in its stock price.

Finally, on November 8th, Siemens posted its first quarterly loss since 2001. The fourth quarter loss is due to costs related to the sale of its automotive electronics unit and fines from ongoing investigations. The company has issued a detailed 11-page document outlining the investigations and how much it would cost to cover the expenses.

Further countering the continuing fall out from investigations in the U.S., Switzerland, Italy, Greece, China, Hungary, Israel, Russia, Norway and Indonesia, **SI announced it would buy back as much as \$14.72 billion of its shares by 2010, thus touting its optimism for growth.** Chief Executive Loescher said "We anticipate volume growth that is twice as high as the rate of global (gross domestic product) growth, and that our operating profit will grow at least twice as fast as our volume."

****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.**

The Security Finance Newsletter is a service of Peter A. Sokoloff & Co. It is distributed quarterly to owners, CEOs, CFOs and corporate development executives in the Security industry.

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Securing the Perfect Match

When companies are faced with a decision to hire a systems integrator, jobs, time, and money are on the line. Making the correct choice can be difficult and selecting unwisely can be a nightmare for all parties involved. **Mike Walsdorf**, President, **Advent Systems, Inc.**, **Todd Channell**, CEO, **Sound Inc.**, and **Joe Liguori**, Founder, **Access Control Technologies, Inc.** all run successful security systems integration companies. They offered some ideas on securing the perfect match.

One of the key elements of an ideal pairing begins with establishing a long term partnering relationship based on trust. According to **Walsdorf**, this should be a common goal for both sides and is the most important aspect in working together. End-users should choose the integrator because they have confidence in the capability and credibility of the SI, not just because of the bottom line. Says **Waldorf**, "We don't have to make all the money on an individual job, we know that if we do a good job for customers they'll keep us around."

Todd Channell cited three points in creating trust. 1) An open, honest dialogue which compares customer expectations to the system integrator's actual capabilities; 2) Face to face meetings to handle any disagreements or misunderstandings which may arise and; 3) A continuous two way education process—where the SI informs the end-user about new trends and technology and the end-user keeps the SI abreast of future projects.

For **Channell**, honesty is the best policy. "An SI cannot successfully carry every line of product nor claim that they can install

any and everything. We don't oversell our capabilities and therefore, we have successful installations with a solid base of customers that have confidence in us."

According to **Joe Liguori**, SIs must answer to the needs and concerns of the customer and then focus the solution. This is best determined by having a

Mike Walsdorf President, **Advent Systems, Inc.**

Mike Walsdorf is a 25 year veteran in the low voltage systems integration business and has owned and operated Advent Systems for the past twelve years. He is a member of ASIS, Director of the Electrical Contractor's Association of Chicago and holds degrees from John Carroll University and NYU.

they're going to get all kinds of numbers and thoughts on the project."

Comprehensive designs that are tightly written with numbers and drawings are much more likely to deliver what is expected in terms of price and performance.

Channell also mentioned that accessibility and storage concerns need to be addressed up front as well as the coordination of other related trades like electricians, door hardware suppliers, and network equipment suppliers.

Another vital step in assuring the success of a project is an understanding of how and when change orders are to be processed, says **Channell**. "In this day and age there should be no such thing as a verbal direction when it comes to changes in contract."

Often design and/or engineering is contracted separately from the SI. **Liguori** feels that the emergence of the security consultant has played a significant role in this arena. "As the size of the projects escalate, the separation becomes more pronounced." **Channell** says "It gives the customer more peace of mind and is always highly desirable to split up the elements." He says there are times, however that the SI has

special inherent knowledge of a customer's existing systems and infrastructure. "In these cases, it is imperative that a SI be part of the design/engineering."

Walsdorf says postponements and cost overruns can be a product of hiring SI's that subcontract and broker. "They're not going to have the control that companies like ours do." In addition, **Channell** mentioned that setbacks happen when an end-user doesn't want to pay the money needed to hire a consultant/engineer

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."



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comprehensive Request for Proposal (RFP) in place. "Applications that are clear, concise and represent the best interests of both parties are the starting point to build upon" says **Liguori**.

Walsdorf agrees: "When customers specify a design with broad-based performance specifications,



Todd Channell CEO, **Sound Incorporated**

Todd grew up in the family business and joined it full time in 1988 after playing professional hockey for three years with the Hartford Whalers. Over the past 18 years he helped to develop the company's Security Group and became owner and CEO in 2001.

to put out a quality RFP. **“Too many times a customer thinks they can save money by doing it themselves.** There is always an ROI when having professionals develop an RFP.”

Another aspect to assure that the job runs smoothly goes all the way back to the bidding process. **“Make sure the highest quality SI’s are invited to propose and the invitation is sent to the appropriate person with a return receipt requested.** You’d be surprised how many times specifications and drawings land in the wrong people’s hands, resulting in no proposal submitted” says **Channell.** He also says to delve into the depth of the SI to determine if they have the expertise down to the network level. Ask difficult questions like “What is the SI’s annual education/training budget and how much did they invest in their support infrastructure in the past year?”

In this day of convergence, it is hard to determine whether or not an SI has all of the technical skills required to complete every element of a project. There are a few things that can make it easier. According to **Liguori** “This was very difficult in the past, but now we have entered the age of certification. Ask the SI how many products they represent and to see the training certification.”

Some customers, having been burned in the past, resort to completion penalties in an effort to insure that the job finishes on time. However, overall, the SI’s interviewed found them to be largely ineffectual. “I personally do not believe that they are necessary if the parties involved are all communicating and if the schedule of values is being properly acted upon”, says **Walsdorf.** He also says **Advent** takes completion penalties seriously but that many companies ignore them and they are difficult to enforce because other parties can impact their outcome. **Channell** pointed out: “How

can an SI be held accountable when they are often a “last system” and always at the mercy of many other trades?”

A final area that all customers should evaluate is the financial strength and reputation of the SI. **Liguori suggests that financial statements can be misleading and that they are a culmination of a number of aspects.**

This notice appears as a matter of record only.



Alba Control Systems Limited, India

Has been acquired by



The undersigned advised Alba Control Systems Limited



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“Engage in direct measures by talking to suppliers, customers, and other resources that work with the SI on a regular basis.” **Channell** says to “always ask for a bank reference, ask demanding questions about key ratios, years at the bank, etc.”

Some SIs may be unwilling to give financial information out. **Walsdorf says to ask for references.** “Most savvy end-users want to talk to 3-5 people. Very sophisticated people will also ask you about business you’ve lost and why.” The quality of references is important as well. **Channell** says that a consultant or

Joe Liguori
Vice President, GM
Access Control Technologies, Inc.

Joe Liguori has been in the security business since 1982 and has worked for a variety of companies from Wells Fargo Alarm Services to Casi-Rusco. He has been with Access since 1990.



engineer is sometimes better than a direct customer. “Common sense will tell you the SI is only going to list customers in excellent standing. **A consultant will tell you if the SI is one they often include in RFP invitations and good standing.** A local ASIS chapter is a good place to get a list of security consultants and engineers.”

Another tactic in judging the SI is to visit a prospective company’s facilities on short notice. “Ask for a tour and make sure to view inventory and in-house support areas. Asking for a joint meeting with manufacturer’s representatives is always a good idea as well” says **Channell.**

Determining the perfect SI partner is demanding but quite attainable. End-users that thoroughly investigate prospective companies as well as fully and professionally plan the design and engineering of the project come out on top. Taking the time and avoiding short cuts helps to avoid delays and cost overruns. Perhaps most importantly, it lays the groundwork for a strong relationship for years to come.

Contact
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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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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

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: Compudyne (CDCY) was acquired by Gores Patriot Holdings, Inc. on September 21. **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	Stock Price 11/20/2007	Market Cap 11/20/2007	2004 Revenue (000s)	2005 Revenue (000s)	2006 Revenue (000s)	4th Q 06 Revenue (000s)	1st Q 07 Revenue (000s)	2nd Q 07 Revenue (000s)	3rd Q 07 Revenue (000s)	3rd Q 07 Incr/Decr	EVS	P/E	EVM
1		1 Faserv Corp.	13.44	848.87M	67,640	47,694	67,700	19,300	15,302	25,863	28,553	55.9%	9.04	68.57	41.60
2		3 Authentec**	17.06	9.88 - 14.46	13,835	19,243	33,174	19,243	9,295	12,300	15,057	82.7%	8.72	N/A	N/A
3		2 Cogent, Inc.	11.61	10.17 - 17.02	87,688	159,889	101,700	42,300	30,107	31,300	22,512	-3.7%	6.29	32.16	16.63
4		5 Flir Systems, Inc.	64.60	29.62 - 72.85	4,399	482,651	508,561	185,900	161,363	184,296	191,100	43.5%	5.98	37.91	20.76
5		6 General Electric Co.	38.04	33.90 - 42.15	134,291,000	147,956,000	163,391,000	44,600,000	40,200,000	42,316,000	42,500,000	3.9%	4.94	17.73	23.26
6		4 L-1 Identity Solutions Inc.	17.45	13.75 - 21.87	67,466	66,224	164,400	76,300	70,000	90,100	115,500	190.2%	4.50	34.02	35.78
7		8 Gentex Corporation	19.15	14.86 - 22.60	505,666	536,484	572,300	149,600	157,200	163,480	162,525	15.0%	3.73	22.69	13.57
8		9 Secure Computing Corp.	9.20	6.27 - 10.54	93,378	109,175	176,700	51,600	53,772	57,648	60,018	37.2%	3.00	N/A	N/A
9		7 Leascard Corp.	9.78	8.80 - 14.02	117,02M	16,963	39,857	6,184	9,238	7,855	10,700	70.0%	2.92	N/A	12.68
10		10 Zebra Technologies Corp.	36.94	32.93 - 42.50	663,054	702,271	759,524	209,900	208,576	208,912	217,218	16.5%	2.62	25.49	12.68
11		13 RAE Systems, Inc.	2.67	1.90 - 3.85	45,540	60,293	67,986	21,095	17,987	20,093	25,333	37.0%	1.94	N/A	N/A
12		11 Napco Security Systems, Inc	5.11	4.50 - 6.99	58,093	65,229	69,548	16,100	15,566	20,500	13,876	-1.1%	1.68	28.71	15.88
13		12 The Geo Group	24.23	16.94 - 32.93	614,548	612,900	860,882	247,404	237,000	258,183	267,000	22.0%	1.65	27.44	11.46
14		14 United Technologies Corp.	74.32	61.80 - 82.50	37,445,000	42,725,000	47,829,000	12,787,000	12,278,000	13,904,000	13,863,000	14.0%	1.50	18.31	9.81
15		16 Honeywell	54.51	41.49 - 62.29	25,601,000	27,653,000	31,300,000	8,280,000	8,041,000	8,540,000	8,735,000	9.8%	1.40	18.39	10.15
16		20 DRS Technologies, Inc.	141.60	94.12 - 156.96	92,688,428	90,896,136	110,797,960	25,148,000	27,805,000	27,832,810	29,960,000	9.2%	1.37	23.56	11.34
17		20 DRS Technologies, Inc.	56.01	44.11 - 59.88	1,308,600	1,308,600	1,735,532	680,400	798,900	735,600	783,800	10.2%	1.32	18.38	9.76
18		15 First Advantage Corp.	16.13	16.31 - 26.90	266,537	643,749	817,600	206,100	216,088	220,971	219,413	3.5%	1.29	14.24	6.60
19		17 The Stanley Works	50.04	48.61 - 64.25	3,043,400	3,285,300	4,018,600	1,019,300	1,062,100	1,123,000	1,131,300	11.7%	1.29	12.74	7.19
20		21 L-3 Communications Holdings	106.20	78.00 - 114.17	6,896,997	9,444,700	12,480,000	3,390,000	3,300,000	3,407,500	3,448,000	11.0%	1.29	18.93	10.98
21		18 Ingersoll Rand	49.52	37.52 - 56.66	9,393,600	10,546,900	11,400,000	2,890,000	2,668,100	2,224,600	2,240,000	9.8%	1.26	8.99	9.02
22		26 Lockheed Martin Corp.	109.87	87.64 - 113.74	45,168	35,526,000	37,213,000	10,840,000	10,840,000	10,700,000	11,100,000	15.6%	1.12	15.95	9.42
23		19 Magal Security Systems Ltd.	7.13	6.99 - 12.00	60,974	61,282	66,900	22,406	15,053	14,949	21,884	35.4%	1.10	N/A	16.21
24		25 ManTech International	38.19	29.71 - 48.45	842,422	980,290	1,137,000	290,710	294,285	348,700	385,359	35.8%	1.09	22	12.74
25		22 Checkpoint Systems, Inc	24.85	18.19 - 30.50	987,61M	778,679	687,775	216,297	171,202	195,702	204,589	22.1%	1.04	19.2	9.20
26		29 Northrop Grumman Holdings	78.81	64.63 - 85.21	29,853,000	30,067,000	30,148,000	8,021,000	7,344,000	7,929,000	7,928,000	6.7%	0.96	15.54	8.19
27		23 ActivIdentity Corp.	4.12	4.05 - 5.50	188,40M	26,910	42,156	14,600	14,884	16,284	No report	N/A	0.92	N/A	NA
28		24 Diebold	33.46	34.01 - 54.50	2,208	2,380,910	2,587,049	825,400	628,444	No report	No report	N/A	0.91	32.61	10.63
29		30 Brinks Company	58.50	52.42 - 68.47	2,84B	4,718,100	2,800,000	755,900	751,500	790,800	817,000	15.2%	0.89	13.12	6.75
30		31 OSI Systems	24.65	18.53 - 29.80	422,48M	247,069	452,686	137,500	126,498	152,700	131,013	13.4%	0.83	N/A	23.85
31		33 FirstService	33.77	21.81 - 38.29	1,01B	441,333	651,376	374,800	320,744	419,312	427,730	26.3%	0.79	24.70	9.10
32		32 Johnson Controls	36.54	26.82 - 44.46	21,708	26,553,400	27,479,400	8,200,000	8,492,000	8,911,000	9,011,000	10.6%	0.73	17.48	9.97
33		28 Directed Electronics	1.05	0.99 - 16.14	26,59M	189,869	437,778	210,299	77,933	85,634	83,461	12.0%	0.72	4.04	6.20
34		35 URS Corporation	61.40	39.99 - 64.19	3,28B	3,381,963	3,917,565	4,240,150	1,086,000	1,246,798	1,272,282	17.2%	0.69	24.36	11.48
35		37 Henry Bros Electronics	39.65	3.31 - 6.85	24,89M	29,726	42,156	14,700	10,900	13,521	15,861	91.5%	0.58	N/A	NA
36		36 Tyco International	39.65	37.46 - 137.92	19,71B	17,454,000	17,959,000	10,330,000	10,838,000	5,085,000	5,028,000	8.9%	0.55	N/A	2.91
37		38 Richardson Electronics, Ltd.	6.46	6.31 - 10.14	108.09M	520,069	578,724	165,800	160,141	146,246	129,465	-7.2%	0.27	2.77	13.51
					436,655,508	462,911,481	521,131,301	141,512,595	136,995,476	137,440,657	140,565,558	Quarterly Comparative			
		Total	1382.26	Revenue Growth:	2.8%	6.0%	12.6%	9.1%	7.9%	7.4%	8.2%	Growth	2.19	22.14	13.44
		No report - As of press time, these companies had not yet announced their Q2 Results.			Average					Average	Median	Average	27.20%	15.0%	10.98
		* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.													
		**The EVS for Authentec has been estimated.													



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