

Security Finance Newsletter

March 2014

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Volume X, Issue 1

4th/1st QUARTER MERGERS & ACQUISITIONS

Buyer: SECURITY PARTNERS is an alarm company.

Seller: MACE CENTRAL STATION is an alarm monitoring center located in Anaheim, FL.

Buyer: L-3 COMMUNICATIONS (NYSE: LLL)

Seller: MUSTANG TECHNOLOGY GROUP develops and manufactures radar-based sensors. HQ are in Plano, TX. They have about 115 employees with expected 2013 revenues of \$36M.

Buyer: ZEBRA TECHNOLOGIES

Seller: HART SYSTEMS provides cloud-based physical inventory management solutions and is owned by TOPSPIN PARTNERS LBO. Hart is based in Hauppauge, NY.

Buyer: SEAGATE TECHNOLOGY (NASDAQ: STX)

Seller: XYRATEX (NASDAQ: XRTX) is a data storage company with HQ in the UK. They have 1,931 employees with TTM Revenue of \$894.15M

Buyer: MOTOROLA SOLUTIONS (NYSE: MSI)

Seller: TWISTED PAIR SOLUTIONS is a software company which provides integrated voice, text messaging, location and presence.

Buyer: FIREEYE (NASDAQ: FEYE)

Seller: MANDIANT provides endpoint security and incident response management solutions.

Buyer: AVIGILON is an HD surveillance provider.

Seller: VIDEOIQ (NASDAQ: FIRE) is a Billerica, Mass.-based video analytics company.

Buyer: PALO ALTO NETWORKS (NYSE: PANW)

Seller: MORTA SECURITY is a cybersecurity company based in the Silicon Valley.

Buyer: VERINT (NASDAQ: VRNT)

Seller: KANA SOFTWARE is owned by PE Firm ACCEL-KKR. They provide CRM solutions.

Buyer: SECURADYNE is a systems integrator.

Seller: INTELLIGENT ACCESS SYSTEMS is a systems integrator based in Garner, NC with 65 employees and \$16.7M in 2012 Revenue.

Buyer: SECURTEK MONITORING SOLUTIONS

Seller: SCOTT SECURITY SYSTEMS is an alarm and video surveillance installation and monitoring company with HQ in Burnaby, British Columbia.

Buyer: MERCAPITAL is a PE Firm.

Seller: SALTO SYSTEMS manufactures electronic locks with 290 employees based in Spain. They sold 22% of the business to MERCAPITAL.

Buyer: GOOGLE (NASDAQ: GOOG)

Seller: NEST LABS develops thermostats and smoke detectors and are based in Palo Alto, CA.

Buyer: ALARM CAPITAL ALLIANCE

Seller: HAWK SECURITY SERVICES' RESIDENTIAL DIVISION FROM INTERFACE SECURITY SYSTEMS (ISS).

Buyer: SECURITY EQUIPMENT COMPANY is a monitoring and systems design company.

Seller: ASSETS OF PROFESSIONAL SECURITY CONSULTING & DESIGN. The monitoring company has HQ in Knoxville, TN.

Buyer: VMWARE (NYSE: VMW)

Seller: AIRWATCH (NASDAQ: NTSC) provides mobile management and security solutions and is based in Atlanta, GA.

Buyer: HID GLOBAL

Seller: IDENTRUST provides digital identities and is expected to generate \$14 million in sales in 2014. They are based in SF and have 63 employees.

Buyer: AMERICAN ALARM AND COMMUNICATIONS

Seller: AAA CUSTOM ALARM SYSTEMS is an alarm company based in Warwick, RI.

Buyer: ASG is an alarm company.

Seller: NATIONAL ALARM SYSTEMS is based in Ft. Lauderdale, FL and has 36 employees.

Buyer: UNIVERSAL PROTECTION SERVICE

Seller: INTERNATIONAL SECURITY MANAGEMENT GROUP provides security and risk management services. HQ are in Atlanta, GA.

Buyer: KABA provides of access control solutions.

Seller: TASK SISTEMAS DE COMPUTAÇÃO provides Workforce Management, Access Control, Closed-Circuit Television and ID Solutions. HQ are in Brazil.

Buyer: B SAFE is an alarm company.

Seller: TATRA SECURITY SYSTEMS and RADAR SECURITY SYSTEMS are both alarm companies. Tatra has HQ in Franklin Lakes, NJ while Radar's HQ are in Mantua, NJ.

Buyers: CARLYLE GROUP is a VC Firm.

Seller: TYCO FIRE & SECURITY SERVICES KOREA CO. LTD. is a division of TYCO (NYSE: TYC). Based in Seoul, it is expected to have fiscal 2014 revenue of around \$600M.

Buyer: ADS SECURITY is an alarm company.

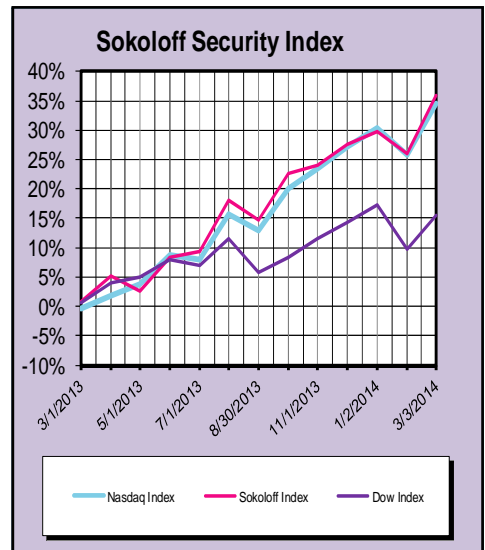
Seller: ADVANCED ELECTRONIC SOLUTIONS (AES) and GUARDIAN SECURITY SYSTEMS are alarm companies with HQ's in Alabama.

Buyer: L-3 COMMUNICATIONS (NYSE: LLL)

Seller: DATA TACTICS CORPORATION has around 200 employees and provides big data analytics and cloud computing solution services. HQ are in McLean, VA.

Buyer: VYANET OPERATING GROUP is a systems integrator and alarm monitoring company.

Seller: GUARD PRO PROTECTION SERVICES has HQ's in Tucson, AZ.



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AN INTERVIEW WITH JOHN MOSS, PRESIDENT OF S2 SECURITY

This quarter Sokoloff and Company does a follow up interview with **John Moss, CEO of S2 Security Corporation** - an independent manufacturer of IP-based physical security and video management systems. We talked with Mr. Moss in January 2009 and are checking back in to see how the industry has changed in regards to the Cloud and what predictions have come true as well as what goals have been reached by S2.

The last time we interviewed you, you were quoted as saying "What interests me about the security field is that it changes, but in a way that's manageable. It has an appreciation for technology but moves at a pace that's accessible and it doesn't require a huge investment."

With all the talk on cloud applications and the race to change over, does your quote still hold true and how do you feel the industry as a whole is embracing the new technology?

The one thing to remember about the electronic physical security industry is that it tends to lag technology in general by 5 to 10 years. Back in 2004 we introduced a product that uses a web browser and an IP network to control access control and alarm devices on the property - today we still have almost no competitors in this area. This has been a plus for us being ahead of the curve, but we also have to be aware that we can't be too much ahead. **We have to be astute observers of technology, not picking up on every trend, but determining which will be successful and easily adoptable in the market.**

I think the industry as a whole is embracing cloud technology but most of the physical security players are not about selling tech but about selling hardware. The big guys don't often make investments in it. You see startups embrace cloud technology and try to do things with it - some of which make sense and some which don't. For example, there's a lot of talk about putting video in the Cloud and there are companies attempting this. But if you look at the economics of loading video into the Cloud and how practical it is, it's been lackluster. You might like the idea of giving a customer the ability to store video off site on the Cloud, but when you look at the amount of bandwidth necessary, the equipment needed, and how long it takes (you have to be selective with what you

store because of the Internet bandwidth required) it becomes expensive and impractical.

People often refer to companies like Apple TV, TIVO and Roku as an example of how fast video can stream from the cloud. But what they forget is that when you're watching a movie, you're watching ONE camera, vs. security which can have many. So, on the surface it's a good idea, but practical limitations which are bigger than the security industry get in the way of making it realistic.

What do work are ideas such as putting access control in the Cloud like what BRIVO has done. This makes much more sense because

"We have to be astute observers of technology, not picking up on every trend, but determining which will be successful and easily adoptable in the market."

Customers will opt in to receive the service, which will be billed yearly. We'll also sell the product with software updates and a technical support plan. The cloud monitoring system tracks systems on site and will tell us if something is working. If it's not then an email will go out to the integrator to fix the problem. This is very useful - especially when it comes to video systems. Often, people don't watch video in real time so they don't know their cameras have failed. We're looking to predict the failures before they happen.

Health monitoring in the cloud is handy for systems of all sizes - the small guys want it because they have no security department, no one to look at whether things are working correctly or not; the big guys want it because they have so many systems and it makes their job a lot easier to pinpoint which products aren't working.

Back in 2009 you told us that S2 was growing more than 30% a year due to the types of web technology products you were developing. Has the industry caught up with you and how do you continue to keep your market share?

Currently we're growing about 34% a year which is still way ahead of how fast the addressable market is (5% - 8%). Has the industry caught up with us? No. In fact, I'm always amazed that they haven't done better. About 10% out there are really in the know technologically but 90% are still behind.

I think we are able to keep and grow our market share because we have such a range of products - you can put what we have in a house or in a really large distributed network - such as a pharmaceutical or insurance business. Sure, there are degrees of sophistication between those, but we have the full range of product. Further, most companies have a surprisingly small tech development area; their sales department is huge while their engineering department is small. At S2 they're nearly the same size. This gives us a distinct advantage - provided that we continually innovate.

There is a lot of concern about security when using the Cloud. How does S2 keep data safe and what types of systems are in place to make sure that anything that is lost can be recovered?

The first thing to realize is that all cloud systems get hacked. You have to expect that if there's data of any value, someone is going to try and get it. But, there are also standard types of security and defense measures so it's not too difficult

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Red Oak Growth Partners

INSIGHT VENTURE PARTNERS

 **EGIS**
CAPITAL PARTNERS

Have invested in

CSSN
Card Scanning Solutions

The undersigned advised Card Scanning Solutions, Inc.

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it doesn't suffer the technical problems that video does. But, it also doesn't add a lot of value. Sure it's nice to have an access control system off site, but monetarily it may not be that much of plus.

We believe where cloud service does have impact, is in health monitoring; where you monitor how systems are doing within a space.

What exciting avenues do you see for S2 with regards to the Cloud?

As mentioned above, health monitoring is one way the Cloud really can be useful. We're currently building a system such as this right now.

to find solutions. Also any company dealing in the Cloud has to be completely concentrated on security because they know if they fail and information is stolen, their company will most likely fail as well. So, there's huge attention on making sure protocols are followed. We have to focus on it especially when we sell to large scale enterprises as we will find ourselves in front of the CIO and have to explain how we protect their assets. With some work you learn techniques to keep information safe and it's never been a stumbling block for us.

Tell us about customer support and the Cloud?

It's way better for the customer to have things in the Cloud when it comes to support. For example, in the old days, when you would call the cable company about a problem, they would have to send a truck out to you, you'd have to sit and wait for them all day, and they'd be in your space while you were trying to work. With the Cloud available, the customer support person can immediately look at your system and tell you the status of what's wrong and advise you on how to fix it. From a service standpoint, the Cloud is terrific.

Is it hard for companies to switch over to your system? How do you make this a smooth transition especially for businesses which are old school?

There are two pieces required for a smooth transition. Technology and service. On the technology side, we build to be able to migrate systems, sometimes replacing hardware, sometimes software. On the service side we have a team of professional service folks in communication with the customer helping to keep things running smooth.

How do you anticipate the Cloud changing the security world over the next ten years?

Let's think about 10 years ago in 2004 – the question would have been about mobile devices and solid state disks for storage. Today, those have both changed not just the security industry but life in general. So cloud technology will change not just the security industry but everything just as mobile and solid state disks did.

The smarter security systems manufacturers

JOHN MOSS
President, S2 Security Corporation

John has been in the security industry for 25 years. During this time he founded and served as CEO of Software House (now a unit of Tyco International) and has provided the vision behind several generations of integrated systems technology.



will find a way to leverage those technologies and use them to create great products.

When we spoke to you in 2009 you said that "Five years out we see a range of products including large to small scale systems, propriety and service monitoring." Are you in position to bring those to market this year?

We are right on track. Health Monitoring will

much. **In the middle of 2013 we saw a shift. There was a pent up demand for larger scale systems and freer capital spending. We expect this to continue through 2014.** A lot of very large companies are now looking to expanding and improving their building systems.

Therefore, we have introduced some large sale systems and these sell very well. That is not to say that we have lost our focus on the middle market – this is actually the largest area for us. We'll sell a couple dozen large systems over the year whereas in the middle market we'll scale about 400 systems a month. So we are keeping our eyes on both markets.

How is S2 planning to grow – organically or through mergers and acquisitions? Where do you see the company five years from now?

We always grow organically where we can, where it makes sense. The challenge with M&A is that most candidates are behind us technologically. The larger companies' selling point may be that they have a large customer base and a large sales force; but S2 already has both of those. So, M&A is not so obviously attractive to us. **We're more like an Apple or Google that if we were to acquire a company it would be in cherry picking tech.**

We have a very strong growth trend, we run regression numbers and it's a nice line. We expect that five years from now, S2 will be around four times the current size.

Contact
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Please contact Bernie Walko, Managing Director for a confidential consultation about your company's merger and acquisition needs.
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Do you receive our free weekly e-mail Security Newsletter Update? If not, please adjust your spam filter or sign up easily on-line at www.sokoloffco.com.

While at our website, surf around. There's plenty of useful information, including valuation case studies and our archive of newsletters tracking historical industry performance.

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

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dmn

DMN Ltd., UK

Has been acquired by

THE GORES GROUP

The undersigned advised DMN Ltd.

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go into effect at the end of year and we have developed both large and small scale systems - in fact, we have the largest of the large and close to the smallest of the small.

The economy has changed a lot since we talked to you last. Back in 2009, you stressed the need to have an increased emphasis in lower cost systems that weren't so capital intensive. Did you maintain this ideal and has it changed? What is your focus now?

The ideal has definitely changed because the market has changed. In 2009, due to the poor economy, companies waited to upgrade and/or downscaled personnel and didn't need quite as

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES Q4 2013 Reports and Stock Prices as of March 20, 2014

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.

Changed from last quarter: Ingersoll Rand (NYSE: IR) spun off its security division in early December and rebranded it as the public company Allegion (NYSE: ALLE).

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 3/20/2014	52 Week Range	Market Cap 3/20/2014	(000s) 2011 Revenue	(000s) 2012 Revenue	(000s) 2013 Revenue	(000s) 4th Q 13 Revenue	Over Q4 2012 4th Q 13 Incr/Decr	P/E	EVS	EVM
1	1	Taser Corp.	TASR	18.09	7.24-20.83	938.36M	90,028	114,753	137,831	40,025	24.6%	53.21	6.53	26.53
2	2	Roper Industries, Inc.	ROP	135.03	118.01-142.53	13.44B	2,797,089	2,993,489	3,238,128	889,173	7.4%	25.15	4.74	14.84
3	3	Gentex Corporation	GNTX	31.49	19.01-34.41	4.59B	1,023,762	1,099,560	1,171,864	326,770	25.5%	20.32	3.84	12.17
4	5	Flir Systems, Inc.	FLIR	34.65	23.00-35.44	4.88B	1,544,062	1,405,358	1,496,372	400,319	3.6%	28.40	3.11	14.06
5	6	Ventri	VRNT	47.13	32.25-48.99	2.52B	726,799	782,648	839,542	224,314	11.3%	45.01	3.08	15.30
6	16	Allegion	ALLE	54.17	40.24-55.78	5.21B	2,021,260	2,046,600	2,093,500	550,600	0.8%	168.02	2.98	15.24
7	8	Zebra Technologies Corp.	ZBRA	71.05	42.51-72.76	3.58B	983,488	996,168	1,038,159	284,539	12.4%	26.98	2.94	15.73
8	4	ADT	ADT	29.07	27.93-50.35	5.33B	3,110,000	3,228,000	3,309,000	839,000	3.7%	15.81	2.85	6.90
9	7	The Geo Group	GEO	31.26	30.11-39.35	2.23B	1,407,172	1,479,062	1,522,074	383,548	1.3%	19.44	2.50	13.60
10	13	Tyco International*	TYC	42.37	30.62-44.10	19.50B	10,557,000	10,403,000	10,647,000	2,647,000	1.8%	31.15	1.95	13.75
11	10	United Technologies Corp.	UTX	113.77	90.30-118.42	104.13B	55,754,000	57,708,000	62,626,000	16,759,000	1.9%	18.21	1.93	10.83
12	11	Honeywell	HON	92.95	70.92-95.91	72.88B	36,529,000	37,665,000	39,055,000	10,387,000	8.4%	18.89	1.90	11.45
13	12	Napco Security Systems, Inc.	NSSC	7.00	3.69-7.70	136.86M	71,392	70,928	71,386	18,353	6.6%	35.53	1.87	21.53
14	14	Mace Security International	MACE	0.40	.25-.59	23.52M	13,858	12,984	No report	No report	N/A	N/A	1.56	N/A
15	9	OSI Systems	OSIS	64.24	39.00-78.50	1.28B	666,100	792,990	802,047	236,408	21.8%	28.42	1.49	9.71
16	15	Stanley Black & Decker	SWK	79.96	73.77-92.76	12.44B	9,435,500	10,147,900	11,001,200	2,906,000	8.9%	25.89	1.47	10.60
17	17	Brady Corporation	BRC	26.43	24.75-35.75	1.38B	1,339,597	1,068,688	1,152,109	291,194	6.8%	N/A	1.32	9.07
18	18	Siemens AG	SI	132.46	98.69-139.28	111.85B	93,672,000	103,466,000	101,440,000	23,770,000	-3.3%	201.61	1.26	12.25
19	19	Lockheed Martin Corp.	LMT	159.93	91.65-168.41	51.02B	46,499,000	47,182,000	45,358,000	11,533,000	-4.7%	17.51	1.21	10.27
20	20	Northrop Grumman Holdings	NOC	122.34	67.73-125.37	26.52B	26,412,000	25,218,000	24,661,000	6,157,000	-4.9%	14.65	1.11	7.58
21	21	L-3 Communications Holdings	LLL	116.06	79.50-118.80	9.96B	13,157,600	13,146,300	12,629,000	3,256,000	-8.5%	13.59	1.04	8.75
22	24	Diebold	DBD	40.31	27.89-40.59	2.59B	2,835,848	2,991,693	2,857,491	811,443	-3.4%	N/A	0.89	12.84
23	22	Johnson Controls	JCI	46.98	31.95-52.50	31.20B	40,833,000	41,955,000	42,730,000	10,908,000	4.7%	25.02	0.85	9.50
24	23	Checkpoint Systems, Inc	CKP	13.48	10.50-18.25	558.54M	763,749	690,789	No report	No report	N/A	N/A	0.81	9.64
25	26	Identiv Group	INVE	0.99	.49-1.55	73.55M	102,708	72,361	75,610	19,912	-5.4%	N/A	0.68	N/A
26	25	Anikter International, Inc.	AXE	102.89	64.94-115.84	3.35B	6,146,900	6,253,100	6,226,500	1,598,500	3.5%	17.03	0.66	10.78
27	30	Magal Security Systems Ltd.	MAGS	3.97	3.10-5.05	64.10M	88,591	77,697	No report	No report	N/A	N/A	0.47	12.48
28	29	ManTech International	MANT	30.10	23.89-31.10	1.11B	2,869,982	2,582,295	2,310,072	491,536	-21.0%	N/A	0.44	5.90
29	27	URS Corporation	URS	46.74	41.62-55.79	3.37B	9,545,000	10,972,500	10,990,700	2,660,700	-10.5%	14.12	0.43	6.20
30	28	Binks Company	BCO	29.21	24.07-35.73	1.41B	3,766,000	3,735,500	3,942,200	1,039,400	6.4%	25.14	0.40	4.70
31	31	Vicon Industries, Inc.	VII	3.46	2.43-4.35	15.57M	47,182	49,652	39,846	8,109	-26.9%	N/A	0.19	N/A
Sokoloff Index														
							374,799,667	390,407,515	393,461,631	99,436,843	Over Q3 2013	Quarterly Growth Over Q4 2012		
							Over Year 2011	Over Year 2012	Over Q4 2012					
							4.2%	0.8%	-1.5%	Average	2.6%	38.66	1.82	11.86
										Median	3.6%	25.14	1.47	11.14

Growth over previous period

*Yearly revenues declined due to the break up of the diversified Tyco International conglomerate.



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