

# Security Finance Newsletter

December 2009

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Volume V, Issue 4

## 2010 Outlook is Promising

2009 began amidst much doom and gloom. This gave way to growing optimism in the Spring as the market steadily improved and order volumes increased. The Sokoloff Index\* has shown a promising upward trend with the majority of companies regaining ground lost in 2008 and Q1 2009.

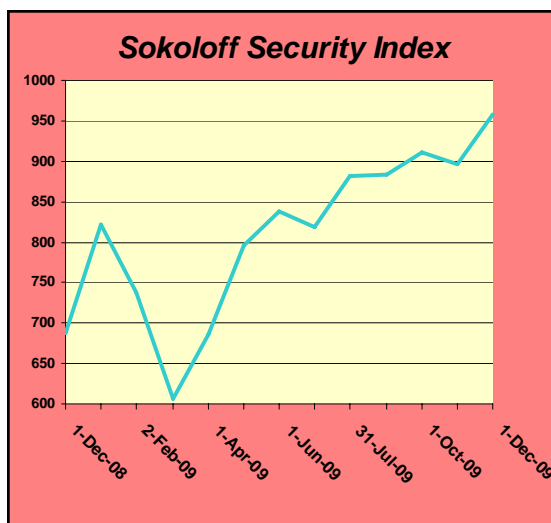
Ending the third quarter on a high note and pushing strong into the fourth period are **ICx Technologies** and heavy hitters **Johnson Controls, Tyco, and IR**. Positive results from four of the largest security companies in the world signal a bright landscape for 2010.

**ICx Technologies, Inc. (ICXT)**, a developer for advanced sensor technologies, jumped in the rankings from 26 to 19. Slowly bouncing back from its low on April 27 of \$3.65 the company has shown consistent and steady growth.

ICXT had two contract awards in October which kept stock prices steady, including one for the **Department of Homeland Security** to participate in a FY2010 mass transit security pilot program and one for the **Pentagon Force Protection Agency** valued at \$3.6 million. After being ranked number 27 in *Deloitte's 2009 Technology Fast 500*, **Colin Cumming, CEO of ICXT**, said, "It is rewarding to see our company ranked so highly overall on a list such as the Technology Fast 500, but particularly so when we

have the second highest revenue growth for scientific and technical instrumentation companies."

**Johnson Controls, Inc. (NYSE:JCI)**, also performed well in the index, moving six spots from 29 to 23. Their low came on March 11 of \$8.68 and they have shown a nearly perfect upward trend since then with their highest stock price on November 18 of \$28.30 - more than triple their low! **By cutting costs and operational**



**improvements JCI posted a fourth quarter profit and backed their guidance as well as beating both top and bottom line forecasts.** Reliable as ever they announced a dividend of thirteen cents per share on November 18 having paid steady dividends since 1887.

**Tyco International, Ltd. (NYSE:TYC)** rose from 18 to 14 in the rankings.

**TYCO has nearly mirrored Johnson Controls' upward stock trend.** Like JCI, the low for the year came in March and their high, like JCI, came on the exact same day in November. On March 9 the stock was selling for \$17.06 but by November 18 they had more than doubled their share price to \$37.08. Like JCI, throughout the year, the company actively pursued cost cutting programs which are expected to provide savings of \$175 million in 2010. **A growing service revenue base primarily from ADT (which grew 4% over the year) also gave them stability and accounted for 40% of corporate revenues.**

**Ingersoll-Rand Plc (NYSE:IR)** had a nice quarter with an uptick in the index from 20 to 16. Like JCI and TYCO, the lowest point of the year came in March at \$11.69 and the highest point in November was \$37.23. **IR's acquisition of Trane in June appears to have integrated nicely and confident shareholders have snapped up the stock feeding steady share price growth.** A consistently strong company, IR has paid dividends since 1919 and according to **Herbert L. Henkel, Chairman and CEO**, "Though our revenues were flat in the third quarter we delivered sequentially improving margins and adjusted EPS near the top of our guidance."

\*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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## **A CHAT WITH ORAD GROUP** **Ariel Adoram/Managing Director**

Orad Group is a security systems integrator based in Israel. The company has several divisions: Security, Safety, Traffic Management, Communications, Electrical Engineering and Environmental Technologies. Orad's Managing Director, Ariel Adoram talks about his business.

### **Please describe Orad's basic business.**

Orad began in 1971 as a fire safety company and soon discovered that customers were looking for a "one-stop-shop" integrator that could provide a complete enterprise low voltage solution. We expanded our low voltage capabilities by acquiring and merging additional product lines into our offerings. We ultimately built a company that is able to package and deliver virtually every low voltage element to our customers.

Our practice also encompasses the larger electronic security battlefield. Today, Orad solutions may include biometric access control, perimeter security and the integration of different sensors, radars and night vision into our 360° perimeter command & control software.

### **How do your divisions work together on projects and how do they help one another to achieve goals?**

Orad has become a global integrator. Our latest acquisition, in August of 2008, was **AFSK Industries Ltd.**, a manufacturer and installer of low voltage systems, transformer stations, motor control centers, fire detection and protection systems and communication and power lines. AFSK encompasses low, medium and high voltage products and services. The two companies share many synergies. With AFSK, Orad now covers low voltage control and communication systems, SCADA (Supervisory Communications and Data Acquisition) and electrical engineering. **These different areas and divisions all work together to give us a comprehensive package that is equivalent to some of the world's leading engineering and integration conglomerates like Siemens,**

**ABB, and Schneider.** Moreover, we are able to offer a better price performance ratio by leveraging our experience and proprietary products against a detailed value engineering design.

### **In today's economy, describe what you have done to keep your divisions focused on your overall long-term strategy and core business.**

Luckily we entered the crisis with a projects backlog of over US\$150 million so we were able to be a bit more selective with new

**"Throughout the years, even during our IPO and the intensive M&A, we have been able to maintain closeness and continue to carry forward the flavor of a family business."**

and the intensive M&A, we have been able to maintain closeness and cooperation among our employees and continue to carry forward the flavor of a family business. Orad team members are very committed to our customers and oriented to the goals and strategies that generate innovative and value engineered solutions.

### **How do you find, retain and train your employees?**

At Orad we believe that our loyal and committed employees are within, and we work hard to make sure they stay with us. Therefore, from the entry level, we identify, select and promote people to go through our internal training school. In addition we use our overseas offices and projects as grounds to further allow individuals to develop and grow into managerial positions. **We have found that shifting people between divisions helps us to maintain the Orad culture and to promote the cross sale of products and services.**

### **Tell us about a difficult project that Orad did and how you were able to successfully complete it.**

One of our really challenging projects was the implementation of a comprehensive security system for the UN mission to Africa in Nairobi, Kenya. The project was comprised of perimeter fence and outdoor sensors, CCTV systems with digital recording and video analytics, access control, intrusion detection, as well as fire detection and voice evacuation systems. All sub systems were to be integrated into one command and control center installed in a bullet proof guard house (which we also had to upgrade). The project was in an unknown country to us and had to be finished within a twelve month period. Not only was it a technical challenge, but also a logistics and implementation challenge.

By going with a strong on-site project management team of expatriates and lots of support from headquarters, we were able to complete the project *before* schedule and within the budget.

### **What type of maintenance support do you offer customers?**

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



**LEHAVOT**  
SERVICES LTD.

A subsidiary of Orad Group Ltd.   
**ORAD**

has been acquired by



*Cool down.  
Fire Protection by*  
**MINIMAX**

**The undersigned advised Orad Group Ltd.**



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projects and keep to our vision of building the company as a specialized integrator. Further, during 30 years of operations Orad has accumulated thousands of maintenance contracts which produce stable revenues. Those contracts have always been a major help in times of economic downturn. Also our international spread has allowed us to focus on regions such as Africa, India, and Latin America where the impact of the slowdown was not felt as deeply as in the rest of the world.

### **What is your corporate culture like?**

Orad started as a family business. Throughout the years, even during the IPO

**Orad maintenance is twenty percent of our annual budget.** So, as you can see, we invest a lot of resources in supporting our customers. We operate both a contact center to provide hot-line support as well as a call center for technician dispatch for preventive maintenance and on-call service.

**Orad has an international reach. How has this helped shape the company and its growth and success?**

Orad's strategic plan was to operate in developing countries where our solutions are relevant and where we could find a competitive advantage. We started in the Balkans then later spread out to Africa and India. With the AFSK acquisition we inherited additional markets such as Euro Asia and Latin America. The overseas expansion started some five years ago and has grown so much that our backlog there is even larger than our local one! Of course we intend to keep our local market share; however, we see significant growth coming from our overseas activities.

**How does the company secure work abroad and how do you ensure that your work is consistent across such a large area?**

Orad's project implementation strategy starts at the pre-sales stage where our design engineers consider different product selection, system architecture and value engineering. Once decisions have been made, the successfully awarded products move into our project execution department where we go into detail design to ensure we have no technological gaps. Finally, it's handed off to a management team which is headed by an experienced expatriate who is familiar with our philosophy and implementation strategy, or as we call it, the "Orad Way."

The supervision of the Orad Engineering department as well as our financial controls helps to keep our project implementation within time & budget. For example, Orad was awarded the Larnaca (Cyprus) International Airport security system back in

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**Ariel Adoram**  
Managing Director, Orad Group

Mr. Adoram has been with Orad for fourteen years. Previous to this he worked as the General Manager of Hotelo Ltd., an electronic system provider for the Hotel industry and also was the project manager for Megason Electronic Ltd. a company that specializes in systems for high security facilities. Ariel has three degrees: an M.B.A. from Bradford, a Masters of Law from Bar Ilan University and a BSc. Computer Science from the University of Toronto.



mid 2007 with a target for the new airport to be opened in Nov 2009. Last week, Nov 11, the first flight landed at the new airport, thus another project completed right on time.

**How does being based in Israel help and hinder Orad in acquiring new business?**

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

**Quanta Systems**



**A CompuDyne Corporation  
Portfolio Company of the Gores Group**

has been acquired by

**BLACK BOX**  
NETWORK SERVICES

*The undersigned advised CompuDyne.*



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Israel is very well known both for its technological solutions as well as for its security needs, therefore, being an Israeli based security company has many advantages. Also, our overseas operations are building their own awareness, so as time passes by, and local experience is gained, they become more and more "local" and require less need for Israeli experience and support.

Naturally, Orad is somewhat limited in its ability to operate in some parts of the Middle East; however, there are a lot more regions where our Israeli origin is of major help to our business.

**Tell us your vision for the security industry and Orad as a whole.**

The security business has been growing at a two digit pace for some time now, and we expect this tendency to continue. As the market expands, some of the security solutions become more of a "commodity" that local players can be part of. However, as the technology develops, it is also becoming more complicated to integrate innovative solutions and keep up with the amount of niche products from all over the world.

Orad has a strategy of being independent of any specific product range. By having so many manufacturers as partners, we can better tailor a "best of breed" solution to our customers. I believe that the independent integrator will get stronger over time, as there is no "one" supplier that can have a leading product across its range, and since the mixing of different products from different suppliers require high integration and engineering capabilities, I see Orad's success continuing as we expand into additional markets.

**Contact  
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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 2009 Reports and Stock Prices as of November 23, 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. First Advantage (FADV) was delisted from the exchange and removed from the index.

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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\*USA LISTED COMPANIES

Current Rank*	Previous Rank*	Company	Symbol	Stock Price 11/23/2009	52 Week Range	Market Cap 11/23/2009	2006 Revenue (000s)	2007 Revenue (000s)	2008 Revenue (000s)	3rd Q 09 Revenue (000s)	Over Q3 2008 Incr/Decr	P/E	EVS	EVM
1	2	Sourcefire, Inc.	FIRE	21.15	3.89-24.53	568.81M	44,926	55,859	75,673	27,423	35.2%	128.18	5.00	67.72
2	4	Genetex Corporation	GNTX	17.32	7.01-17.83	2.39B	572,267	653,933	623,800	155,742	1.8%	98.41	4.05	20.12
3	1	Cogent, Inc.	COGT	8.93	8.90-14.40	801.42M	101,657	105,794	125,861	28,868	-17.6%	23.38	3.89	11.75
4	3	General Electric Co.	GE	16.02	5.87-19.30	170.57B	163,391,000	172,488,000	182,515,000	37,799,000	-20.0%	14.83	3.86	25.26
5	5	Flir Systems, Inc.	FLIR	29.80	18.81-32.31	4.52B	575,000	779,397	1,076,974	285,553	3.2%	20.18	3.64	10.85
6	6	Taser Corp.	TASR	4.20	2.54-5.88	260.27M	67,718	100,727	92,846	23,311	2.0%	N/A	2.16	N/A
7	8	Zebra Technologies Corp.	ZBRA	27.52	16.00-28.33	1.62B	759,524	868,279	976,700	200,778	-17.7%	N/A	1.81	13.00
8	9	Protection One, Inc.	PONE	6.54	.83-7.00	165.68M	270,552	347,871	372,021	92,560	-1.6%	N/A	1.67	7.26
9	7	L-1 Identity Solutions Inc.	ID	6.27	3.23-9.50	572.24M	164,386	389,507	562,872	172,533	11.7%	N/A	1.58	14.72
10	10	Brady Corporation	BRC	30.84	14.39-33.10	1.61B	1,018,436	1,362,631	1,523,016	287,203	-27.6%	29.68	1.55	9.78
11	11	The Geo Group	GEQ	20.24	10.98-22.78	1.04B	860,882	976,299	1,043,006	294,865	16.3%	15.69	1.42	9.11
12	13	The Stanley Works	SWK	49.73	22.61-51.20	4.00B	4,018,600	4,360,500	4,426,200	935,500	-16.3%	22.91	1.35	9.24
13	14	United Technologies Corp.	UTX	68.73	37.40-69.96	64.44B	47,829,000	54,759,000	58,681,000	13,375,000	-11.3%	16.38	1.33	8.55
14	18	Tyco International	TYC	36.50	17.25-37.33	17.30B	17,336,000	18,477,000	20,199,000	4,421,000	-16.3%	N/A	1.13	7.55
15	15	Honeywell	HON	38.68	23.06-40.55	29.51B	31,367,000	34,589,000	36,556,000	7,700,000	-17.0%	13.34	1.10	8.13
16	20	Ingersoll Rand	IR	36.18	11.46-37.60	11.58B	8,033,700	8,763,100	13,227,400	3,482,700	-19.3%	N/A	0.95	11.17
17	31	Siemens AG	SI	99.13	47.53-103.08	85.89B	84,651,000	92,241,000	98,453,000	27,296,000	-4.3%	N/A	0.86	17.60
18	22	Napco Security Systems, Inc.	NSSC	1.66	.76-2.86	31.7M	69,548	66,202	68,367	14,465	-17.3%	N/A	0.81	N/A
19	26	Cx Technologies, Inc.	ICXT	5.11	3.60-8.48	176.27M	90,160	136,162	171,739	42,820	-3.4%	N/A	0.81	51.14
20	21	L-3 Communications Holdings	LLL	78.32	57.12-82.65	9.10B	12,477,000	13,961,000	14,901,000	3,842,000	4.9%	9.80	0.80	6.74
21	16	MiamiTech International	MANI	44.97	32.86-60.62	1.61B	1,137,000	1,448,000	1,870,000	514,630	5.9%	15.1	0.78	8.04
22	17	LaserCard Corp.	LCRD	6.23	2.05-9.84	76.22M	39,857	32,270	37,008	15,716	16.7%	19.47	0.76	5.69
23	29	Johnson Controls	JCI	27.24	8.35-28.34	18.28B	32,236,000	34,624,000	38,062,000	7,867,000	-15.5%	N/A	0.75	19.58
24	19	Checkpoint Systems, Inc.	CHKP	14.55	6.06-18.10	567.45M	687,775	834,156	917,082	194,078	-17.1%	N/A	0.73	7.81
25	25	Lockheed Martin Corp.	LMT	77.28	57.41-87.06	29.21B	39,620,000	41,862,000	42,731,000	11,056,000	4.5%	10.10	0.68	5.93
26	24	Diebold	DBD	26.43	19.02-33.18	1.75B	2,940,000	2,947,481	3,170,080	645,222	-25.8%	67.94	0.67	7.61
27	23	Magal Security Systems Ltd.	MAGS	3.70	3.46-6.40	38.47M	63,600	72,375	70,355	17,682	14.8%	N/A	0.66	N/A
28	30	OSI Systems	OSIS	20.00	10.15-21.23	351.02M	452,686	532,284	623,088	133,761	-9.7%	25.87	0.62	7.64
29	32	Northrop Grumman Holdings	NOC	56.05	33.81-56.46	17.59B	30,148,000	31,828,000	33,887,000	8,726,000	4.1%	N/A	0.57	5.54
30	28	Henry Bros Electronics	HBE	5.49	3.77-7.52	33.13M	42,132	57,852	62,358	12,109	-1.2%	54.90	0.41	12.80
31	27	RAE Systems, Inc.	RAE	0.76	28-2.23	45.17M	67,721	90,836	95,358	19,909	-31.0%	N/A	0.41	N/A
32	33	URS Corporation	URS	43.47	22.35-53.12	3.65B	4,222,869	5,383,007	10,086,289	2,318,500	-10.4%	12.49	0.39	7.07
33	34	ActivIdentity Corp.	ACTI	2.34	1.07-3.04	107.26M	53,375	59,553	59,009	14,500	-5.8%	N/A	0.38	N/A
34	35	Brinks Company	BCO	23.37	19.39-32.36	1.12B	2,837,600	2,735,000	3,164,000	801,800	-1.4%	9.60	0.38	3.92
35	36	Richardson Electronics, Ltd.	RELL	6.31	2.47-6.46	113.04M	529,097	557,291	568,409	109,492	-21.2%	N/A	0.26	15.98
36	37	AuthenTec	AUTH	2.29	1.26-3.45	65.65M	33,174	52,344	63,948	10,267	-44.2%	N/A	0.25	N/A
<b>Sokoloff Index</b>										488,809,242	528,597,710	571,138,484	132,933,987	
Growth over previous period										Over Q2 2009:				
Average										4.8%	8.1%	8.0%	0.9%	
Median														
Quarterly Growth										-7.01%	-7.8%	32.01	1.36	13.91
Growth													0.84	9.18

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