

# Security Finance Newsletter

December 2008

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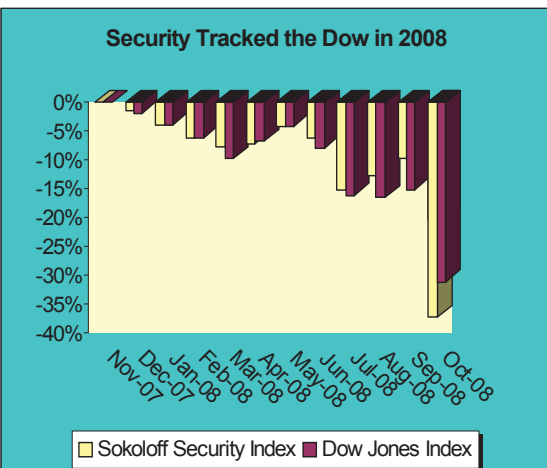
## Security Industry Outlook Better than Many Amidst Economic Doom and Gloom

Technically, the **Sokoloff Security Index** has tracked closely with the general decline in the **DOW** throughout 2008. Bleak market conditions aside, CEOs and analysts are optimistic that much of the Security business will continue to flourish even amidst a recession.

This quarter we highlight the strength the Security Industry is exhibiting in this difficult economy. Though a few of the companies on **Sokoloff's Back Page** had a rocky third quarter, the majority had good reports. Symbolic of the feelings of many industry insiders, **Earl Lewis, President of FLIR (Nasdaq: FLIR)** stated "The third quarter was another outstanding quarter...we set records for orders, backlog, revenue, operating profit, operating cash flow, and earnings per share."

Other companies reporting good news included **ICx Technologies (Nasdaq: ICXT)** which had a 31% increase in revenues and showed its first positive quarter ever with respect to adjusted EBITDA; **Secure Computing Corp. (Nasdaq: SCUR)** whose share price jumped on the announcement of being acquired by **McAfee** in late September (it was completed on November 18th) and **Mantech (Nasdaq: MANT)** which beat estimates and generated a soaring profit.

The Security Sector has shown itself to not only be resilient but according to the **Homeland Security**



**Research Corporation (HSRC)**, recession proof. In this excerpt from the analyst's recent November report, global homeland security markets and spending are given high marks:

### National Security Spending Outlook in 20 Countries: 2009-2018

The new report titled "**Global Homeland Security, Homeland Defense & Intelligence Markets Outlook 2009-2018**" concludes that on the backdrop of the global economic crisis, the HLS-HLD (Homeland Security, Homeland Defense and Counter Terror Intelligence) government & private sector budgets **will remain recession-proof and grow by 80% from \$418 Billion in 2009 to \$748 Billion by 2018.**

This forecasted HLS-HLD market growth will be impacted by several factors including:

- \* Bi-partisan commitment to homeland security in the U.S.
- \* The Chinese government's internal security concerns at times of slow economic growth.
- \* Middle Eastern HLS-HLD investments in regime stabilization to counter threats from homegrown radical Islam.
- \* India's escalating Al-Qaeda terror activities.
- \* The need to replace ineffective counter terror technologies.
- \* A global trend to Keynesian economics (expanding government-funded infrastructure outlay to curb economic recession.)

HSRC analyzed the national security spending of 20 countries. Based on each country's economic status they generated a 10-year national security spending outlook.

**The Report concludes that on the backdrop of the global economic crisis, national security spending (the cumulative national defense, intelligence, homeland security and internal security spending) will remain recession-proof in all the 20 countries reported.**

Furthermore, the new study concludes:

- Several countries like China, India, Saudi Arabia, Indonesia and Turkey, driven by internal and external security challenges,

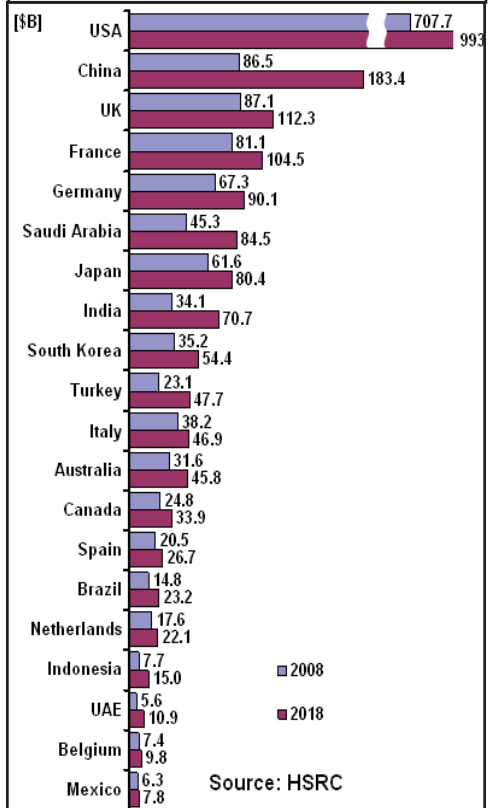
are forecasted to double their national security spending over the 2009-2018 period.

- The new research forecasts global HLS-HLD markets will experience a robust growth of 6% to 7.5% CAGR over the 2009-2018 period.
- The report concludes that the lion share of this growth will be financed by an ever-growing redirection of non-terror related national security budgets toward the HLS-HLD and counter terror intelligence sectors.

**In contrast to the weakening economy, the U.S. will spend 38-40% of the world's national security spending over the forecast period.**

This excerpt was reprinted with permission. The entire report is available for purchase at: [www.homelandsecurityresearch.net](http://www.homelandsecurityresearch.net)

### 20-Country National Security Outlay 2009-2018



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## *An Interview with Tom McMillen of Homeland Security Capital Corporation*

Sokoloff and Company had an opportunity to sit down with **C. Thomas McMillen, Founder and CEO of Homeland Security Capital Corporation (OTC:BB:HOMS.OB).**

**You have led an interesting and varied career. You were a professional basketball player, a Co-Chair in President Clinton's Council on Physical Fitness and Sports from 1993-1997, and a Congressman for Maryland from 1987-1993. How have these past jobs prepared you to run HSCC and what new ideas do you feel you bring to the industry?**

For the early part of my career I was a professional basketball player. In 1972 I was part of the Summer Olympic team that went to Munich. These were the games when five Palestinian terrorists broke into the Olympic Village, took eleven Israeli athletes hostage and killed them. Rudy Giuliani called the attacks the start of modern terrorism. It was a very vivid personal experience for me. It prepared me for what I knew would be inevitable, that terrorism would come here and I wanted to be a part of protecting our country against it.

Being a member of congress also prepared me for being part of the security industry. I know how government works which has been very helpful in building the business. Further, my entrepreneurial skills have been extremely useful as they have allowed me to understand changes in the marketplace.

**What was the catalyst that prompted**


**you to start acquiring businesses in the Homeland Security area and what drew you to the industry?**

9/11. I saw that the government was going to need help from the private sector and realized that there were going to be a lot of entrepreneurial opportunities. I felt it was a good time to step in, and as mentioned, I already had a keen awareness of the terrorist problem and it was important to me to be part of the solution.

protection and detection. At the parent level we take care of budgets, marketing and big budget development but prefer to cultivate an entrepreneurial atmosphere within our divisions. We're

*"In 1972 I was part of the Summer Olympic team that went to Munich...five Palestinian terrorists broke into the Olympic Village, took eleven Israeli athletes hostage and killed them. Rudy Giuliani called the attacks the start of modern terrorism. It was a very vivid personal experience for me."*

*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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**Please tell us how HSCC is structured and what your corporate culture is like.**

HSCC is the parent company of **Safety and Ecology Corporation**, a provider of environmental, hazardous and radiological infrastructure remediation and advanced construction services, **Nexus Technologies Group**, a security integrator, and **Polimatrix**, a system integrator and solution provider delivering radiation and nuclear

very decentralized in a lot of ways. We tend to let our companies manage themselves.

**How do all of your companies work together and support one another?**

We look for opportunities to cross fertilize and they often work together. All three deal in different areas of securing nuclear facilities and we try to use each of these company's customer relationships to leverage other parts of the business.

**How do you evaluate companies for acquisitions and how do you identify them?**

We end up getting acquisition prospects from many different sources; we have brokers that send us prospects and industry relationships also call us with ideas. We evaluate the opportunities by the quality of their management and their earnings stream. We also look at how they integrate with our business, what values they bring and the sector of growth that they occupy.

**What are the first steps of integrating newly acquired companies into HSCC so that everything flows smoothly and is a success?**

Effective communication. This is fundamentally what insures smooth integration. The first thing we do is

spend all day meeting, going through the business, understanding how it functions, working on budgets and strategic plans. Further, we have monthly management meetings and biweekly business development calls with all of our divisions to insure regular communication. Also, we don't have a big staff at the parent level so that makes it easier to integrate new operations.

**HSCC is a public company. What are the positive and negative aspects of being a public company and how has being public helped HSCC grow?**

Access to capital was the biggest reason why we went public. It's easier to raise money to grow and that's the biggest positive effect. You also end up having more attention which can help you book jobs. On the downside it's costly to be public and the focus on short term metrics can be time consuming.

**HSCC devotes a lot of resources to recruiting top management for their companies. How do you identify candidates and how do you keep them trained and at the top of their field?**

Most of our hiring is done out of our **Safety and Ecology** subsidiary. We have an HR Department that constantly recruits talent. Once we secure the talent, we do extensive training in skills and safety. Safety is very important to us. The instruction we offer is mostly front ended, once they get into a flow and start the process we don't have to do as much. However education is always necessary and ongoing.

*"Loose nukes is a serious threat and I think this product (Polymatrix) will be at the forefront of detection."*

**Charles Thomas McMillen**  
Chairman & CEO Homeland Security Capital Corporation

Mr. McMillen has led a wide and varied career. He was a professional basketball player with the NBA for 11 years, served three consecutive terms as a Congressman for Maryland, and is currently the CEO and Founder of Homeland Security Capital Corporation.



Incentives that we offer our employees include stock options and bonuses.

**What new technologies do you think will be major players in shaping the security industry?**

control. There are some products out there that help to discover nuclear isotopes, but they aren't accurate and have many false positives. This product is incredibly accurate. Loose nukes is a serious threat and I think this product will be at the forefront of detection.

**What do you see for the future of the security industry? Do you see growth, and if so, where? Do you expect the industry to become more consolidated?**

I think we will see growth and consolidation as needs expand. The government will look for larger and more scaled providers. Companies that have size and breadth are important to the government and this can drive consolidation.

**Contact**  
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about your company's merger  
and acquisition needs.  
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*This notice appears as a matter of record only.*



**digitech**  
INTERNATIONAL

has been acquired by



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*The undersigned advised Digitech International.*



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We have a technology that **Polymatrix** manufactures which is a network nuclear detection device. We just secured a major contract where 22,000 first responders will be using this equipment. It's like a pager. It has a GPS, and when it picks up a threat it can page through the network and send the information to a central service center. This adds a layer of protection so if responders detect multiple instances they're able to command and

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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

## Q3 2008 Reports and Stock Prices as of November 14, 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: DRS Technologies (DRS) was acquired by Finmeccanica.

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 11/14/2008	52 Week Range	Market Cap 11/14/2008	(000s)			(000s)			(000s)		Over Q3 2007	EVS	P/E	EVM												
							2005	2006	2007	Revenue	Revenue	Revenue	Incr/Decr	3rd Q 08																
1	2	Filr Systems, Inc.	FLIR	29.70	23.68-45.49	4.13B	508,561	575,000	779,397	276,740	44.8%	44.8%	4.35	25.49	14.89															
2	1	Cogent, Inc.	COGI	8.90	7.88-12.77	798.33M	159,889	101,657	105,794	35,032	55.6%	55.6%	4.15	19.82	10.95															
3	3	General Electric Co.	GE	16.02	14.58-38.93	159.49B	147,956,000	163,391,000	173,000,000	47,234,000	11.1%	11.1%	3.78	7.87	17.72															
4	4	Taser Corp.	TASR	3.78	3.55-16.00	233.28M	47,694	67,718	100,727	22,860	-19.9%	-19.9%	2.06	54.78	14.64															
5	6	L-1 Identity Solutions Inc.	ID	5.96	5.90-19.41	513.55M	66,224	164,386	389,508	154,464	33.7%	33.7%	1.93	17.13	14.87															
6	9	ICX Technologies, Inc.	ICXT	8.04	3.81-11.68	273.96M	31,400	90,160	136,162	44,960	31.3%	31.3%	1.74	N/A	N/A															
7	15	Secure Computing Corp.	SCUR	5.72	3.41-10.05	391.85M	109,175	176,697	237,905	62,956	4.9%	4.9%	1.39	36.43	60.00															
8	7	Gentex Corporation	GNTX	7.81	7.71-20.00	1.09B	536,484	572,267	653,933	153,057	-5.8%	-5.8%	1.27	10.7	4.97															
9	10	Lasercard Corp.	LCRD	4.70	3.02-12.94	56.53M	28,544	39,857	32,270	13,467	25.4%	25.4%	1.17	N/A	N/A															
10	12	The Geo Group	GEO	14.39	12.65-29.48	735.29M	612,900	860,882	1,027,832	265,407	-0.3%	-0.3%	1.16	13.82	8.88															
11	8	Zebra Technologies Corp.	ZBRA	19.13	16.56-38.99	1.21B	702,271	759,524	868,300	244,073	12.4%	12.4%	1.15	11.52	5.81															
12	16	Mantech International	MANT	49.59	36.60-62.06	1.76B	980,290	1,137,000	1,448,000	486,128	26.1%	26.1%	1.02	20.06	11.13															
13	17	United Technologies Corp.	UTX	50.23	43.28-79.30	47.75B	42,725,000	47,829,000	54,759,000	14,814,000	6.9%	6.9%	0.96	10.57	6.20															
14	21	First Advantage Corp.	FADV	12.02	6.99-23.40	715.02M	643,749	797,801	842,902	188,297	-9.7%	-9.7%	0.89	5.58	5.06															
15	23	The Stanley Works	SWK	31.12	28.18-53.04	2.45B	3,285,300	4,018,600	4,483,800	1,119,700	1.2%	1.2%	0.87	6.21	5.68															
16	11	Ingersoll Rand	IR	15.11	14.18-52.20	4.82B	10,546,900	8,033,700	8,763,100	4,313,200	92.6%	92.6%	0.84	1.39	5.96															
17	20	L-3 Communications Holdings	LLL	69.33	65.70-115.33	8.28B	9,444,700	12,477,000	13,961,000	3,662,200	6.2%	6.2%	0.83	9.71	6.84															
18	32	Directed Electronics	DEIX	0.32	17-2.70	8.18M	304,558	437,778	401,140	61,844	-26.8%	-26.8%	0.77	N/A	4.61															
19	19	Honeywell	HON	27.35	25.46-62.99	19.86B	27,653,000	31,367,000	34,589,000	9,275,000	6.2%	6.2%	0.75	7.40	5.53															
20	22	Lockheed Martin Corp.	LMT	72.26	68.82-120.30	28.95B	37,213,000	39,620,000	41,862,000	10,577,000	-4.7%	-4.7%	0.74	9.37	5.61															
21	29	Diebold	DBD	28.17	22.50-40.45	1.86B	2,583,000	2,940,000	2,965,000	890,290	20.2%	20.2%	0.70	24.18	7.53															
22	24	Magal Security Systems Ltd.	MAGS	5.25	4.61-9.30	68.25M	61,282	63,600	72,375	20,769	-1.2%	-1.2%	0.67	46.05	9.30															
23	18	Tyco International	TYC	20.50	18.77-47.95	9.73B	17,959,000	17,336,000	18,477,000	5,284,000	6.7%	6.7%	0.65	7.76	4.07															
24	36	Henry Bros Electronics	HBE	6.75	3.96-7.25	39.97M	42,156	42,132	57,852	12,262	-22.7%	-22.7%	0.61	40.18	12.95															
25	13	Napco Security Systems, Inc	NSSC	1.71	01-6.45	32.65M	65,229	69,548	66,202	17,483	26.0%	26.0%	0.60	9.10	9.51															
26	26	Siemens AG	SI	53.60	43.89-160.37	47.00B	90,896,136	98,203,790	106,035,000	28,350,000	4.1%	4.1%	0.58	4.86	5.04															
27	25	Checkpoint Systems, Inc	CHKP	11.10	10.43-28.38	429.56M	717,992	687,775	834,156	233,995	14.4%	14.4%	0.55	7.96	5.17															
28	31	Northrop Grumman Holdings	NOC	40.34	37.23-83.49	13.19B	30,113,000	30,148,000	32,018,000	8,381,000	6.5%	6.5%	0.50	8.06	4.70															
29	30	OSI Systems	OSIS	10.96	10.34-27.47	195.52M	385,041	452,686	532,300	148,161	13.1%	13.1%	0.39	12.27	5.41															
30	34	URS Corporation	URS	27.45	19.94-64.19	2.29B	3,917,565	4,222,869	5,383,007	2,588,091	104.1%	104.1%	0.38	10.78	7.12															
31	27	RAE Systems, Inc.	RAE	0.75	68-2.92	44.59M	60,293	67,721	90,836	28,845	13.9%	13.9%	0.36	N/A	18.66															
32	35	Johnson Controls	JCI	15.36	14.58-39.64	9.12B	27,479,000	32,236,000	34,624,000	9,307,000	3.3%	3.3%	0.35	9.43	4.88															
33	28	Brinks Company	BCO	21.06	20.49-74.61	963.90M	2,793,300	2,800,000	3,219,000	948,800	16.1%	16.1%	0.25	4.90	1.67															
34	37	Richardson Electronics, Ltd.	RELL	3.46	3.59-7.35	61.98M	578,724	529,097	557,291	138,947	7.3%	7.3%	0.16	N/A	4.63															
35	33	ActivIdentity Corp.	ACTI	1.69	1.41-4.20	77.38M	42,156	53,375	59,553	15,648	13.6%	13.6%	0.00	N/A	0.40															
36	5	AuthenTec	AUTH	1.73	1.50-18.70	49.51M	19,243	33,174	52,344	18,409	22.3%	22.3%	0.00	22.47	N/A															
<b>Sokoloff Index</b>															701.36											Quarterly				
															Growth over previous period															
															461,268,756		502,402,794		543,485,686		149,388,085		From Q2 2008:							
															6.1%		8.9%		8.2%		-0.4%		Average		14.97%		1.07		15.86	
															701.36		701.36		701.36		701.36		701.36		701.36		701.36		701.36	
															6.1%		8.9%		8.2%		-0.4%		Median		9.2%		0.76		10.64	
															701.36		701.36		701.36		701.36		701.36		701.36		701.36		701.36	

\* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues.



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