

Security Finance Newsletter

March 2007

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Volume III, Issue 1

SOKOLOFF RANKINGS

The Sokoloff & Company Rankings* saw several companies wrap up the year on a high note. **SafeNet (NASDAQ:SFNT)** was the exceptional mover in the fourth quarter, followed by **Ingersoll Rand (NYSE:IR)** and **Secure Computing (NASDAQ:SCUR)**.

SafeNet engages in the development, marketing, and sale of hardware and software information security products. It saw a jump in the rankings from 17 to 12. The company **announced strong fourth quarter and full year preliminary results as well as reaffirming previous financial guidance.** CEO **Walter Straub** said, "We are encouraged by the growth in pipeline and backlog. These are trendlines **SafeNet** has not experienced in some time and are particularly encouraging in light of the fact that they have occurred alongside strong revenue performance in the midst of the restatement process."

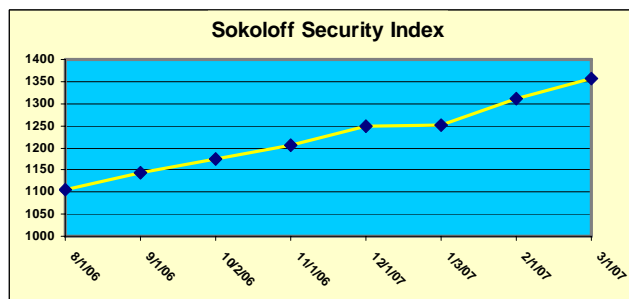
SafeNet has been under scrutiny since last May for backdating stock options, precipitating a need to restate more than five years of earnings posted with the **Securities & Exchange Commission**. The decision of the **NASDAQ Qualifications Panel** to extend the cure period for a listing violation, thus allowing **SFNT** to remain listed through March 30, 2007, also bolstered investor support.

Furthermore, following the CFO resignation

Safenet announced on March 5th it is being acquired by Private Equity Firm Vector Capital for \$634 million, \$28.75 per share.

in October, the post was filled in January by the promotion of **John W. Frederick**. At the time, **Mr. Straub** commented "Mr. **Frederick** has not only done an admirable job managing the company's restatement process, but has successfully incorporated additional accounting controls and governance to his areas of responsibility."

Ingersoll Rand, a provider of climate control, industrial solutions, infrastructure development, and security products is also a



strong mover in the rankings this quarter. **IR** moved up four notches in the **Sokoloff Rankings** from 22 to 18. There does not appear to be a single reason for this, more likely it is a combination of factors, including a "Buy" recommendation from **UBS**, and a solid year-end 12 month report which included record revenues, earnings and cash flow and Q4 expense cuts. "Our record full year revenues and earnings per share provide clear evidence that our strategy is working, and that our business execution remains solid," said **Herbert L. Henkel**, Chairman, President and CEO.

On December 8th, the company announced a buy back of up to \$2 billion of its common stock. The next day **IR** stock climbed 3%. **Andrew Casey** from **Wachovia** said, "the buy back announcement should be viewed as a positive one, because it shows management's confidence in the

company's future cash flow generation capability."

Finally, **Ingersoll Rand's announcement of the acquisition of the remaining interest of Instrum Rand on February 15 kept the stock climbing.** Instrum Rand is a Russian based company which manufactures, distributes and sells tools. **Henkel** explained: "Russia and Eastern Europe represent major growth opportunities for the enterprise. The addition of manufacturing, engineering and distribution capabilities of **Instrum Rand** will allow us to accelerate our growth initiatives in these markets."

Secure Computing, a developer of network security solutions, makes its third appearance in the rankings as it continues to successfully rebuild investor trust following their acquisition of **CipherTrust, Inc.** in the second quarter. **SCUR** moved up four notches from 9 to 5 and saw its big spike on February 2, with the stock soaring \$2.02. **This was due to its record setting 2006 earnings report.** Its fourth quarter numbers beat Wall Street's forecasts for sales of the company's **SafeWord Line** which helps regulate access to data based on a user's identity. Moreover, investors have warmed to **Secure Computing's** \$274 million purchase of **CipherTrust** whose products are projected to give **SCUR** an edge and become an industry standard through licensing deals.

*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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BIG FISH SMALL FISH

The old caveat "*Nobody ever got fired for using IBM*" is one that corporate purchasing agents once lived by. A lot has changed since then. Intelligent buying decisions often mean considering smaller vendors alongside the big guys.

Size of vendor does not necessarily mean better or worse. Both large and small vendors offer different capabilities and advantages. With the myriad of choices in the marketplace, selecting the right vendor for a job requires close analysis of qualifications, specifications, delivery schedules and price that each can provide—whether they are large or small.

WORKING WITH SMALLER COMPANIES

Ken Geiszler, President/COO of Keri Systems, Inc., a manufacturer and vendor of products for facility access and security, says one of the major advantages of working with a smaller company is its ability to be flexible and responsive with a commitment to a long-term service strategy. "I think we provide a higher level of service than a large company can," he contends. "For a manufacturer, service can take away from the bottom line. We understand how important it is for the customer to be able to get lots of support. We may lose money on this initially but we know that our focus on service is what builds our reputation and ultimately leads to profit for us."

According to **Geiszler**, larger companies often don't have the luxury of having this long-term view because of the need to generate profits for stockholders. "Sometimes what is in the best interest of the customer is not in the best interest of the shareholders," he says.

Another service benefit from the smaller company can be quick turn around. **Steve Kuntz, President of Microtek Electronics**, a manufacturer of wireless transmission systems for Ethernet, video, audio and data, says that bigger companies strive for good customer service, but their reaction time is often not as fast. "In the search for answers to their questions, large corporations typically send a customer through a maze of different

departments across the organization. We feature a one-stop service which quickly handles multiple issues," **Kuntz** says. "It's nice to deal with one person for everything."

According to **Kuntz**, smaller companies traditionally offer better service simply because building trust and sustained relationships are vital. "We have more of a need," he says. "Every single customer we do business with is important, regardless of their size."



Ken Geiszler
President, Keri Systems

Ken has worked in the security industry since 1985: 10 years at Indala Corporation and for the last 11 at Keri Systems. He has overseen Keri's growth from a midsize provider to one of the largest independent manufacturers of Access Control systems.

product side," says **Kuntz**. A rapid R&D path, unencumbered by corporate roadblocks, makes it generally easier for the smaller company to develop and adopt new technologies. "When you evaluate ROI, the larger the company, the more overhead and constituents you have to satisfy. If we sell 5,000 units, that's good for our size, but for a larger company, it may not pencil out," he explains. This can be a positive note for larger companies who trust in smaller vendors to develop new technologies. The ROI may not make it feasible, but they can look to the smaller firms to see what kind of acceptance the new solutions attract.

Kuntz adds that losing business to larger companies rarely has anything to do with product capability. Larger companies carry a big footprint with lots of advertising dollars. **Geiszler** agrees: "If a person is new to the industry they might look to a bigger company simply because of brand awareness," he says. "Nobody ever got fired for using IBM' holds a lot of water, and this is what we fight against." **Geiszler** contends that when a customer is educated on the services a small company offers, it becomes competitive. "We support products for years to come. Our job doesn't end after the purchase order gets filled out and the product gets dropped off," he says.

WORKING WITH A LARGER COMPANY

Wendy Diddell, VP & General Manager of Richardson Electronics, a large security distributor, says the benefit of a larger company comes down to price and flexibility. "Size gives larger companies the clout to provide customers and vendors with lower prices and special offers because they can buy in bulk. They also tend to have access to more capital," she says. Having more capital, according to **Diddell**, gives her company the ability to negotiate terms with customers and ensures that they have adequate inventory. **Diddell** believes

Wendy Diddell EVP/ GM Richardson Electronics/

Wendy has been EVP/GM for Burtek Systems since June 2001. Prior to Richardson Electronics, she was the VP for Ultrak, Inc.

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GP Investments, Inc.

Has acquired a majority interest in

ALLCOM
Global Services

The undersigned advised AllCom Global Services.



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Geiszler adds that a smaller company often has a "niche" which helps to keep the solution focused. "We only do access control, nothing else, and all of our resources are centered in this area," he says. **Geiszler** explains that the attention on one area can win customers. "What happens, is a lot of these larger companies might buy up a lot of smaller companies to have a whole solution," he says. "Then when a customer purchases that solution, they may be frustrated with one part of it and drop the whole company because of that. Big companies run the risk of losing business this way."

"Smaller companies tend to be more entrepreneurial on the



Steve Kuntz
President, Microtek
Steve has been in the Security Industry for 16 years. Prior to joining MicroTek he was VP of Sales and Marketing at Gyyr, Inc. Early in his career, Mr. Kuntz spent 4 years as a Manufacturer Representative in the Midwest.

it is critical to maintain an entrepreneurial spirit.

Diddell also views Richardson's extensive network of offices and branches across North America and Europe as a benefit. "We employ product and network specialists who in turn offer specific training and technical support in a consistent manner."

Andrew Bulkley, Manager of Hardware for Engineered Systems for GE Security, Inc., says the industry was formerly an amalgamation of smaller companies, but that larger companies like **GE**, are the only companies that can provide the full suite of networked solutions needed by today's customer. **Bulkley** sees a trend in the marketplace of customers desiring a one-stop solution. "Obtaining as many components from one manufacturer whenever possible is becoming ideal," he says. "This alleviates the blame game in maintenance and system problems by eliminating the need for multiple interfaces for both hardware and software." Having a total solution provided by larger companies translates into faster implementation and lower costs. It also prevents guess work and decision making in finding other pieces of the solution to work with what is already installed.

Bulkley further points to the variety of options that a large company like **GE** is able to offer. "In addition to the many products and solutions we offer, end-users can choose any of many small, medium and large integrators who feature the **GE** brand. Our experts work hand-in-hand with the integrators whenever wanted, but the actual business is conducted between the end-user and the integrator." **Bulkley** adds that **GE** has very stringent standards, such as requiring integrators to pass technical training classes so end-users will feel that the job will be done right.

"Losing business to a small company happens when customers are seeking that one-to-one relationship that local companies are able to deliver that we sometimes cannot," **Diddell** says. "On some occasions smaller companies are able to compete better on price. They may be willing to work on lower margins because they don't have corporate directives and shareholders setting expectations," she adds. "However, when you combine our access to resources and capital, our extensive line of products, and our wide geographical reach and knowledgeable support staff, we are able to compete very well."

Burtek Systems

Richardson Electronics/
004. Before joining Richard-
SVP of Sales and Marketing

"There are those who are intent on buying only the cheapest solution, which, oftentimes is proprietary," **Bulkley** says. "This may be a short-term financial gain, but it almost assuredly spells trouble for future upgrade requirements that address today's world of convergence between IT and physical security."

Andrew Bulkley, Manager of Hardware for Engineered Systems for GE Security, Inc.

Andy has been with GE Security for 19 years. He also works with the Smart Card Alliance to bring cutting edge technology and standards compliance to GE's Security products.



Bulkley says a user's first line of response is with their integrator. "Select a firm that has a good reputation and that you feel will provide you with the servicing and solutions you want," says **Bulkley**. According to **Kuntz**, small companies are hungry to prove themselves. "Small companies are typically more flexible and will work hard to foster a mutually beneficial relationship so you have a positive experience," he says.

SO HOW DO I CHOOSE?

A wise purchasing agent insists on strong references, a competitive bidding process and good service. Many purchasing decisions are challenging and complex. Whether it is a large or small vendor, the decision often hinges critically on which vendor communicates well with the customer and understands best what is really needed. What meets the specifications, who has the best price and who can deliver are all important. Sometimes a small vendor wins out, sometimes it's the large firm.

Contact Sokoloff & Company

Please contact **Mark Schwartz**,
Managing Director, New
Business Development, for a
confidential consultation
about your company's
merger and acquisition needs.
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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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TIPS FOR WORKING WITH LARGE AND SMALL COMPANIES

A good provider of any size should be able to offer a solution containing products and service, says **Geisler**. "Whether dealing with a large or small company, don't be afraid to ask if you feel you are not getting exactly what you need."

According to **Diddell**, the best tip in working with a large company is planning. "With a larger company, you're likely to get better selection, lower price and more services, but you might have to wait longer for it," she says.

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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 2006 Reports and February 26, 2007 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: **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 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	Price 2/26/2007	52 Week Range	Market Cap 2/26/2007	(000s)			(000s)			4th Q 06 Revenue	4th Q 06 Incr/Decr	EVS	P/E	EVM		
							2004 Revenue	2005 Revenue	2006 Revenue	2004 Revenue	2005 Revenue	2006 Revenue							
1	2	Cogent, Inc.	COGI	11.05	10.10 - 23.71	87,688	159,889	101,700	42,300	-8.5%	7.88	N/A	94.59						
2	1	Taser Corp.	TASR	8.42	6.86 - 11.38	521,39M	67,640	67,700	19,300	36.20	7.50	N/A	36.20						
3	3	L-1 Identity Solutions Inc **	ID	16.71	12.40 - 19.25	1,21B	66,224	164,400	76,300	410.1%	6.25	28.93	15.45						
4	4	Fir Systems, Inc.	FLIR	35.82	21.45 - 36.48	2,35B	508,551	575,000	185,900	19.0%	4.29	28.32	15.73						
5	9	Secure Computing Corp.	SCUR	9.31	4.82 - 12.90	607,26M	109,378	176,700	109,700	70.7%	3.89	N/A	35.36						
6	5	Gentex Corporation	GNTX	17.30	12.74 - 17.92	2,46B	505,666	536,484	149,600	8.1%	3.78	26.36	13.42						
7	8	LaserCard Corp.	LCRD	13.34	9.40 - 22.75	157,88M	28,544	39,857	6,184	-38.6%	3.50	N/A	NA						
8	7	Zebra Technologies Corp.	ZBRA	41.79	29.23 - 48.31	2,94B	702,271	759,524	209,900	17.1%	3.24	36.37	14.20						
9	3	RAE Systems, Inc.	RAE	3.39	2.40 - 4.54	200,39M	60,293	67,986	21,095	15.5%	2.95	N/A	117.65						
10	11	First Advantage Corp.	FADV	26.30	17.91 - 27.10	1,53B	643,749	817,600	206,100	21.2%	2.13	23.09	10.85						
11	10	ActivIdentity Corp.	ACTI	5.27	3.47 - 5.69	240,42M	42,156	53,375	14,600	27.3%	1.85	N/A	NA						
12	13	Tyco International	TYC	32.04	24.97 - 33.29	63,35B	40,153,000	39,727,000	10,330,000	7.6%	1.73	17.83	8.81						
13	17	Safenet Inc.	SFNT	27.76	14.50 - 27.76	587,29M	201,600	263,051	No report	N/A	1.72	N/A	14.94						
14	14	Magal Security Systems Ltd.	MAGS	10.89	8.51 - 14.20	113,17M	60,974	61,282	22,406	20.7%	1.68	137.85	21.38						
15	12	Nannc Security Systems, Inc.	NSSC	5.25	4.95 - 11.84	105,47M	58,093	65,239	16,100	-6.5%	1.65	18.16	10.20						
16	15	United Technologies Corp.	UTX	67.23	56.58 - 69.49	66,95B	37,445,000	42,725,000	12,787,000	13.6%	1.52	18.12	9.90						
17	16	DRS Technologies, Inc.	DRS	54.14	35.83 - 59.50	2,19B	1,308,600	1,308,600	68,400	-82.4%	1.51	19.45	10.75						
18	18	The Geo Group	GEO	48.70	14.70 - 52.30	940,84M	612,900	860,882	247,404	50.1%	1.46	43.25	13.18						
19	22	Ingersoll Rand	IR	45.11	34.95 - 49.00	13,86B	9,393,600	10,546,900	2,890,000	6.5%	1.38	14.11	9.60						
20	19	The Stanley Works	SWKS	57.72	41.60 - 58.99	4,69B	3,043,400	3,285,300	1,019,300	21.4%	1.37	16.89	8.82						
21	20	Honeywell	HON	47.62	35.53 - 48.50	38,09B	25,601,000	27,653,000	8,280,000	13.8%	1.34	16.89	9.48						
22	21	Armor Holdings, Inc.	AH	64.96	49.85 - 68.07	2,31B	979,683	1,636,930	801,000	77.0%	1.30	17.87	10.55						
23	23	L-3 Communications Holdings	LLL	85.64	66.50 - 89.42	10,70B	6,896,957	9,444,700	3,390,000	16.9%	1.22	20.31	10.38						
24	24	Diebold	DBD	47.69	36.93 - 48.42	3,12B	2,380,910	2,587,049	825,400	1.8%	1.19	36.85	12.58						
25	26	Lockheed Martin Corp.	LMT	101.47	69.87 - 103.50	42,75B	35,526,000	37,213,000	10,840,000	6.0%	1.14	17.51	9.47						
26	27	Brinks Company	BCO	61.47	47.76 - 66.12	2,98B	4,718,100	2,549,000	755,900	14.0%	1.06	5.29	8.30						
27	25	ManTech International	MANI	36.72	25.75 - 38.75	1,24B	842,422	980,290	290,710	11.4%	1.06	26.21	11.02						
28	28	Checkpoint Systems, Inc	CHKP	20.36	15.37 - 29.91	799,35M	778,679	721,018	No report	N/A	1.03	25.8	10.92						
29	29	OSI Systems	OSIS	27.49	16.60 - 26.92	463,45M	247,069	365,041	137,500	17.4%	1.00	N/A	19.65						
30	30	Northrop Grumman Holdings	NOCC	73.84	61.51 - 75.72	25,86B	29,853,000	30,067,000	8,021,000	2.0%	0.97	16.91	8.93						
31	31	Siemens AG	SI	110.99	76.51 - 112.39	98,96B	92,688,428	90,896,136	25,148,000	6.1%	0.93	27.40	11.87						
32	36	Henry Bros Electronics	HBE	5.64	3.20 - 6.65	33,25M	29,726	42,156	14,700	22.0%	0.82	98.95	20.63						
33	33	Johnson Controls	JCI	96.52	66.75 - 99.67	18,97B	26,553,400	27,479,400	8,200,000	8.9%	0.73	18.58	10.14						
34	32	FirstService	FSRV	25.38	21.81 - 27.00	758,35M	441,333	651,376	374,800	26.3%	0.67	11.51	7.80						
35	35	URS Corporation	URS	45.98	36.46 - 49.80	2,39B	3,381,953	4,240,150	1,086,000	1.4%	0.59	17.89	9.10						
36	34	CompuDyne Corporation	CDCY	7.22	4.94 - 8.79	60,86M	142,782	No report	No report	N/A	0.58	60.17	12.36						
37	37	Richardson Electronics, Ltd.	RELL	9.39	6.24 - 10.30	153,76M	520,069	637,940	165,800	6.4%	0.41	N/A	10.46						
Total							326,183,869	338,444,347	96,694,299										
Index							1405.92	Growth over previous period:	13.0%										
No report							- As of press time, these companies had not yet announced their Q4 and Annual Results												
Average																			
Median																			
Quarterly Growth																			
EVS																			
P/E																			
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2006 Revenue																			
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2004 Revenue																			
4th Q 06 Revenue																			
4th Q 06 Incr/Decr																			
EVS																			
P/E																			
EVM																			

* Companies are ranked according to EVS. Enterprise Value to Sales is calculated by dividing the Enterprise Value by trailing twelve month revenues. **L-1 revenue for the fourth quarter of 2006 was \$76.3 million compared to \$15.0 million in the fourth quarter of 2005, an increase of \$61.3 million. Of the increase, \$57.1 million relates to acquired businesses including Integrated Biometrics Technology LLC (IBT), SecurMetrics, Inc., Iridian Technologies, Inc., Identix Incorporated, and Spectral LLC, and \$4.2 million, or approximately 28 percent, represents organic growth at the historical operations of the Visage Technology, Inc. business unit.



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