

Security Finance Newsletter

September 2004

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Volume I, Issue II

Peter A. Sokoloff & Co. produces this newsletter for Security company owners, CEOs, CFOs and corporate development

This newsletter tracks various financial trends, especially those that suggest corporate valuations.

executives. Our goals are to illuminate and educate, thus contributing to the growth of our readers' companies. **Peter A. Sokoloff & Co.** advises on mergers and acquisitions in the Security industry. We welcome all inquiries.

While Security Stock Prices are Flat in a Lackluster Market,

Growth Indicators Show a Healthy Trend

As the chart on this page shows, share prices in the Security Industry have tracked closely with the NASDAQ. As the overall market has run into a minor decline during the second half of the year, Security stocks have been in lockstep.

The most recently reported quarter (Q2, ending June 30th) shows a 12% revenue growth rate for the Security Industry. This is a nice pick up from a growth rate of 8.5% in Q2 of 2003.

Likewise, Q1 2004 revenues grew by 15.9%, an increase above the 11.5% growth experienced in Q1 2003. Historically, Security revenues have shown their strongest growth in Q4 and Q1. Most likely this is driven by government budget

year spending which peaks during these periods.

Will this increasing growth trend hold up? We hope so; we do see a better overall outlook for the Security business than many other industries which make up the NASDAQ.

Trading Near a High...

The majority of the public company stocks we follow on the Back Page of this newsletter are trading considerably below their 52-week highs. A few are trading near their 52-week highs.

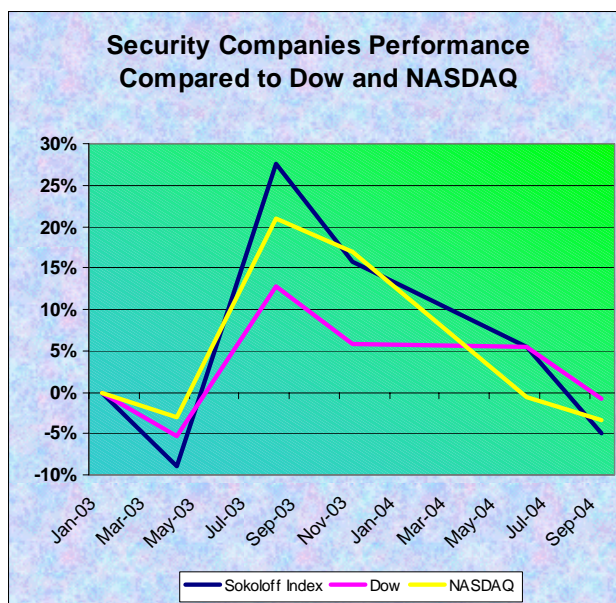
in which they racked up impressive wins over the summer.

The company serves military and police forces around the world. Its three operating divisions (Aerospace & Defense, Products and Mobile Security) are all experiencing significant revenue growth.

Tyco International (TYC) is another performer near its 52-week peak. Since the public hanging of its CEO, new management has made great strides in restoring investor confidence. In addition to maintaining consistent revenue growth, **TYC** has taken a series of actions to strengthen an already impressive balance sheet. By retiring considerable debt and still maintaining a cash balance of \$2 billion, **TYC** has shaken off most of the travails of yesterday, creating optimistic investor sentiment.

Around the time Dennis Kozlowski resigned as CEO of **Tyco** in June of 2002, the stock had dropped to \$10, off from a high approaching \$60 in January of the same year.

Rocky going occurred over the next three quarters as Tyco struggled to regain its momentum. A lucky investor who bought the stock in March of 2003 would have seen almost a 300% return as **TYC** steadily rebounded to the present day.



As of this writing, **Armor Holdings** (NYSE Symbol, **AH**) was trading within a few dollars of its 52 week high. Much of the recent news out of **AH** has been on the defense side of the business. **AH** manufactures ceramic body armor and specially equipped military vehicles, areas

At this date, Canadian-based **FirstService Corporation (FSRV)** is trading within a few cents of its 52-week high. **FSRV** is diversified and has seen revenue increases

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“Investors who bought (TASR) in February or March of 2003 would have paid less than \$1 per share. This was followed by a legendary run, as the stock took off on a one year race that saw a high of nearly \$60.”

in each of its four major business segments. The *Integrated Security Services* division has shown a combination of modest internal growth and growth through acquisition. The division’s EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), margins increased from 6.9% to 7.5% of revenues in the most recent quarter.

FSRV is very thinly traded, so the current share price may not reflect true investor sentiment. That said, FSRV has a decent rate of growth and an attractive P/E of less than 18x.

And then there are the High Flyers...

While everyone likes steady-as-she-goes public companies like the ones just mentioned, our imagination is captured by the **Krispy Kremes** of the world. We look at a stock that has a good story. We wonder if it could possibly go any higher and how management will ever live up to investor expectations.

On the Back Page of this newsletter, we rank companies based upon who has the highest Price-to-Sales (“P/S” is trailing 12 months’ revenues divided into market capitalization). This gives us the **Krispy Kremes** of the Security sector. Of course, **Krispy Kreme** had a good two-year run before its own numbers caught up with it, causing it to steadily decline to where it is today.

Not to be disparaging, **Microsoft (MSFT)** has had a consistently high P/S and investors have made nice gains over a much longer term. Sometimes the story behind a stock translates into performance, with legs for the long term. *Let’s look at two stocks from the Back Page:*

#1 on the Back Page is **Taser Corp. (TASR)**. This company currently trades at more than 20x sales and has a P/E of 84 (Price-to-Earnings, this is market cap divided by earnings). Investors who bought the stock in February or March of 2003 would have paid less than \$1 per share. This was followed by a legendary run, as the stock took off on a one year race that saw a high of nearly \$60. As might be expected, the overheated stock fell back, but remains at over \$30. Now, management has delivered on some

directed at some element of Homeland Security. **Identix** has a number of competitors in the biometric space and has been getting its share of new orders..

TASR has successfully defended its patents and has a brand name appeal which increases the barrier to entry for competitors.

IDNX’s historical growth rate in 2004 is about 18%. **TASR’s** growth rate is almost 300%. **IDNX** does not anticipate earnings

this year or next. **TASR**, with a similar revenue level, is cash flowing and generating earnings.

IDNX continues to receive “Buy” ratings from industry analysts and enjoys significant trading volume. Certainly, if and when Biometrics transcends into our every day lives, **IDNX** has a great possible future.

The Magic of Selling

Why is it that some firms consistently get lots of contract wins and strong revenue increases quarter after quarter?

Why is it that other firms have roller coaster sales and can’t keep sales momentum going?

Ask the latter question to a company that isn’t enjoying sales success. A few of the reasons one hears are; “*We don’t have the money to hire sales guys or fund a major marketing effort,*” “*No one’s buying right now,*”

“The competition cuts prices and/or makes impossible promises,” “Our sales people are lazy and don’t do what we tell them.”

Rarely, are these the true reasons for lack of sales. The real why behind most failed sales and marketing programs is - there really is ***no program at all.***

Any basic sales and marketing program would have to include the following:

“The real why behind most failed sales and marketing programs is - there really is no program at all.”

**We know the buyers.
We know the sellers.
We know the Security business.
We know how to get deals done.**



Call us for a free confidential assessment of value and the best strategy to get the most out of your merger & acquisition plans.



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numbers and shown some very impressive growth. Will this sustain the price? In a perfect world theory, as growing revenues and earnings catch up, inflated P/S's and P/E's drop into normal ranges, while stock value continues to improve.

Thus the keys to the investor kingdom will be driven by **TASR** management’s ability to keep a very high rate of growth going for the next few years, while improving earnings each quarter.

In the #2 spot on the Back Page is **Identix Inc. (IDNX)**. **IDNX’s** story is a little harder to understand than **TASR**. Arguably, both companies captured investors’ imaginations with technology

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1. A clear understanding of the purpose of marketing. For some reason, folks get marketing confused with sales. *The purpose of marketing is to make selling easier.* Every prospect development effort, market report, competitor study, corporate branding strategy, ad campaign and trade show appearance must serve to make selling easier and more efficient or it's a waste of time and money.

2. A constantly improving and growing database that is used religiously by all.

Enemies from within who neglect the care and feeding of a database justify this by using worn excuses like rifle shooting vs. shotgun or giving each sales guy the latitude to create their own system of prospect organization.

Lazy marketers will spend thousands on a questionable trade journal ad before sending out a direct mail piece to a few thousand prospects in the database...or tens of thousands of dollars on a trade show appearance before getting someone working to add names into the database and surveying it for hot prospects.

It doesn't take a lot of money to constantly add new names into the database. Numerous sources are available to *collect company names, addresses and phone numbers.* Telephone calls can be made to get the names and e-mail addresses of *decision makers.*

Everyone in the company should be trained in the use of the database. Use ACT, Goldmine, Salesforce.com, Seibel or other contact manager for this task.

3. Outflow every day to the database.

In addition to using the database for routine sales calls, this means surveys, cold calling, follow-up, regular mailings and e-mailings to the entire list.

Mailings and e-mails do not have to be expensive or time-consuming to produce. It is much more effective to get out lots of simple letters, bulletins, white papers, article reprints, even hand written notes on a weekly basis than a semi-annual or quarterly full color glossy promo piece that

is looked at quickly and then filed or thrown away.

The idea is to "touch" all of your prospects often - and in a manner the prospect appreciates. You do this so prospects eventually come to know you, return your calls and buy from you.

4. Use a smart approach. Seat-of-the-pants calls to prospects produce poor results. Read a book about how to map out a clearly thought out approach that gets

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Has been acquired by



An Employee-Owned Company

The undersigned advised Jullien Enterprises.



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strong, consistent results. Our favorite book on the subject is "*Selling to VITO (the Very Important Top Officer)*," by Anthony Parinello. This is available on Amazon for \$12.95.

5. Everyone is involved. Sales is everyone's job. A support tech should know to listen when a customer expresses a need that your company can fulfill- and he should be eager to refer that information internally and help make the sale. A receptionist should be managed to understand that he or she is the entry point for everyone who will do business with your company. A friendly, helpful and professional employee demeanor is a great first step in any sale cycle.

"The purpose of marketing is to make selling easier."

If necessary, all hands can stuff mailers, make survey calls and add database entries.

6. Be consistent and run the program every day. A senior executive in a small company had an engineering background.

He was surprised to learn that sales and marketing could be approached with *design, definition, process, implementation and maintenance.*

He thought selling was some great master art, a magical skill granted to a precious few. Well—if you don't have a program, you'll need a real sales magician to just keep the lights on, much less grow the business.

Get a real sales and marketing program going every day in your organization...improve the program by keeping basic actions going. Streamline the program into a powerhouse with standard actions that always get results...Then you won't need magicians to get the job done!

Contact Sokoloff & Co.

Please contact **Bernie Walko, Managing Director of New Business Development** for a

confidential consultation about your company's merger and acquisition strategies. **Bernie Walko, (818) 547-4500, bwalko@sokoloffco.com.**

"Always do right. This will gratify some people and astonish the rest."

- Mark Twain (1901)

SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

Fourth Quarter 2003, First and Second Quarters 2004 Reports and September 10, 2004 Closing Prices

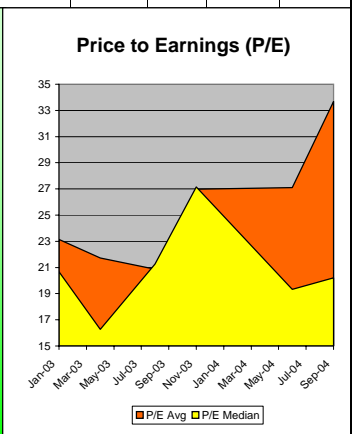
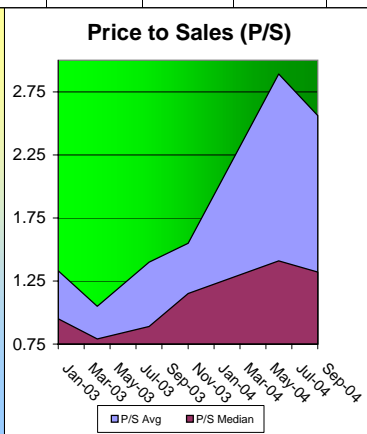
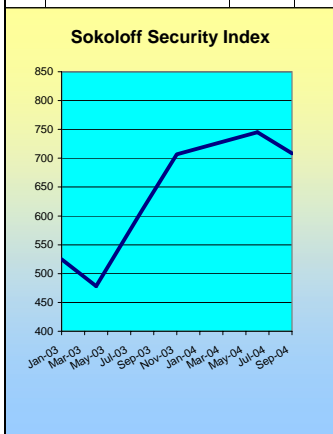
Sokoloff & Company compiles a quarterly review of selected public Security companies (and companies that dedicate a portion of their business to Security) and compares how each is valued by the public marketplace. Comparative values for each company are expressed as: P/S, Price/Sales, which is total market capitalization divided by revenues and P/E, Price to Earnings (market cap divided by earnings). 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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Rank	Company	Symbol	Stock		Market Cap	2002 Revenue	2003 Revenue	4th Q 03 Revenue	1st Q 04 Revenue	1st Q 04 Incr/decr	2nd Q 04 Revenue	2nd Q 04 Incr/decr	P/S	P/E	EBITDA
			Price	52 Week Range											
1	Taser Corp.	TASR	32.86	3.6833 - 64.15	950.5M	24,456	24,456	10,780	13,137	285.3%	16,322	290.0%	20.08	76.57	20.1M
2	Identix Incorporated	IDNX	6.2	4.12 - 8.95	546.9M	84,500	92,514	19,968	14,491	18.4%	16,185	18.3%	9.99	N/A	-18.8M
3	Viisage Technology Inc.	VISG	7.04	3.34 - 14.30	303.4M	30,500	37,371	7,264	12,259	43.0%	16,276	85.2%	6.25	N/A	5.7M
4	Gentex Corporation	GNTX	34.06	32.00 - 47.08	2,638B	395,258	469,019	123,915	139,328	20.1%	129,646	10.9%	5.31	23.62	175.9M
5	Invision Technologies	INVN	45.63	24.08 - 50.50	805.1M	439,131	416,497	75,784	76,895	-53.5%	86,668	-3.1%	2.45	31.64	57.6M
6	Magal Security Systems Ltd.	MAGS	15.78	6.4286 - 38.4286	133.2M	42,966	59,400	17,750	14,215	10.9%	14,500	7.0%	2.15	150.34	2.8M
7	Armor Holdings, Inc.	AH	36.82	16.46 - 40.35	1,206B	305,117	365,172	112,157	161,628	100.7%	223,704	174.4%	2.05	28.97	79.8M
8	Digimarc Corporation	DMRC	8.22	7.89 - 17.48	167.3M	86,617	85,618	19,068	23,490	8.3%	23,673	5.0%	1.89	N/A	11.1M
9	Fargo Electronics, Inc.	FRGO	9.97	7.93 - 17.10	124.7M	66,035	65,491	16,461	15,554	0.6%	17,545	6.4%	1.87	17.19	11.7M
10	Diebold	DBD	49.77	43.88 - 57.43	3,568B	1,940,163	2,109,673	648,410	498,255	21.5%	552,043	14.8%	1.58	20.21	338.7M
11	Engineered Support Systems Inc.	EASJ	47.5	36.33 - 61.93	1,237B	435,452	572,701	170,312	210,100	68.5%	221,991	42.6%	1.54	18.88	114.2M
12	Tyco International	TYC	30.5	19.82 - 33.26	61,268B	35,700,000	36,801,300	9,700,700	10,220,200	11.5%	10,451,000	11.0%	1.53	29.55	7,475B
13	Diversified Security Solutions, Inc.	DVS	5.8	5.21 - 9.90	33.3M	18,829	18,261	5,941	5,667	54.1%	6,524	85.3%	1.36	N/A	-1.9M
14	Honeywell	HON	36.45	25.94 - 38.46	31,331B	22,274,000	23,103,000	6,187,000	6,178,000	14.4%	6,390,000	11.1%	1.27	22.29	2,671B
15	Ingersoll Rand	IR	67	52.40 - 73.56	11,612B	8,951,300	8,951,300	2,865,900	2,292,000	4.1%	2,713,900	11.5%	1.14	15.14	1,256B
16	Napco Security Systems, Inc.	NSSC	8.91	3.30 - 11.60	62.0M	55,836	57,340	14,629	14,742	9.7%			1.06	65.96	4.2M
17	Checkpoint Systems, Inc.	CKP	15.41	15.00 - 22.45	579.1M	639,486	723,262	213,896	180,646	15.5%	189,270	7.7%	0.75	19.18	58.4M
18	Siemens Building Technologies	SI	73.72	58.74 - 87.50	65,689B	82,436,499	86,088,010	23,043,000	21,896,000	10.2%	22,000,000	5.0%	0.71	15.8	9,173B
19	Mantech International	MANT	15.66	11.05 - 28.31	506.7M	472,900	701,601	194,812	202,769	36.9%	198,600	12.0%	0.65	19.95	49.2M
20	FirstService	FSRV	24.83	16.00 - 25.50	367.4M	535,766	609,794	152,099	155,215	25.1%	170,970	15.1%	0.58	17.75	56.9M
21	Titan Corporation	TTN	13.33	11.15 - 21.99	1,125B	1,472,600	1,775,007	487,593	458,848	21.4%	514,932	18.7%	0.58	N/A	47.9M
22	CompuDyne Corporation	CDCY	9.101	7.37 - 17.46	73.8M	155,556	193,263	45,822	39,027	-16.7%	37,783	-20.5%	0.42	60.87	6.6M
23	Johnson Controls	JCI	56.49	46.565 - 62.32	10,747B	20,469,000	22,646,000	6,384,100	6,620,100	20.3%	5,872,600	14.8%	0.42	14.18	1,843B
24	Brinks Company	BCO	29.28	16.44 - 34.47	1,661B	3,776,700	3,998,600	1,093,200	1,094,500	16.3%	1,131,500	17.8%	0.38	34.13	329.4M
25	The Geo Group	GGI	20.3	16.94 - 24.69	190.0M	568,612	617,490	161,200	142,600	-1.9%	146,726	7.0%	0.31	6.59	42.4M
26	Richardson Electronics, Ltd.	RELL	7.75	7.50 - 14.08	109.5M	464,517	520,069	128,051	127,338	7.9%	145,374	22.2%	0.21	18.6	24.6M
Total			Index	708.38	-	181,817,340	191,102,209	51,699,812	50,807,004		51,287,732		P/S	P/E	
								Average		28.9%			34.8%	2.56	33.69
								Median		15.9%			12.0%	1.32	20.21

*Rankings are based upon Price to Sales (P/S).



RapidMatch™ = Successful M&A

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