

# Security Finance Newsletter

March 2008

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Volume IV, Issue 1

## VIP Shop Talk

This quarter, Sokoloff & Company had the pleasure of interviewing the leaders of two major industry players: **Ingersoll Security Technologies** and **Panasonic Security**. Both companies are billion dollar global businesses which have recognized brand names and have established themselves as innovators in the security field. Public companies listed on the New York Stock Exchange, **IR Security Technologies** is a division of **Ingersoll Rand (IR)** out of Bermuda and **Panasonic** is a division of **Matsushita Electric Industrial Co. Ltd. (MC)** out of Japan. **Mike Lamach, President of IR Security and Technologies, and Frank DeFina, President of Panasonic System Solutions Company** gave us their insights into the security market and their own businesses.

### Mike Lamach, President IR Security Technologies

**What is the history of IR Security Technologies? How and why was this vertical added to Ingersoll Rand and how does the parent company support this division?**

The parent company, **Ingersoll Rand**, has been around for 140 years and was originally a mining and tool company. Most of the brands that make up the core of the security product line like **Schlage**, date back anywhere from 80 to 100 years and were acquired in the 1970's

when **IR** started to transform into a diversified manufacturing company.

Moving into the security area was a natural progression from the capital-intensive heavy-machinery profile of our past. The divisions of security, climate, and industrial are well supported by **IR** which shares a common business operating system and an ability to attract and move talent throughout the company. Further, the three sectors are very diverse in terms of the end users, and this allows **IR** to create an attractive investment for shareholders.

**Biometrics has been the buzz word in the industry for quite some time. IR Security & Safety has a Biometrics division. Are there plans to expand this area and what new advances in Biometrics does IR expect to see and develop?**

We look at biometrics as a technology that should be applied to solutions that customers want. It's not about getting into the buzz of new research and products. We of course align ourselves with people in the research business and keep abreast of what's out there, but it has to have a tangible use for our customers. Biometric products are about applications and keeping an eye to solving real world problems that customers face.

**Are there any areas of Security that IR expects or would like to add to their portfolio in the coming years?**

We look at two areas: technology and geographical coverage. We have some requirements missing in both fields and would like to add more applications to the technology side as well as expand our global footprint on the geographical side. **Globally, the most growth is happening in China, India, parts of Eastern Europe and South America and we continue to look for opportunities in these regions.**

**What standards does IR use in determining authorized dealers of their products?**

We look for leaders in the market and their businesses. We want dealers that have been around and who have demonstrated the learning agility that the market requires of us. **They need to have an ability to adapt and grow with customers' technologies and needs.** We also look to minimize conflict between challenging partners in markets.

**Please tell us about the key acquisitions that have shaped IR Security & Safety.**

We've acquired seven companies in the past few years which have enhanced our technology areas or our geographical set. In 2005, we acquired Italy-based **CISA** which is an eighty

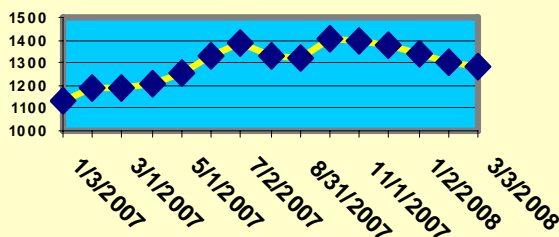
**"Biometric products are about applications and keeping an eye to solving real world problems that customers face."  
Mike Lamach, IR**

year old company that manufactures an array of security and safety products, including electronic locking systems, cylinders, door closers, and panic hardware. It was a market leader in the Mediterranean and was a great foundation for us to build from in Southern Europe. That same year we also signed a definitive agreement for a joint venture with **Taiwan Fu Hsing Industrial Co. Ltd.**, a manufacturer of locks. **Because of this we've become the largest lock producer in China which is a key to building a domestic market in China.**

**IR Security & Safety is very much a global company. How is it different doing business in other parts of the world and how do IR products cater to these differences?**

We're governed by codes and standards and they're all very different across the world. **Also, clearly we want to be the local presence**

Sokoloff Security Index



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in those economies, so we attract, attain and build local management teams so we can bring the products to market in the right way. Finally, we insure that our values and standards for our products are consistent across the world even when meeting legal compliance requirements.

*How does IR Security & Safety bring the most value to their partners and dealers and how do you work with them?*

We have over 700 salespeople throughout the world focusing on the end user and their problems. What our partners and dealers value is our ability to create a demand for our products and the solutions they bring. We also try to bring a holistic view toward security. It's not just about hardware and code requirements, but it's about making it work together and giving the customer a total solution. That's why we have a security integrator business which helps customers with difficult systems.

*How does IR Security & Safety attract talented employees?*

Employees are attracted to IR because we have a compelling vision of where we want to go and a track record of success. We're also very profitable and can afford new products. Further, we retain, develop, and invest significantly in our employees. One way we do this is through IR University. We send over 15,000 people a year to seminars, classes, and coaching. We also have a very unique MBA program at Indiana University that is specifically for IR. We nominate thirty people a year to attend. When they graduate we integrate them back into the company which gives us highly trained individuals and gives them the opportunity to excel, make more money and be promoted. Finally, we do as much promotion within as possible.

*What are the goals of IR Security & Safety on an everyday basis as well as the goals for the future?*

We think of our business as a provider of safe

and secure environments for customers. Everything we try to do is with that in mind and that's where our goals lie. The culture of the company is first and foremost on continuous improvement. We have a Lean 6 SIGMA in place which is a program that helps us to administer improvement by using disciplined tools and statistical data. Other goals we concentrate on are dramatic growth, operational excellence and dual citizenship.

Dual citizenship exposes workers to the best practices of the company as a whole, not just their one area. Because of this, employees are able to move to positions throughout the company and don't have to be stuck just in their

*Frank DeFina, President  
Panasonic Security*

*Panasonic cameras and other electronic equipment have been used in security applications for many years. When did the company break Security products out as a separate offering and approximately what are its annual revenues derived from the sale of Security products?*

Panasonic has been in the security business for more than fifty years and we've been responsible for a number of industry innovations including the world's first CCD security camera, the first Time-Lapse VCR, and more recently, digital technology like Super Dynamic III. Although we do not publish sales figures, I can say that we have earned a significant share of the world's business in analog and IP cameras.

*Describe Panasonic's approach to selling products in the enterprise security area where you are working primarily with larger integrated systems and the consumer security area where your products are sold through big box stores and other consumer outlets.*

We carefully differentiate consumer from enterprise systems. Our consumer products are aimed at monitoring the home, small office or small business. Enterprise systems by nature demand more robust solutions that typically require high quality, detailed images which can be recorded, stored, retrieved and analyzed. By definition, the enterprise systems area demands significant investment in engineering, systems design, and technical support. We work closely with Panasonic's authorized reseller channel including a group of highly capable Panasonic I-Pro Certified Resellers.

*Panasonic Security Products has been credited with more than a dozen firsts (according to your website). Can you tell us about some of them and how they were instrumental in building your brand in the Security industry?*

They have been the direct result of listening to our customers, understanding their needs, and then developing technology that solves customer problems. For example, Super Dynamic Technology (SDIII) addresses the needs of users who faced lighting variation (a backlit scene for example) that yielded unusable images. SDIII provides processing in the camera itself that corrects and adjusts for this discrepancy producing a useable image.

*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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division. When acquiring a company, we integrate it into IR by teaching the same methodologies so everything is cohesive. We are also open to the acquired company's thoughts and are willing to change our business if their ideas work better.



**Mike Lamach**  
President, IR Security Technologies  
SVP, Ingersoll Rand

Mr. Lamach joined Ingersoll Rand in 2004 and previously was Group VP & Managing Director Europe/Asia at Johnson Controls. He holds a bachelors degree from Michigan State and an MBA from Duke University.

Another example would be Auto Back Focus built into the camera. Imagine the costly proposition of an integrator returning to an installation, climbing a ladder to adjust focus on a camera that produces soft images due to change in lighting from day to night. This is typical of any camera but **Panasonic** developed technology within the camera that automatically adjusts and corrects the focus as lighting

***“LISTEN to the customer, UNDERSTAND their problem and ONLY THEN suggest products or services that can solve their problems.” Frank DeFina, Panasonic***

changes by physically moving the CCD relative to the lens! This saves thousands of dollars of integrators’ profit by reducing onsite service calls.

***Panasonic has a large global presence. How do the divisions work with one another and how do you insure that the same quality is consistent across the world?***

It wasn’t easy, but we established units throughout the world that contain essential elements of sales, engineering, systems design, and support. We have always employed local people of the highest quality who can understand and work in accordance with our basic business philosophy. Our customers drive this since they are increasingly deploying assets globally. Since we have the benefit of a worldwide, highly recognized brand and many years of global approach we **have learned how to best serve our customers on a local basis, adhering to local technical codes while being sensitive to local business customs as well.**

***What Panasonic new product developments do you think will be most appealing to the Security industry?***

**I think you’ll be seeing significant introduction of world class imaging products in the IP and mega-pixel area.** Additionally, we’ll continue to expand the group of technical and systems partners whose solutions operate seamlessly with **Panasonic** security products.

***Panasonic Security also has a systems integration area. How does this division work with the rest of the company?***

**Panasonic Security** has a team focused on developing business through our Authorized

**Frank DeFina**  
President, Panasonic System Solutions Company of America

Mr. DeFina joined Panasonic in 1982 and holds positions on the Executive Board of the Security Industry Association and the International Biometrics Industry Association. He also has a personal blog [www.blog.panasonic.com/frank](http://www.blog.panasonic.com/frank) that provides a wide range of industry insight for members of the professional security community.



Resellers and System Integrators. This team is dedicated to help our security resellers particularly on large projects that may require systems design or software interface.

This should not be confused with the **Panasonic Systems Integration Group** which is primarily focused on large venue LEDs like our ASTRO-VISION.

**the end user is best served in this way.**

***How does Panasonic Security differentiate itself from other manufacturers?***

There are many worthy competitors and we maintain respect for them. Everyday I challenge our team to take the extra step to be better. **LISTEN to the customer. UNDERSTAND their problem and ONLY THEN suggest products or services that can solve their problems.** Treat each customer and each other with respect. **QUALITY** above all else. I’m talking about product and **PEOPLE** quality. **INTEGRITY** in everything we do. Empower everyone in service of the customer.

***What does the future for the Security industry look like from Panasonic’s perspective?***

I maintain an optimistic viewpoint. I think the industry will continue to grow but I cannot understand how so many companies can survive within a relatively small industry. Consolidations and M&A’s will continue out of necessity. **Analytics, IP, and image and event management technology** will continue to evolve and drive new business.

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



**digitech**  
INTERNATIONAL

has been acquired by



***The undersigned advised Digitech International.***



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***Talk about how Panasonic views its role in the growing concept of a holistic approach to building systems which includes much more than security in an integrated environment.***

We must first understand our core competencies and then view them in a complimentary light. **We must ensure that future products are designed on an open platform that reduces the risk of obsolescence.** This implies that more cooperation like our **Panasonic** Solution Developer Network program is required. **We must consider working with competitors if**

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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

Q4 2007 Reports and Stock Prices as of February 25, 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 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.

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 2/25/2008	52 Week Range	Market Cap 2/25/2008	2005 Revenue (000s)	2006 Revenue (000s)	2007 Revenue (000s)	4th Q 06 Revenue (000s)	4th Q 07 Revenue (000s)	4th Q 07 Incr/Decr	EVS	P/E	EVM		
1		Taser Corp.	TASR	11.80	7.44 - 19.36	745.37M	47,694	67,718	100,727	19,288	31,029	60.9%	6.73	51.53	29.63		
2	4	Fir Systems, Inc.	FLIR	30.92	16.48 - 36.42	4.21B	508,561	575,000	779,397	185,899	242,634	30.5%	5.22	36.00	18.81		
3	2	Authentic**	AUTH	11.55	9.88-18.21	313.05M	19,243	33,174	52,344	9,406	15,693	66.8%	4.85	N/A	N/A		
4	5	General Electric Co.	GE	34.21	32.92 - 42.15	343.74B	147,956,000	163,391,000	173,000,000	41,300,000	48,600,000	17.7%	4.66	15.74	21.12		
5	3	Cogent, Inc.	COGL	9.10	8.88 - 17.02	863.33M	159,889	101,657	105,794	42,334	21,875	-48.3%	4.49	25.21	11.87		
6	6	L-1 Identity Solutions Inc.	ID	12.56	11.87 - 21.87	899.47M	66,224	164,386	389,508	76,315	113,862	49.2%	2.96	51.48	24.03		
7	7	Genlex Corporation	GNLX	15.80	13.46 - 22.60	2.28B	536,484	572,267	653,933	149,590	170,723	14.1%	2.82	18.63	10.58		
8	9	Lasercard Corp.	LGRD	9.94	8.80 - 13.74	119.04M	28,544	39,857	32,270	6,184	11,159	80.4%	2.45	N/A	N/A		
9	8	Secure Computing Corp.	SCUR	8.18	7.05 - 10.54	547.58M	109,175	176,697	237,905	51,586	66,467	28.8%	2.39	N/A	101.77		
10	10	Zebra Technologies Corp.	ZBRA	33.07	27.50 - 42.50	2.25B	702,271	759,824	868,300	209,900	233,600	11.3%	2.01	22.82	9.75		
11	12	Napco Security Systems, Inc	NSSC	5.44	4.50 - 6.99	103.86M	65,229	69,548	66,202	16,077	16,166	0.6%	1.75	28.30	18.09		
12	13	The Geo Group	GEO	26.05	21.20 - 32.93	1.33B	612,900	860,882	1,027,832	247,404	262,637	6.2%	1.69	30.61	13.53		
13	11	RAE Systems, Inc.	RAF	2.40	1.90 - 3.69	142.01M	60,293	67,721	90,836	20,905	27,513	31.6%	1.64	N/A	7.74		
14	18	First Advantage Corp.	FADV	20.00	14.00 - 26.90	1.18B	643,749	797,801	842,902	199,970	204,892	2.5%	1.51	17.65	7.74		
15	21	Ingersoll Rand***	IR	40.39	34.46 - 56.66	11.23B	10,546,900	8,033,700	8,763,100	2,143,000	2,323,300	8.4%	1.47	3.01	10.84		
16	14	United Technologies Corp.	UTX	73.41	63.45 - 82.50	72.05B	42,725,000	47,829,000	54,759,000	12,787,000	14,714,000	15.1%	1.42	17.18	9.59		
17	15	Honeywell	HON	57.91	44.56 - 62.29	43.11B	27,653,000	31,367,000	34,589,000	8,280,000	9,280,000	12.1%	1.39	18.34	9.39		
18	17	DRS Technologies, Inc.	DRS	56.56	44.11 - 61.33	2.34B	1,308,600	1,735,532	2,821,000	680,400	836,600	23.0%	1.23	17.59	9.14		
19	20	L-3 Communications Holdings	LLL	109.33	81.81 - 115.29	13.63B	9,444,700	12,477,000	13,961,000	3,385,000	3,806,000	12.4%	1.23	18.29	10.35		
20	19	The Stanley Works	SWK	50.73	43.69 - 64.25	4.14B	3,285,300	4,018,600	4,483,800	1,019,300	1,167,400	14.5%	1.19	12.67	7.57		
21	36	Tyco International	TYC	40.89	31.01 - 137.92	19.83B	17,959,000	17,336,000	18,781,000	4,365,000	4,870,000	11.6%	1.18	N/A	8.05		
22	24	ManTech International	MANI	43.56	29.71 - 48.45	1.50B	980,290	1,137,000	1,448,000	290,710	422,000	45.2%	1.17	25.09	13.64		
23	16	Siemens AG	SI	132.80	100.34 - 160.37	121.32B	90,896,132	98,203,790	106,035,000	24,699,520	27,166,540	10.0%	1.13	8.76	9.79		
24	23	Magal Security Systems Ltd.	MAGS	6.80	5.09 - 12.00	70.69M	63,600	63,600	72,375	23,155	23,155	7.0%	1.08	N/A	15.92		
25	22	Lockheed Martin Corp.	LMT	106.63	88.86 - 113.74	43.65B	37,213,000	39,620,000	41,862,000	10,840,000	10,841,000	0.0%	1.06	15.02	8.32		
26	25	Checkpoint Systems, Inc	CHKP	23.79	19.02 - 30.50	945.49M	717,992	687,775	834,156	216,297	262,863	21.4%	0.97	18.38	8.60		
27	26	Northrop Grumman Holdings	NOC	80.04	70.50 - 85.21	27.04B	30,113,000	30,148,000	32,018,000	8,013,000	8,824,000	10.1%	0.93	16.06	7.98		
28	29	Brinks Company	BCO	67.91	49.04 - 68.47	3.17B	2,793,300	2,800,000	3,219,000	745,100	882,800	18.5%	0.92	23.25	6.49		
29	33	Directed Electronics	DEX	2.35	0.99 - 10.96	59.50M	304,558	437,778	No report	210,299	No report	N/A	0.79	9.04	6.80		
30	30	OSI Systems	OSIS	21.96	19.64 - 29.80	387.88M	385,041	452,686	532,300	137,458	164,194	19.5%	0.75	41.05	15.76		
31	28	Diebold	DBD	25.76	23.07 - 54.50	1.69B	2,587,049	2,933,000	2,953,000	825,400	No report	N/A	0.70	25.11	8.16		
32	32	Johnson Controls	JCI	35.09	29.47 - 44.46	20.84B	27,479,000	32,236,000	34,624,000	8,210,000	9,480,000	15.5%	0.67	15.92	9.17		
33	35	Henry Bros Electronics	HBE	5.00	3.40 - 6.85	29.63M	42,156	42,100	14,700	14,700	-100.0%	0.59	N/A	N/A			
34	34	URS Corporation	URS	49.50	38.00 - 64.19	2.65B	3,917,565	4,222,869	5,383,007	1,080,191	1,739,373	61.0%	0.54	19.64	9.01		
35	31	FirstService	FSRV	21.97	20.15 - 38.29	657.01M	651,376	1,068,134	1,359,686	374,757	502,152	34.0%	0.52	17.31	6.33		
36	27	ActivIdentity Corp.	ACTI	3.19	2.89 - 5.45	146.04M	42,156	53,375	59,553	14,615	15,433	5.6%	0.46	N/A	N/A		
37	37	Richardson Electronics, Ltd.	RELL	4.71	3.66 - 10.09	84.14M	578,724	529,097	557,291	137,714	144,985	5.3%	0.22	2.11	11.10		
<b>Total</b>							<b>1291.30</b>	<b>Revenue Growth:</b>	<b>6.1%</b>	<b>9.0%</b>	<b>8.4%</b>	<b>Average</b>	<b>17.21%</b>	<b>1.80</b>	<b>21.44</b>	<b>14.65</b>	
<b>No report - As of press time, these companies had not yet announced their Q2 Results.</b>													<b>Median</b>	<b>14.5%</b>	<b>1.23</b>	<b>18.34</b>	<b>9.77</b>
<b>Quarterly Comparative Growth</b>																	
<b>Quarterly Comparative Growth</b>																	

\* 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.

\*\*\*This quarter Ingersoll Rand (IR) discontinued operations on several businesses. They have not yet filed their adjusted 2005 Revenue numbers.



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