

# Security Finance Newsletter

December 2006

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Volume II, Issue 4

## SOKOLOFF RANKINGS

Back in the news again this quarter is **The Geo Group** (NYSE:GEO). The **Geo Group** offers correctional, detention, and residential treatment services to federal, state and local government agencies. **GEO** continues to move up in the **Sokoloff Rankings**. Last quarter we highlighted their jump from 37 to 24. This quarter, they carry on their ascent, being our biggest mover, going from 24 to 18. Starting in mid-March, **GEO** shares began a climb from an average of \$15 to the current level of almost \$40.

The **Geo Group** continues to gain new business. It received several contract awards, amendments or continuations this quarter. Included are contracts for the States of Florida, New Mexico and Texas which are expected to add \$48.3 million in operating revenues.

### Most notable, however, was the impact of GEO's acquisition last year of Correctional Services Corp.

The deal turned out to be highly accretive, leading to a surge in 3<sup>rd</sup> quarter profit. Net income went from 3 cents a share a year ago to 46 cents a share this quarter. **Correctional Services Corp.** was acquired by **GEO** for \$62 million in November of last year.

Despite this apparent home run, investors showed some hesitation, with little net movement in stock value, following the announcement September 20th that **GEO** had agreed to acquire **CentraCore Properties Trust** (a real estate investment trust that owns 13 correctional facilities). The company will be taking on considerable debt to help finance the approximately \$400 million total purchase price.

**Secure Computing Corporation** (NASDAQ: SCUR), a developer of network security solutions, also makes its second appearance in the **Sokoloff Rankings**. **This quarter bodes much better for SCUR**. Last quarter **SCUR** dropped from 7 to 13 because of investors' unfavorable perception of the acquisition of **CipherTrust, Inc.** This quarter they moved back up, from 13 to 9.

Part of this move can be attributed to **SCUR** completing the **CipherTrust** acquisition on August 31. The transaction was for \$185 million in cash, 10 million shares of **SCUR** stock and a \$10 million seller note.

**Investors found confidence in the closing of the sale, especially when Secure's balance sheet showed only \$89 million in debt versus the \$115 million that was expected from the purchase.** This highlighted the firm's ability to produce



excellent cash flow. Furthermore, **IBM's \$1.3 billion purchase of Internet Security Solutions** may have indirectly added a positive spin as it validated the direction **SCUR** was moving in. Analysts took note that big acquisitions in the Security Industry are a trend with further consolidation being likely.

Moreover, on September 14th, **SCUR** was faced with a non-compliance letter from NASDAQ in the acquiring of **CipherTrust**. **SCUR** quickly took action to amend their

merger agreement and on September 24 the company regained compliance with NASDAQ.

Says **Chairman, President & CEO, John**

**Analysts took note that big acquisitions in the Security Industry are a trend with further consolidation being likely.**

**Mc Nulty** "The third quarter was great for **SCUR**. In 38 business days we secured financing, closed the **CipherTrust** transaction and achieved our revenue and earnings goals, along with record billings."

**ActivIdentity** (NasdaqGM:ACTI) is also moving up, rising to #10 from #15. Last newsletter they were highlighted for their jump from #25 to #15 due to the impending

October deadline for the Homeland Security Presidential Directive 12 (HSPD-12). This quarter they follow through, having secured several HSPD-12 compliant contracts, including the **Department of Homeland Security's Transportation Security Administration** and the **U.S. Military**. The **Stanford Group Company** values the HSPD-12 opportunity at approximately \$1.3 billion over five years (*Identity Solutions Industry Outlook, July 2006*).

Lastly, we welcome **L-1 Identity Solutions Inc.** (NYSE:ID) which makes an impressive debut at number 3 on our rankings chart. **L-1** provides identity protection solutions and is the result of the merger between **Viisage Technology, Inc.** and **Identix Incorporated**. The merger was approved by shareholders and the Boards of Directors of both companies on August 29, and started trading on the New York Stock Exchange on August 30, 2006.

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550 North Brand Blvd. Suite 1650 Glendale, CA 91203  
(818) 547-4500, fax (818) 547-4388, [www.sokoloffco.com](http://www.sokoloffco.com)

## ARE THE DAYS OF THE SPECIALIST GONE?

**Convergence:** It has become the main buzzword of the Security industry in the last several years as technological advancements create demand for multi-functional, integrated systems. Especially as IT and Physical Security have become tightly linked, specialists that used to design, engineer and install their specialized piece of the pie are now confronted with a much broader menu. Are the days of the specialist gone?

**Peter A. Sokoloff & Company** interviewed **Rick Alexander, GM South Region Fire & Security of Johnson Controls, Bob Sommerfeld, President of Adesta, LLC, and Ron Ludvigsen, President of CGL Electronic Security Inc.**, to get their ideas on the role of the specialist in this evolving marketplace.

**Johnson Controls, Adesta, and CGL Electronic Security Inc.**, have all restructured their companies to meet the new technology needs of their customers.

**Johnson Controls' \$320 million Fire and Security Group** is 38 years old. **Rick Alexander** explained how the profile of the business has changed. "The fire and security business within Johnson Controls as a whole, used to be a 'me too business.' In other words, years ago, our Controls business would close a new opportunity and then would follow the sale with –'you know, we also do fire and security.' That's no longer the case."

Determined to increase their investment in the Security business **JCI** acquired **Card Key** in 1998 as a major step in making the Fire and Security division a visible, specialized business. Three years ago Johnson Controls redesigned their overall business to better serve the needs of customers with increasingly complex and far ranging requirements. "We had a tremendous amount of talent in specialized areas but they were all separate, we couldn't leverage it. **This redesign helped bring all the specialists more under one roof so we could go to the market offering one complete package instead of separate specialties.**"

**Adesta's** basic business for many years was designing and building large complex

communications networks. In 2003, **Adesta** added business development resources to focus on the security market and formed the **Adesta Security Group** to address the market operationally.

With the advent of converging technologies the company has added IT experts to the core staff and integrated them into the



**Richard Alexander, GM South Region, Fire and Security, Johnson Controls**

Mr. Alexander has served in leadership roles within the Fire and Security industry for over 23 years. His career has been wide ranging, with national and international experience.

*"Manufacturers have really gone to network based solutions and those solutions require different skills and different training."*

**CGL Electronics**, like the other two companies, have invested heavily in technicians that are IT savvy. Converged jobs are 90-95% of their work. "Several

years ago we wouldn't have even looked at wireless data transmission because of the inconsistency in service. It wasn't a proven technology. Today we're very comfortable working with any of this new converged technology" stated **Ludvigsen**. As there is a need to tie divergent systems together to provide a single monitoring point **CGL** approaches the business from this monitoring perspective and also does a lot of wireless installing which can be very cost effective. "You don't have to dig up a whole parking lot to lay cable."

Because **Johnson Controls' overall philosophy is to be a single source solution provider for all building efficiency solutions**, they have had to meet the demand for converged integration as well. "Several years ago we wouldn't have bid on any type of digital network controlled systems, VoIP, video analytics, advanced RF transmission technology or Wi-Fi, but today it's commonplace"

says **Alexander**. Though not as high as the other companies, 75% of every security job they propose involves IT. "We were just recently selected for a very large security project which has almost 30 different types of systems included in the solution."

With the myriad of technologies out there, companies are sometimes faced with jobs that they are not able to fulfill internally.

**How do they address the demand to deliver solutions that are not the core expertise of their**

**business? Partnering is a significant way that companies have tackled**

security process. "Security Integrators must now be computer and network savvy and are expected to have capabilities and certifications that include IT network systems. *"Having IT experts on staff gives us an edge because clients can ask the tough questions and be assured they are getting a reliable answer"* says **Bob Sommerfeld**. Today nearly 100% of all proposals Adesta submits to prospective customers include converged technical requirements.

**CGL Electronics** primarily specializes in design, sale, installation, and service of integrated security management solutions. **Ron Ludvigsen** points out that **CGL** had to change because the manufacturers changed.

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



**GP Investments, Inc.**

Has acquired a majority interest in



**ALLCOM**  
Global Services

*The undersigned advised AllCom Global Services.*



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**Ron Ludvigsen, President, CGL**  
Ron has more than 20 years of experience in the security industry and is a founder of CGL.

the issue. **Sommerfeld** says "We have worked very hard to establish a considerable number of relationships and strategic alliances. In order to be able to respond to the diverse requirements of today's RFPs, and satisfactorily implement complex projects, **partnering is a must.**" **Alexander** said "We would fail without the right partnerships and the right specialist partners because the breadth of solutions is just too broad."

**Alexander** cited "thorough analysis" as the key to deciding whether a job should be taken or not. "We need to understand the solution they desire and how and if a solution can be delivered. If it can be delivered, then we will partner with companies with whom it is a core competency. But if it looks like we can't provide a viable solution, we won't move forward. We won't do it if we don't have the opportunity to be successful."

**Ludvigsen** says he's open minded and evaluates whether a solution he is being asked to deliver compliments his business. "If I feel that it has a financial upside and that I can integrate it into my business, I will work with a manufacturer to develop new core competencies." If it's not a good vertical market but part of a bid, **CGL** uses subcontractors that have expertise in the area or they turn down the job.

The rules have changed for securing jobs as well. **Alexander** says, "Years ago, security projects had nothing to do with IT. IT is now very much a part of the decision making process. We can no longer just sell to security decision makers, we also have to establish dialogue with IT decision makers."

**Ludvigsen** talked about the difference in the clientele: "We used to deal with the Director of Security or Director of Public Safety (DPS). Today in 90% of our applications there are IT professionals involved. Our job transitions easier when IT guys are involved."

According to **Sommerfeld** all of this adds up to a better return on investment for the end user. "The IT department works hand-in-hand with the security department to understand the operating requirements an IT based security solution will bring to their existing networks. The end result through the integration of these systems is lower

**operations, capital and maintenance expense."**

With the convergence of all these technologies, there may not be room for the traditional specialist. Are the days of the specialist over? **Ludvigsen** says this isn't what's happening at all. "I don't think specialists are being phased out. What's happening is a change in the marketplace with **Cisco** and **Microsoft** coming into the playing field." He feels that **Cisco** and **Microsoft** will add

**Bob Sommerfeld, President of Adesta**

Mr. Sommerfeld has over 30 years of industry experience. He joined Adesta in 1991, and has been President since 2000.



**Sommerfeld** doesn't believe the days of specialization are necessarily over either, but said that the specialist will now become one member of a larger proposal or implementation team. "Specialists can develop niche markets, but to grow the business and be responsive to today's customers and markets, **integrators need to be total solution providers by embracing convergence.**"


**Alexander** sees the changing landscape as beneficial to the proper vetting of unqualified specialists. "Training takes place as a matter of course. Specialists focus on a small piece of the pie - the challenge is that people are making whole pies. Qualified specialists that have a long term view and business acumen will be the ones to benefit from the new roles that are presented to them." He further stated, "The specialists can still be successful, but they must be able to change and work with other integrators. **What is over, is the day of being able to do it all by yourself.**"

**Contact**

**Sokoloff & Company**


Please contact **Mark Schwartz**, Managing Director, New Business Development, for a confidential consultation about your company's merger and acquisition needs. (818) 547-4500  
mschwartz@sokoloffco.com

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**NATIONAL**  
Network Services

Has been acquired by



**RED HAWK**  
INDUSTRIES

*The undersigned advised National Network Services.*



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a lot of credibility to the security professional and will separate the companies that have invested training and certification in their employees from those that haven't.

**Ludvigsen** went on to comment that it would be a huge drawback for the specialist to be phased out. "What we'd end up with are people who have a broad knowledge base about a bunch of products. **They'll be the jack of all trades but master of none.** They'll know how to deal with multiple products but will have no way to get them installed to meet specific customer needs. **If we lose the specialist, it will have a real negative impact on the marketplace.**"

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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)

**CGL Electronics**  
experience in the security

## SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC SECURITY COMPANIES

### Q3 2006 Reports and August 14, 2006 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 marketplaces. 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 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. Changed from previous list: Identix (IDNX) merged with Viisage (VISG) and have become L-1. Internet Security Systems (ISSX) was acquired by IBM.

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Current Rank	Previous Rank	Company	Symbol	Stock Price 11/14/2006	52 Week Range	Market Cap 11/14/2006	(000s)			(000s)			(000s)			EVS	P/E	EVM
							2003 Revenue	2004 Revenue	2005 Revenue	1st Q 06 Revenue	2nd Q 06 Revenue	3rd Q 06 Revenue	2003 Revenue	2004 Revenue	2005 Revenue			
1		Taser Corp.	TASR	9.26	5.94-11.38	574.65	24,456	67,640	47,694	13,894	16,225	18,312	56.8%	9.03	N/A	59.92		
2		Cogent, Inc.	COGT	12.14	10.10 - 27.00	1,158	32,179	87,688	159,889	22,731	13,217	23,400	-39.1%	7.45	31.78	18.41		
3	New	L-1 Identity Solutions Inc	ID	14.61	12.40 - 19.25	717.34M	37,371	67,466	66,224	23,438	24,868	39,800	178.2%	6.46	N/A	153.69		
4		File Systems, Inc.	FLR	33.64	20.67 - 32.80	2,31B	311,979	482,651	508,561	117,339	138,550	133,200	17.8%	4.40	27.17	15.76		
5		Gentex Corporation	GNTX	17.23	12.74 - 21.00	2,47B	469,019	505,666	536,484	139,021	142,391	141,266	2.3%	3.71	24.34	13.73		
6		RAE Systems, Inc.	RAE	3.75	2.40 - 4.54	221.67M	31,333	45,540	60,293	12,400	15,900	18,600	15.2%	3.24	N/A	10.22		
7		Zebra Technologies Corp.	ZBRA	35.59	29.23 - 47.97	2,51B	536,397	663,054	702,271	175,814	187,421	186,400	6.1%	3.14	30.97	13.08		
8		Lescard Corp.	LGRD	11.91	9.40 - 22.75	140.78M	16,963	28,554	39,857	14,087	10,554	6,294	-27.6%	2.90	298.20	129.23		
9		Secure Computing Corp.	SCUR	6.98	4.82 - 15.29	378.30M	76,213	93,378	109,175	42,617	36,746	43,700	60.4%	2.83	N/A	31.48		
10		ActivIdentity Corp.	ACTI	5.26	3.15 - 5.69	239.85M	38,262	26,910	42,156	11,092	12,943	17,868	89.9%	2.33	N/A	NA		
11		First Advantage Corp.	FADV	20.57	17.91 - 31.07	1,20B	166,495	266,537	643,749	194,348	205,123	212,036	24.8%	1.72	18.48	11.40		
12		Napco Security Systems, Inc	NSSC	5.61	4.95 - 11.84	112.70M	57,340	58,093	65,229	17,085	21,060	14,000	-1.3%	1.69	18.51	28.98		
13		Tyco International	TYCO	29.93	24.65 - 31.28	60.30B	36,801,300	40,153,000	39,727,000	10,206,000	10,288,000	10,760,000	8.3%	1.67	18.45	25.48		
14		Megal Security Systems Ltd.	MAGS	9.25	8.28 - 14.20	96.11M	59,361	60,974	61,282	13,500	14,874	16,200	2.5%	1.60	N/A	NA		
15		DRS Technologies, Inc.	DRS	46.86	35.83 - 59.50	1,888B	1,001,250	1,308,600	1,735,532	645,653	630,265	711,500	96.6%	1.56	18.04	9.61		
16		United Technologies Corp.	UTX	65.61	53.00 - 67.47	85.85B	31,034,000	37,445,000	42,725,000	10,615,000	12,264,000	12,163,000	11.5%	1.33	18.94	9.17		
17		Safenet, Inc.	SFNT	22.75	14.50 - 36.70	481.30M	617,490	614,548	612,900	185,881	69,500	76,800	22.0%	1.40	N/A	12.15		
18		The Geo Group	GEO	39	14.69 - 40.30	758.86M	2,678,100	3,043,400	3,285,300	968,700	1,017,900	1,012,700	21.3%	1.36	57.02	9.07		
19		The Stanley Works	SWK	50.41	41.60 - 54.59	4,10B	2,678,100	3,043,400	3,285,300	968,700	1,017,900	1,012,700	21.3%	1.29	16.14	7.93		
20		Armor Holdings, Inc.	HON	42.96	35.24 - 44.48	35,088B	23,103,000	25,601,000	27,653,000	7,241,000	7,898,000	7,952,000	15.3%	1.27	14.42	9.24		
21		Honeywell	AH	52.66	41.06 - 65.11	1,87B	9,876,200	9,393,600	10,548,900	2,711,000	3,041,900	2,766,000	5.8%	1.19	11.31	10.08		
22		Ingersoll Rand	IR	37.89	34.95 - 49.00	11,62B	9,876,200	9,393,600	10,548,900	2,711,000	3,041,900	2,766,000	5.8%	1.19	19.67	13.42		
23		L-3 Communications Holdings	LLL	80.1	66.50 - 88.50	9,85B	5,061,594	6,896,997	9,444,700	2,903,800	3,083,400	3,100,000	23.7%	1.19	45.52	11.78		
24		Diebold	DBD	36.40	40.46 - 85	3,07B	2,109,673	2,380,910	2,587,049	623,691	726,396	730,739	17.4%	1.19	45.52	11.78		
25		ManTech International	MANI	35.09	24.53 - 38.75	1,18B	701,601	842,422	980,290	275,306	287,465	283,695	8.1%	1.02	25.05	8.20		
26		Lockheed Martin Corp.	LMT	88.04	59.00 - 89.89	37,32B	31,824,000	35,524,000	37,213,000	9,214,000	9,961,000	9,605,000	4.4%	0.99	16.26	9.51		
27		Brinks Company	BCQ	54.35	45.06 - 58.35	2,64B	3,998,600	4,718,100	2,549,000	663,600	697,500	720,600	10.7%	0.96	5.69	8.06		
28		Checkpoint Systems, Inc.	CHKP	18.75	15.37 - 29.91	736.14M	723,262	778,679	721,018	142,219	165,001	167,799	-9.6%	0.94	23.76	10.55		
29		Northrop Grumman Holdings	NOC	66.54	55.20 - 71.37	22,96B	26,206,000	29,853,000	30,721,000	7,184,000	7,510,000	7,433,000	2.0%	0.85	16.58	9.95		
30		Siemens AG	SI	96.44	73.78 - 99.53	85.94B	86,088,010	92,688,428	90,896,136	26,059,000	27,342,800	30,560,000	29.5%	0.83	27.17	7.97		
31		OSI Systems	OSIS	20.23	16.60 - 23.34	338.02M	182,644	247,069	385,041	108,092	125,586	115,500	13.4%	0.81	N/A	13.92		
32		FirstService	FSRV	23.59	22.64 - 27.75	703.93M	609,794	812,290	1,068,134	122,100	325,504	338,700	24.4%	0.68	10.7	11.22		
33		Johnson Controls	JCI	84.7	66.36 - 90.00	16,60B	22,646,000	26,553,400	27,479,400	8,167,400	8,390,000	8,200,000	18.8%	0.65	16.23	9.11		
34		CompuDyne Corporation	CDCY	6.71	4.94 - 7.60	56.55M	193,263	142,782	141,650	40,470	36,394	34,700	3.6%	0.56	N/A	8.10		
35		URS Corporation	URS	41.53	36.46 - 49.80	2,16B	3,186,714	3,381,963	3,917,565	998,149	1,069,991	1,090,000	13.2%	0.53	18.9	12.50		
36		Henry Bros Electronics	HBE	3.37	3.20 - 7.09	19.87M	18,261	29,726	42,156	9,155	10,030	8,300	-26.5%	0.51	60.18	105.84		
37		Richardson Electronics, Ltd.	RELL	9.98	6.24 - 10.30	162.08M	464,517	520,069	578,724	152,128	171,830	165,755	4.8%	0.44	N/A	10.23		
<b>Total</b>				<b>1250.24</b>	<b>Consecutive Growth over previous period:</b>		291,414,007	326,566,417	339,953,350	90,542,625	96,716,948	99,648,569	<b>3.0%</b>	<b>21.06%</b>	<b>2.03</b>	<b>31.37</b>	<b>23.91</b>	
								<b>12.1%</b>	<b>4.1%</b>	<b>0.2%</b>	<b>6.9%</b>	<b>3.0%</b>	<b>13.4%</b>	<b>1.29</b>	<b>18.90</b>	<b>11.22</b>		

\* 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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