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December 2011
Senior Secured Credit Facility was provided for the acquisition of



Syndication Agent

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June 2011
Senior Secured Facilities were provided for the recapitalization of



Documentation Agent

\$155,000,000

May 2011
Senior Loan Facility provided in support of Lindsay Goldberg's acquisition of



\$173,000,000

April 2011
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January 2011
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Booz | Allen | Hamilton



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December 2010
Senior Secured Credit Facilities were provided for the acquisition of



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Global Security Finance 250

Published by:
Global Security Finance
A division of VB/Research Ltd.
50-52 Wharf Road
Wenlock Business Centre, Gr. 06
London, N1 7EU
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www.globalsecurityfinance.com

Global Security Finance 250

Published by
Global Security Finance
A division of VB/Research Ltd.
50-52 Wharf Road
Wenlock Business Centre, Gr. 06
London, N1 7EU, UK

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Foreword

Global Security Finance



Douglas Lloyd
 Founder & CEO
 Global Security Finance



I am delighted to launch the inaugural Global Security Finance 250 guide, our annual reference source that tells the market who the real decision-makers are in the security industry.

The underlying premise of the Global Security Finance 250 was always to honor the key players in the industry - those who are influencing the future direction of the sector through their advice, investment, introductions and vision. This is why the core of the guide has been developed around the league tables. It also explains why we have adopted a long term (2 year) ranking methodology, which is designed to reward sustained excellence. So let me begin by congratulating the market leaders:

Selected League Table Winners 2012 (see pages 5 to 13 for the complete league tables)

- Leading investor (# announced deals)
[Intel Capital Corp](#)
- Leading investor (by \$ amount)
[Carlyle Group LLC](#)
- Leading financial adviser (# announced deals)
[Raymond James & Associates, Inc.](#)
- Leading financial adviser (by \$ amount)
[Goldman Sachs](#)
- Leading legal adviser (# announced deals)
[Kirkland & Ellis](#)
- Leading legal adviser (by \$ amount)
[Cleary Gottlieb Steen & Hamilton LLP](#)

Alongside the league tables, the guide also includes an exhaustive analysis of financing and M&A trends in the sector. Whether you are interested in the number of new investors investing each quarter, buyout or M&A activity trends since 1Q10 or investment distribution by sub-sector we have made the information available to you. As usual, this data has been compiled by our in-house data analysts using Global Security Finance's databases.

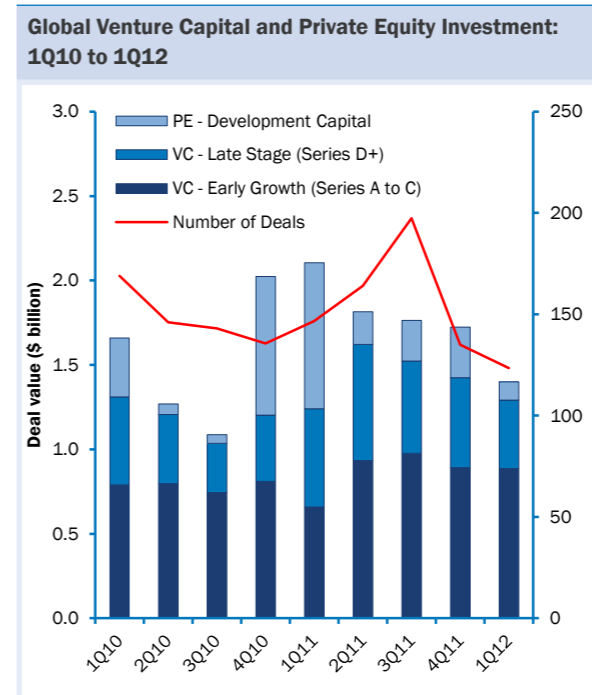
Importantly the league tables and the industry overview paint a positive picture, despite market turbulence during the last two years. Total investment has remained reasonably stable since 1Q10 although deal numbers have declined significantly, new investor interest in the sector is still robust and M&A deal activity has continued to grow even if overall deal value has fallen below historic averages. Perhaps unsurprisingly, the big winner has been cyber security both in terms of investment

▲ 8%

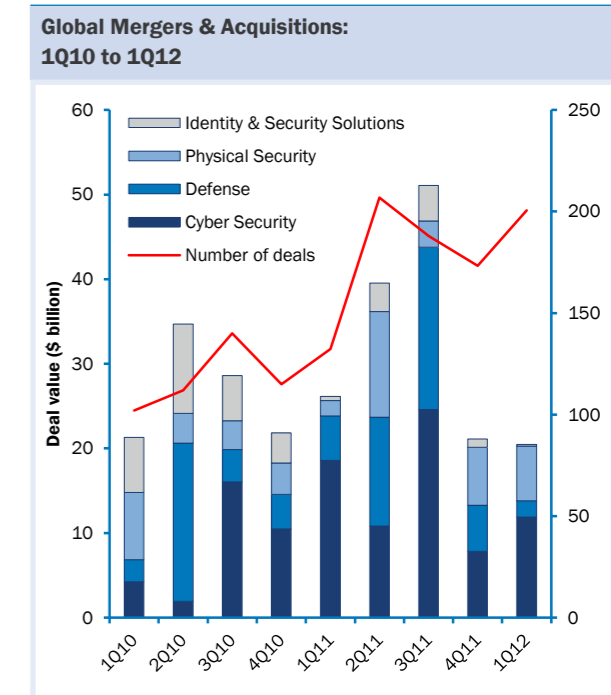
increase in the number of venture capital and private equity deals in 2011 compared to 2010

▲ 49%

increase in the number of M&A deals in 2011 compared to 2010



Source: Global Security Finance



Source: Global Security Finance

and M&A activity. Recognizing this trend we launched the Cyber Security Finance Forum in 2011. I hope you will join us at this year's event, which will be held on 15th and 16th October in Washington, DC.

Looking ahead, and after all that is just as important as looking at the past, we decided to interview a select group of advisers who are sitting at the forefront of the industry to give us their views of the market today and how it is likely to evolve. Individual interviews with senior executives from Raymond James & Associates, Inc., Houlihan Lokey, KippsDeSanto & Co., Secure Strategy Group, LLC, The McLean Group and Arent Fox LLP are included after the league tables in the Market Insight section.

We believe the combination of forward looking market insight, league tables that rank advisers and investors strictly on their merit, and an analysis of the industry landscape provide a unique window into the health of the security sector. This is a critical industry that affects the well-being of individuals, corporations and governments. It has been a pleasure bringing all this information and data together in a single guide. I hope you find the content valuable. As ever, we welcome any feedback.

Kind regards,

Douglas Lloyd
 Founder & CEO
 Global Security Finance

2nd Annual Cyber Security Finance Forum 2012

October 15 & 16

Washington, DC



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\$13.8bn

invested in private
cyber security
companies in 2011

\$61.6bn

of cyber security
M&A deals transacted
in 2011

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decision-makers
at CSFF
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League Tables

Methodology

The league tables are based on deals that were announced during the two year period commencing on 1 April 2010 and ending on 31 March 2012.

Qualifying transactions must be classified within at least one of the following four sub-sectors: cyber security; physical security; identity security; or defense. For a full description of our sector definitions please visit www.globalsecurityfinance.com.

Deal values have been attributed to every deal, based on the quarter in which a deal was announced. Every quarter, the average deal value is calculated using the total deal value of the lowest 50% of announced deals with disclosed values. Undisclosed deals are attributed the average deal value that corresponds with the quarter in which the deal was announced.

Number of deals ranking: this is defined as the number of individual investments or transactions that have been announced during the period outlined above in which an investor or an advisor has been involved.

- In each category the first twenty advisers or investors are ranked in numerical order based on the total number of transactions in which they have been involved. Other advisers or investors that fall outside the top twenty ranking are listed in alphabetical order.
- Where more than one adviser or investor has been involved in the same number of transactions, the higher ranking is given to the adviser or investor associated with the highest aggregate deal value.

Deal value: the deal value accredited to an investor is calculated for each transaction by dividing the total value of a transaction by the number of investors participating in the fundraising. Financing rounds of an undisclosed size are assigned a total deal value, which is calculated by reference to the average deal value of the lowest 50% of transactions with disclosed values during the quarter in which the transaction was announced.

As our online platform is updated in real time, league table rankings may differ from the time of this release and the data found in our online platform at a later date. The Global Security Finance league tables are based on deal information which has been collected by or provided to our team.. Global Security Finance endeavours to guarantee the accuracy of the deal information used to compile the league tables. At the end of each quarter, organisations are invited to email us a quarterly deal summary in any format to ensure that all relevant deals are reflected in the Global Security Finance league tables. All submissions should be emailed to Katerina Vlasenko at katerina.vlasenko@vbresearch.com. Global Security Finance reserves the rights to decline inclusion of deals that it deems fall outside its definitions or methodology.



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League Tables : Investors

\$ £ ¥ Leading Investors: Analysis by number of announced deals

Rank	Top Investors	Number of Deals
1 ▶	Intel Capital Corp.	35
2 ▶	Sequoia Capital	33
3 ▶	Accel Partners	28
4 ▶	Kleiner Perkins Caufield & Byers	26
5 ▶	New Enterprise Associates	23
6 ▶	Lightspeed Venture Partners	22
7 ▶	Ignition Partners	21
8 ▶	Greylock Partners	20
9 ▶	Battery Ventures	16
10 ▶	Benchmark Capital	16
11 ▶	Khosla Ventures	15
12 ▶	Index Ventures	14
13 ▶	North Bridge Venture Partners	14
14 ▶	Sigma Partners LLC	14
15 ▶	Mayfield Fund	14
16 ▶	Andreessen Horowitz	13
17 ▶	Tenaya Capital	13
18 ▶	Bessemer Venture Partners	12
19 ▶	Draper Fisher Jurvetson	12
20 ▶	Allegis Capital	11

Other Leading Investors

- Alloy Ventures
- Atlas Venture
- August Capital LLC
- Avalon Ventures
- Bain Capital LLC
- Capital Partners
- Crosslink Capital
- DAG Ventures LLC
- Emergence Capital Partners
- First Round Capital
- Foundation Capital
- General Catalyst Partners
- Harris & Harris Group Inc.
- Highland Capital Partners LLC
- Jafco Ventures
- Matrix Partners
- Menlo Ventures
- Meritech Capital Partners
- Mohr Davidow Ventures
- Norwest Venture Partners
- Novak Biddle Venture Partners
- Oak Investment Partners LP
- Paladin Capital Group
- Polaris Venture Partners
- Redpoint Ventures
- Rho Capital Partners
- RRE Ventures LLC
- Samsung Venture Investment Corp.
- Shasta Ventures
- Venrock Associates

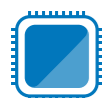
"Investment in cyber security companies is only set to grow stronger as cyber warfare and cyber attacks are expected to become more prevalent in most sectors."

\$ £ ¥ Leading Investors: Analysis by total transaction value

Rank	Top Investors	Total Deal Value (\$ million)
1 ▶	Carlyle Group LLC	3,333
2 ▶	Advent International Corp.	1,656
3 ▶	Goldman Sachs	1,533
4 ▶	Cerberus Capital Management LP	1,083
5 ▶	Charterhouse Capital Partners	618
6 ▶	Veritas Capital	525
7 ▶	Sequoia Capital	387
8 ▶	GTCR LLC	367
9 ▶	Behrman Capital	330
10 ▶	Trivest Partners LP	325
11 ▶	Bain Capital LLC	242
12 ▶	Kleiner Perkins Caufield & Byers	240
13 ▶	Ares Management LLC	224
14 ▶	New Enterprise Associates	214
15 ▶	Accel Partners	214
16 ▶	Golden Gate Capital	197
17 ▶	Battery Ventures	157
18 ▶	Vector Capital	134
19 ▶	Summit Partners	128
20 ▶	AGS Capital Group LLC	100

Other Leading Investors

- Andreessen Horowitz
- Bank of America Corp.
- Bank of Tokyo-Mitsubishi UFJ
- Barclays Private Credit Partners Fund
- Benchmark Capital
- Bessemer Venture Partners
- CoBank
- Darwin Private Equity LLP
- Deutsche Bank AG
- ECI Partners LLP
- General Atlantic LLC
- Greylock Partners
- GSR Ventures
- Ignition Partners
- Index Ventures
- Intel Capital Corp.
- ISIS Equity Partners
- Khosla Ventures
- Lightspeed Venture Partners
- Meritech Capital Partners
- North Bridge Venture Partners
- Oak Investment Partners
- PAR Capital Management
- Raymond James & Associates, Inc.*
- Royal Bank of Canada
- Royal Bank of Scotland Group plc
- Technology Crossover Ventures
- Third Security LLC
- Venrock Associates
- Warburg Pincus LLC



Cyber Security Investors: Analysis by number of announced deals

Rank	Top Investors	Number of Deals
1 ▶	Sequoia Capital	28
2 ▶	Accel Partners	25
3 ▶	Intel Capital Corp.	24
4 ▶	Lightspeed Venture Partners	20
5 ▶	Ignition Partners	20
6 ▶	New Enterprise Associates	19
7 ▶	Greylock Partners	17
8 ▶	Benchmark Capital	16
9 ▶	Index Ventures	14
10 ▶	Khosla Ventures	14
11 ▶	Battery Ventures	14
12 ▶	North Bridge Venture Partners	14
13 ▶	Kleiner Perkins Caufield & Byers	13
14 ▶	Andreessen Horowitz	12
15 ▶	Draper Fisher Jurvetson	12
16 ▶	Mayfield Fund	11
17 ▶	Allegis Capital	10
18 ▶	Shasta Ventures	9
19 ▶	August Capital	9
20 ▶	Sigma Partners LLC	9



Physical Security Investors: Analysis by number of announced deals

Rank	Top Investors	Number of Deals
1 ▶	Intel Capital Corp.	12
2 ▶	Kleiner Perkins Caufield & Byers	7
3 ▶	Matrix Partners	6
4 ▶	Atlas Venture	5
5 ▶	Amadeus Capital Partners Ltd	5
6 ▶	Entrepia Ventures	5
7 ▶	Bain Capital LLC	4
8 ▶	Oak Investment Partners LP	4
9 ▶	InterWest Partners LLC	4
10 ▶	Grey Mountain Partners LLC	4
11 ▶	Rho Ventures LP	4
12 ▶	The Carlyle Group	3
13 ▶	Warburg Pincus LLC	3
14 ▶	Foundation Asset Management AB	3
15 ▶	Battery Ventures	3
16 ▶	Venrock	3
17 ▶	Rockport Capital Partners	3
18 ▶	Khosla Ventures	3
19 ▶	Secure Strategy Group	3
20 ▶	Lightspeed Venture Partners	3

League Tables: Financial Advisors



Leading Financial Advisors: Analysis by number of announced deals

Rank	Top Financial Advisors	Number of Deals
1 ▶	Raymond James & Associates, Inc.*	31
2 ▶	Houlihan Lokey	29
3 ▶	JP Morgan Chase & Co.	18
4 ▶	KippsDeSanto & Co.	18
5 ▶	Bank of America Merrill Lynch	16
6 ▶	Jefferies & Company Inc.	16
7 ▶	Morgan Stanley	14
8 ▶	Goldman Sachs	13
9 ▶	Barclays Capital plc	13
10 ▶	McLean Group LLC	12
11 ▶	D.A. Davidson & Co.	11
12 ▶	Credit Suisse Group AG	10
13 ▶	Qatalyst Partners LLP	9
14 ▶	Moelis & Company	9
15 ▶	Sagent Advisors LLC	9
16 ▶	Citigroup Inc.	8
17 ▶	Deutsche Bank AG	8
18 ▶	UBS AG	8
19 ▶	Wells Fargo	8
20 ▶	Aronson Capital Partners LLC	8

Other Leading Financial Advisors

- B. Riley & Co. LLC
- BB&T Capital Markets
- C.K. Cooper & Company
- Centerview Partners Holdings LLC
- Chertoff Group
- Deloitte & Touche LLP
- Evercore Partners Inc.
- FBR & Co.
- GCA Savvian Advisors LLC
- Imperial Capital LLC
- KPMG LLP
- Lazard Ltd.
- Lincoln International
- Perella Weinberg Partners
- Rothschild Group
- Royal Bank of Canada
- Secure Strategy Group
- Stephens Inc.
- Stifel Nicolaus & Company
- Stone Key Partners

*Following the acquisition of Morgan Keegan by Raymond James & Associates, Inc. in April 2012, Global Security Finance has combined transactions from both firms.



Leading Financial Advisors: Analysis by total transaction value

Rank	Top Financial Advisors	Total Deal Value (\$ million)
1 ▶	Goldman Sachs	57,217
2 ▶	JP Morgan Chase & Co.	29,447
3 ▶	Morgan Stanley	21,822
4 ▶	Credit Suisse Group AG	21,590
5 ▶	Citigroup Inc.	21,557
6 ▶	Bank of America Merrill Lynch	18,118
7 ▶	Qatalyst Partners LLP	17,464
8 ▶	Barclays Capital plc	14,095
9 ▶	Deutsche Bank AG	12,014
10 ▶	Perella Weinberg Partners	11,589
11 ▶	Raymond James & Associates, Inc.*	10,376
12 ▶	Houlihan Lokey	7,276
13 ▶	UBS AG	6,092
14 ▶	Jefferies & Company Inc.	4,638
15 ▶	Stone Key Partners LLC	3,087
16 ▶	Royal Bank of Canada	2,694
17 ▶	Evercore Partners Inc.	2,645
18 ▶	Greenhill & Co.	2,417
19 ▶	Moelis & Company	2,291
20 ▶	Wells Fargo	2,287

Other Leading Financial Advisors

- Allen & Company
- Centerview Partners Holdings LLC
- Chertoff Group
- Cleary Gottlieb Steen & Hamilton LLP
- D.A. Davidson & Co.
- DC Advisory Partners
- Deloitte & Touche LLP
- KippsDeSanto & Co.
- KPMG LLP
- Lazard Freres & Co.
- Macquarie Group Ltd.
- Ondra Partners
- Rothschild Group
- Sagent Advisors LLC
- Schulte Roth & Zabel LLP
- Skandinaviska Enskilda Banken AB
- Societe Generale Group
- Stephens Inc.
- Stifel, Nicolaus & Company Inc.
- TD Securities

*Following the acquisition of Morgan Keegan by Raymond James & Associates, Inc. in April 2012, Global Security Finance has combined transactions from both firms.



Cyber Security Financial Advisors: Analysis by number of announced deals

Rank	Top Financial Advisors	Number of Deals
1 ▶	KippsDeSanto & Co.	10
2 ▶	Raymond James & Associates, Inc.*	9
3 ▶	Qatalyst Partners LLP	8
4 ▶	JP Morgan Chase & Co.	8
5 ▶	Morgan Stanley	7
6 ▶	Bank of America Merrill Lynch	7
7 ▶	Sagent Advisors LLC	5
8 ▶	McLean Group LLC	5
9 ▶	Goldman Sachs	4
10 ▶	Houlihan Lokey	4
11 ▶	Barclays Capital plc	4
12 ▶	Royal Bank of Canada	4
13 ▶	Wells Fargo	4
14 ▶	Moelis & Company	4
15 ▶	D.A. Davidson & Co.	4



Physical Security Financial Advisors: Analysis by number of announced deals

Rank	Top Financial Advisors	Number of Deals
1 ▶	Raymond James & Associates, Inc.*	11
2 ▶	Bank of America Merrill Lynch	4
3 ▶	Barclays Capital plc	4
4 ▶	JP Morgan Chase & Co.	3
5 ▶	Morgan Stanley	3
6 ▶	Houlihan Lokey	3
7 ▶	Imperial Capital LLC	3
8 ▶	Deutsche Bank AG	2
9 ▶	UBS AG	2
10 ▶	Wells Fargo	2
11 ▶	Perella Weinberg Partners	2
12 ▶	Rothschild Group	2
13 ▶	Citigroup Inc.	2
14 ▶	Jefferies & Company Inc.	2
15 ▶	Chertoff Group	2

*Following the acquisition of Morgan Keegan by Raymond James & Associates, Inc. in April 2012, Global Security Finance has combined transactions from both firms.

League Tables: Legal Advisors



Leading Legal Advisors: Analysis by number of announced deals

Rank	Top Legal Advisors	Number of Deals
1 ▶	Kirkland & Ellis LLP	16
2 ▶	Morrison & Foerster LLP	13
3 ▶	Skadden Arps Slate Meagher & Flom LLP	12
4 ▶	DLA Piper	9
5 ▶	Wilson Sonsini Goodrich & Rosati	8
6 ▶	Jones Day	7
7 ▶	Weil, Gotshal & Manges LLP	7
8 ▶	Shearman & Sterling LLP	6
9 ▶	Cleary Gottlieb Steen & Hamilton LLP	5
10 ▶	Bingham McCutchen LLP	5
11 ▶	Sullivan & Cromwell LLP	5
12 ▶	Latham & Watkins LLP	5
13 ▶	Simpson Thacher & Bartlett LLP	5
14 ▶	Blank Rome LLP	5
15 ▶	O'Melveny & Myers LLP	4
16 ▶	Kaye Scholer LLP	4
17 ▶	Hogan Lovells International LLC	4
18 ▶	Akin Gump Strauss Hauer & Feld LLP	3
19 ▶	Wachtell Lipton Rosen & Katz	3
20 ▶	Davis Polk & Wardwell LLP	3

Other Leading Legal Advisors	
• Armstrong Teasdale LLP	• Paul, Weiss, Rifkind, Wharton & Garrison LLP
• Baker & Hostetler LLP	• Ropes & Gray LLP
• Cravath Swaine & Moore LLP	• Squire Sanders & Dempsey
• Fenwick & West LLP	• Travers Smith
• Gernandt & Danielsson Advokatbyrå KB	• White & Case LLP

"Government contracts have been made that little bit more competitive, especially in this budget environment, as they are, ultimately, one of the few sources of guaranteed work"



Leading Legal Advisors: Analysis by total transaction value

Rank	Top Legal Advisors	Total Deal Value (\$ million)
1 ▶	Cleary Gottlieb Steen & Hamilton LLP	22,104
2 ▶	Wachtell Lipton Rosen & Katz	21,076
3 ▶	Skadden Arps Slate Meagher & Flom LLP	19,645
4 ▶	Morrison & Foerster LLP	18,571
5 ▶	Jones Day	18,364
6 ▶	Wilson Sonsini Goodrich & Rosati	14,587
7 ▶	Kirkland & Ellis LLP	9,622
8 ▶	Cravath Swaine & Moore LLP	5,695
9 ▶	O'Melveny & Myers LLP	5,510
10 ▶	Foley & Lardner LLP	4,626
11 ▶	Sullivan & Cromwell LLP	4,070
12 ▶	Bingham McCutchen LLP	4,044
13 ▶	Weil, Gotshal & Manges LLP	3,726
14 ▶	Latham & Watkins LLP	3,199
15 ▶	Kaye Scholer LLP	3,066
16 ▶	Akin Gump Strauss Hauer & Feld LLP	3,021
17 ▶	DLA Piper	2,956
18 ▶	Ropes & Gray LLP	2,554
19 ▶	Jones Walker	2,501
20 ▶	Baker & Hostetler LLP	2,020

Other Leading Legal Advisors	
• Davis Polk & Wardwell LLP	• Paul, Weiss, Rifkind, Wharton & Garrison LLP
• Dorsey & Whitney LLP	• Potter Anderson & Corroon LLP
• Gernandt & Danielsson Advokatbyrå KB	• Shearman & Sterling LLP
• Herbert Smith LLP	• Slaughter and May
• Norton Rose LLP	• Willkie Farr & Gallagher LLP

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Market Insight

Global Security Finance talks to the experts



Subscribers to the Global Security Finance online platform can read more 300 interviews annually, as well as thousands of analysis, investment, fund and policy news stories. This is supplemented with financial data covering Venture Capital, Private Equity and Mergers & Acquisitions transactions in the Cyber Security, Physical Security, Identity & Security Solutions, and Defense sectors, totalling more than 1,400 transactions in the last 12 months.

In the following pages, experts from our newsroom spoke to key decision makers at the companies that are shaping the global security industry in 2012:

Secure Strategy Group, LLC

Walter Bailey
 Managing Director


The McLean Group

Mitchell Martin
 Principal


Raymond James & Associates, Inc.

Alper Cetingok
 Managing Director; Co-Head of Security, Defense & Government Services Group


Houlihan Lokey

Anita Antenucci
 Senior Managing Director



HOULIHAN LOKEY

KippsDeSanto & Co.

Robert D. Kipps
 Managing Director


Arent Fox LLP/Attorneys at Law

Carter Strong
 Partner



CAN YOU FIND THE THREAT?



IN THE TIME IT TOOK YOU TO LOCATE WHAT YOU BELIEVE TO BE THE THREAT, AISIGHT HAS ALREADY LEARNED WHAT BEHAVIOR IS NORMAL, ALERTED ON THE ABNORMAL BEHAVIOR AND SECURITY PERSONNEL HAVE BEEN DISPATCHED TO THE SCENE.



Global Security Finance talks to Secure Strategy Group, LLC



Amélie Labbé Thompson
Senior Editor
Global Security Finance



The Secure Strategy Group (“SSG”) is a specialized strategic advisory practice focused on supporting the strategic, growth and capital initiatives of its clients in the security, defense, communications, infrastructure and energy sectors. SSG is unique in that it provides strategy, M&A, corporate finance, and business development expertise to help position and build emerging, sector-leading businesses.

Walter Bailey, one of the company’s Managing Directors, gave Global Security Finance his view on the industry and how he thinks it will evolve in the next few months. He has been directly involved with in excess of \$100 billion of advisory assignments and over \$50 billion in financings for companies in multiple sectors including security, defense, aerospace and energy. He has held senior positions at Macquarie Capital, Giuliani Capital Partners, Jefferies & Co. and Citigroup.

What can you say about the level of activity in the security sector as a whole?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Walter Bailey
Managing Director
Secure Strategy Group, LLC

There is a fair amount of ongoing deal activity. In the defense sector, sequestration has led some buyers to hold off on consummating transactions while concurrently prompting certain sellers to accelerate their activities (in order to capture their value at a high point rather than potentially running into trouble). As a result, they have been exiting lower margin businesses reliant on those revenue dollars and focusing buying activity on cyber – it is an increasingly robust transactional environment.

"Because of this sector complexity, I believe there is risk that some investments made early in cyber will not yield the returns that financial or strategic investors initially anticipated."

What do you think is the reason behind the popularity of the cyber security sector?

Walter Bailey

Amélie Labbé Thompson

There is definitely a degree of a herd mentality with regards to cyber. In the US, if one company implements a solution to comply with regulatory oversight – especially in the compliance, disclosure and network security spaces - then other companies have to follow the lead to protect their organization too.

As of yet, there are no perfect cyber players so there will be enterprises that have the right solution and ones that do not. Right now, there is an aggressive effort to field cyber solutions that can be both offensive and defensive.

In America and countries with similar privacy rules, that will be challenging, as those rules will confound the offensive attributes of cyber whereas outside the US, this will not be an issue. Large corporates will look to acquire cyber platforms in geographies where they do not have any foothold - outside the US - so they can run "offensive" operations from those bases.

Because of this sector complexity, I believe there is risk that some investments made early in cyber will not yield the returns that financial or strategic investors initially anticipated. That being said, I can see continued and aggressive purchasing and investing in the sector.

I do not believe there will be - as of yet - any material segment divestitures or strategic spinoffs because currently owners want to capture as much positive valuation on a consolidated basis as they can. But there are going to be a number of evolutions as companies look to address the ever-mounting cyber issues.

Which other sectors will also attract interest?

Walter Bailey

Amélie Labbé Thompson

Communications will remain an evolving platform as new technologies emerge that can alter what system requirements various users may need. Significantly, I think there will be many new initiatives stemming from the Department of Defense's need to migrate from legacy proprietary platforms to more civilian technologies for war fighters (smartphones, PDAs etc).

What do you think of the role of non-US players in the sector?

Walter Bailey

Amélie Labbé Thompson

Certainly, as it pertains to the US, I think it is very unlikely that there will be any "mega" or significant transactions. However, it is a lot more likely that EU providers and other non-US players will do some consolidation to achieve greater efficiencies. We are currently seeing ongoing activity in the EU and EMEA.

In addition, I think that currency fluctuations will have an impact on M&A levels. Right now, the dollar is historically cheap and, therefore, foreign money is flowing into the US. Should those dynamics change, there could be an impact on M&A activity.

Have there been any changes in the financing of deals?

Walter Bailey

Amélie Labbé Thompson

Quality transactions will always get continued support but at the lower end of the market it is spottier as financiers have broadly experienced a flight to quality.

There are greater concerns as to what sequestration and declining budgets will do to smaller providers and there is an uphill push to get those smaller transactions done. Smaller companies traditionally have a more concentrated customer base and less diversification, which causes concerns for financiers. Having government backing or operating in sectors where the government spends money is definitely beneficial, but can be problematic if the customer base is too highly concentrated.

The equity market has been adequate in 2012 although Facebook was a problem, and its legacy will create ongoing problems for technology-related issuers reliant on consumer markets. Private equity and venture capital will continue to be very active – certainly, on the private equity side, investors are sitting on significant amounts of idle capital, and this will most likely drive aggressive transaction levels and healthy pricing.

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SSG is a specialized strategic advisory practice working with clients delivering technologies/ services targeted at security, defense, communications and infrastructure. We deliver strategic advisory, corporate finance, M&A and business development expertise to help position and build businesses, particularly emerging companies. Our team's expertise comes from respective experiences in the military, government, private sector and financial markets; our principals have completed \$50+ billion in financings, worked M&A assignments exceeding \$100 billion and controlled multi-billion SecDef budgets.



Global Security Finance

talks to...

Raymond James & Associates, Inc.



Amélie Labbé Thompson
Senior Editor
Global Security Finance



Raymond James is one of the US's largest full-service wealth management, investment banking and capital markets firms. The firm, which is a US-wide presence, posted 2011 revenues in excess of \$4 billion, and serves several industries including Healthcare, Energy, Technology, and Security, Defense and Government Services.

Global Security Finance talked to Alper Cetingok, Managing Director and Co-Head of the Security, Defense & Government Services Group, who joined Raymond James following its acquisition of Morgan Keegan, in April this year. He founded the Morgan Keegan Security & Defense practice in 2000.

What levels of activity have you seen in the security industry so far this year?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Through the first half of the year, activity levels have been very strong. We have closed or announced five transactions and anticipate that we will see similar results during the second half of the year. This is consistent with what we have experienced over the last three to four years, during which activity levels in the security industry have been at historical highs. This is obviously counterintuitive given the macroeconomic environment we have encountered during that time, but the security industry has actually been affected in a positive way because of its inherent resilience and stability during times of economic distress. The counter-cyclical, or defensive, nature of the industry has brought greater attention to its relative merits and served as a major catalyst for the growth in activity levels.

One additional factor affecting the pace of our activities is the expanded reach of our group resulting from the combination of Raymond James and Morgan Keegan. Historically at Morgan Keegan where much of our focus was on the security and safety segments of the market, we worked on six to eight transactions at any given time. As a result of the Raymond James transaction, which allowed us to expand our team and correspondingly our coverage to include the defense and government services segments of the market, we are now working on roughly double the number of transactions we did previously.

Alper Cetingok
Managing Director and Co-Head
of the Security, Defense &
Government Services Group
Raymond James & Associates, Inc.

"Despite the relative strength of the security markets, the turbulence in the economic markets coupled with political uncertainties in both Europe and the U.S., would suggest that market participants will be more cautious and take less risk when acquiring."

What are the major themes underpinning the security space?

Alper Cetingok

Amélie
Labbé Thompson

Consolidation, certainly, is a major theme in the industry as the majority of the aforementioned activity is M&A related. As it currently stands, approximately 80% of our current engagements and transaction pipeline are M&A assignments with the balance being financing opportunities. The reason for that is not because we are more actively pursuing M&A but because that is the current orientation of the market. Both strategic acquirers and financial sponsors are aggressively pursuing consolidation opportunities, and it is our expectation that this trend will continue for some time to come.

From an operational perspective, one of the more notable themes in the market is the move towards more integrated service delivery or product offerings. Among many of the larger players in the industry, such as Siemens and Schneider, the goal is to provide customers with as many of the critical components of a security system as possible. That is why you are seeing organizations like Siemens building a comprehensive managed services offering or Schneider acquiring a video security provider like Pelco to advance its ambitions in the building automation market. However, looking at those large market participants, it is not to say that they are not looking at refining their business models, most notably through divestitures of non-core assets. The best recent example of this was the sale of Red Hawk and other systems integration businesses by United Technologies.

Which sectors are you seeing growing levels of activity in?

Alper Cetingok

Amélie
Labbé Thompson

If I break it down into each of the markets we cover, on the security side alarm monitoring, systems integration and video surveillance are very much hot topics at the moment. Those are the markets where we have seen the majority of recent transaction activity. We are also seeing increasing activity in the sensor and detection technology market - companies providing products that detect and identify illicit or dangerous substances like explosives and chemical or biological agents. Another growth market is intelligent transportation systems, which encompasses a broad range of products and technology intended to enhance the safety and efficiency of transportation.

From a defense and government perspective, anything in the unmanned space of the market, along with cyber security, of course, as well as businesses with exposure to the intelligence community, attracts interest. In addition, training and other value-added services are growing in importance as budgetary priorities within the defense community change.

Which geographical area(s) do you think are attracting the most interest right now?

Alper Cetingok

Amélie
Labbé Thompson

We are seeing an increasing amount of European businesses seeking to build exposure to the North American market to benefit from the size and more attractive growth rates in this market. After trying for many years to build organically, most of these businesses have concluded that the most effective way to enter the North American market is through acquisition, as organic growth efforts have proven quite challenging.

In addition, over the course of the last six to nine months, we have experienced a meaningful increase in the number of Asian companies evaluating acquisitions in the North American market. The best example of this is a transaction we recently completed in the video surveillance space in which we advised March Networks, based in Ottawa, Canada, in its sale to Infinova, which is listed on the Shenzhen exchange in China.

What about the security “mega deal” trend? Is it set to progressively fade away and be replaced by smaller value transactions?

Alper Cetingok

Amélie
Labbé Thompson

The last several years have actually been quite an active time for “mega deals” in the security industry. Last year, we saw the completion of the second largest security deal in history, which was the sale of Securitas Direct AB by Swedish private equity firm EQT for approximately \$3.5 billion. We were one of three advisors to EQT in that transaction. In addition, there have been other sizable transactions, such as SAFRAN’s acquisition of L-1 Identity Solutions and the aforementioned acquisition of Pelco by Schneider.

Currently, there are several transactions in process, some of which have been announced, like the split of Tyco into three businesses, two of which – ADT and Tyco Fire & Safety – are security-focused organizations. There are several more that have not been announced but, if completed, should have transaction values well in excess of \$1 billion.

That being said, the majority of transaction activity in the security and defense markets has been and will continue to be of a “middle market” nature, in which the majority of the deals have transaction values of \$500 million and below. Furthermore, despite the relative strength of the security markets, the turbulence in the economic markets coupled with political uncertainties in both Europe and the U.S., would suggest that market participants will be more cautious and take less risk when acquiring. Therefore, my sense is that the volume of large, transformational transactions will be low going forward.

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Global Security Finance

talks to

KippsDeSanto & Co.



Amélie Labbé Thompson
Senior Editor
Global Security Finance



Global Security Finance talks to Bob Kipps, co-Founder of defense and technology-focused investment bank KippsDeSanto & Co. Prior to founding KippsDeSanto & Co. in 2007, Bob was a Managing Director in Houlihan Lokey’s Washington, DC office and a leader of Houlihan Lokey’s Aerospace.Defense.Government industry investment banking group.

The company mainly advises sellers in the defense and technology spaces, in transactions ranging from \$25 to \$500 million. Recent deals include the sale of WBB Consulting to private equity group Lake Capital, High Performance Technologies, Inc.’s sale to Dynamics Research Corp. for \$143 million and Worldwide Information Network Systems, Inc.’s takeover by ManTech International Corporation for \$90 million.

What does the current deal flow in the market look like?
How do you think the budget environment has affected
or could affect deal flow?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Bob Kipps
Co-founder
KippsDeSanto & Co.

We had seven transactions last year, and have seen three so far this year, so we are currently on track to exceed those levels.

Right now, however, sellers are anticipating difficulties so are looking to capitalize before the business climate changes – the climate of budget and sector uncertainty is acting as a catalyst for them to consider an exit, at least in the short-term.

That being said, buyer demand has not increased in a similar proportion which has put somewhat of a dampener on the number of deals actually getting closed in the sector.

On other fact I should mention is that there are talks of consolidation in the industry. But, right now, the larger industry firms are mainly thinking about prioritizing how they spend their money, and re-evaluating their business model and offering. That is the main thing, I believe.

What sectors do you believe are really appealing to buyers at the moment?

Bob Kipps

Amélie Labbé Thompson

Because of the aforementioned uncertainty, transaction activity is largely focused on those sectors where there is a high level of confidence, where there are going to be good business opportunities, in the "high priority and funded" areas that are expected to continue growing regardless. Those sectors are health IT - where we are seeing enhanced deal flow - and intelligence, cyber and analytics, where the level of transactions has been high for while.

In addition, it is really a buyers' market at the moment for targets not in the aforementioned high priority areas. Strategic buyers are more focused on avoiding acquisitions that involve companies outside the high priority areas, so this leads to a lot of the smaller deals involving pure play targets in the areas that I have alluded to.

So now, we are not seeing many billion dollar acquisitions where a large contractor might buy a business with very diverse areas of activity. Instead, the contractor will buy a smaller cyber security company for, say, \$50 million, for example.

We are seeing a number of private equity firms making large acquisitions of companies in the security space generally. What role do you think private equity has to play in the sector?

Bob Kipps

Amélie Labbé Thompson

Private equity is playing a key role in the marketplace at the moment. Private equity firms operate privately, and maintain a more long-term view of industry performance than a lot of public companies per se. Plus, one of the main advantages is the availability and inexpensive cost of debt capital.

We are seeing those firms acquire companies that are not a perfect pure play fit for strategic buyers. They are able to offer competitive/attractive buying prices because they are acquiring more diverse businesses that do not necessarily fit today's strict strategic buyer criteria.

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Global Security Finance

talks to

The McLean Group



Amélie Labbé Thompson
Senior Editor
Global Security Finance



The McLean Group is an investment bank providing M&A, business valuation and strategic consulting services to middle-market companies. Headquartered in Washington, DC's technology, communications and government contracting corridor, it is among the largest independent middle market investment banks in the United States.

Global Security Finance spoke to McLean Group Principal Mitchell Martin, who has been with the firm since 2010 and previously worked at other investment banks focused exclusively on the defense and government services industry.

If you had to put things in perspective, how does this year compare to previous years, in terms of the number of deals you are seeing?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Mitchell Martin
Principal
The McLean Group

Right now, the deal flow is slightly up, although we only have figures for 1Q and 2Q of this year at the moment. However, we are definitely seeing an increase, and a lot of it has to do with the pending increase in capital gains tax which is set to take effect next year, and the uncertainty surrounding budget sequestration at the end of this year.

That being said, everyone is looking at a lot of deal flow, and I think we are going to see a lot of deals that do not get done this year – sellers are missing their financial projections right now and with the pending budgetary threats we are all aware of, we are seeing buyers backing out of deals or significantly re-trading on terms.

Interestingly, we are seeing a lot of “portfolio shaping,” where a lot of the big defense primes are considering or effectively implementing a lot more portfolio divestitures and really looking at what is core in their offering.

“Everyone is looking at a lot of deal flow, but frankly, it is a tough environment and I think we are going to see a lot of deals that do not get done this year”

Does this increased level of activity you are seeing have any impact on the size of deals?

Amélie Labbé Thompson

Mitchell Martin

What we can say is that there are more “smaller” deals happening - smaller in value but more pure play deals in attractive markets.

A few years ago, mid-tier companies in the industry were racing to get to size and to scale, and we really saw this impact the size of transactions. Now, I think buyers are more discerning and the deals we are seeing tend to be with companies that provide higher-value products and services. In years past we were seeing acquisitions simply to build scale – often buying revenue through the “butts in seats” contractors which operate under more of a staffing and provide less value-add.

Those same companies are now taking a more disciplined approach, redefining themselves for what they see coming forward. Take the case of Mantech International Corp. (Nasdaq:MANT), which has historically being very focused on operations, and with a strong presence in Afghanistan and Iraq for example. In 1Q, that same company was involved in a healthcare IT deal - the first time we have seen them move into that space - when it acquired Evolvent Technologies, Inc. at the beginning of January this year.

What sectors are attracting the most interest?

Amélie Labbé Thompson

Mitchell Martin

Firstly, the obvious ones are cyber security and all its various derivatives (cloud, Big Data, intelligence etc) and, as I said previously, healthcare IT.

In addition, when the President announced the defense budget structure a few months back, that is when we saw the “winners and losers,” so to say, in the industry. One sector that has seen some refocus following the budget is the Navy, which appears to be doing better than some of the other services with respect to projected cuts. From personal experience, I think we are seeing a lot more product deals, as opposed to “generic” service-centred ones, and especially in the more attractive sectors.

What is interesting is that with deal valuations, in the sector, we have historically seen valuations spread in a bell-shaped curve around the 5x-7x EBITDA range, with fewer deals occurring in the high and low tails beyond this range. I think today we are seeing what could be better viewed as a bi-modal distribution, with companies in these attractive sectors [cyber, IT...] still seeing high valuation multiples often in the double digits, and, at the other end of the spectrum, companies in sectors that are out of favor and where the funding is less certain. The market seems to be putting companies into one group or the other, and we are seeing fewer deals in the middle range.

Do you think that this recent industry “reshaping” is going to create opportunities for smaller companies, as larger ones focus on only a handful of sectors?

Mitchell Martin

Amélie Labbé Thompson

We have seen a fair amount of divestiture activity from serial acquirers such as L-3, BAE, Lockheed and others, although I actually would have expected to see more of this given the current budget environment. I think the relative uncertainty and the fact that potential sellers are not getting the valuations that they want are causing some to stay put.

After a decade of relatively tight DoD and Intelligence budgets throughout the 1990s, the events of 9/11 identified clear weaknesses in US defense and intelligence functions. As a result, these customers came to the defense and government contractor community with massive amounts of additional funding, new and very different requirements, and a short time to meet them. Given this situation, we might have expected a “changing of the guard” so to speak, with emerging companies able to swiftly meet these new requirements displacing legacy contractors. We saw a bit of this, but this past decade saw a fantastic number of acquisitions, primarily from legacy systems integrators buying companies with the capabilities and customer relationships to address post-9/11 customer requirements. As a result, while they have a very different footprint, the same primes lead the industry now that did 15 and 20 years ago. (see McLean Group paper <http://www.mcleanllc.com/Whitepapers/TheDecade.html>)

I would not be surprised if we saw this same dynamic going forward, with primes using M&A as a way to adapt to the new budgetary environment.

Do you think the structure of the deals in the defense space is going to change? Will there be more transactions focused on IP and “specific assets”?

Mitchell Martin

Amélie Labbé Thompson

We think that the lion’s share will still be stock deals, which often makes sense for tax reasons (338(h)10 elections) and logistically (often not having to novate contracts). However, largely due to the uncertainty in the sector, in terms of payment structure, we are also seeing a lot more “contingent” payments integrated in the structure of the deal itself, with earn-out payments and risk-sharing provisions.

The McLean Group

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The McLean Group is an investment bank providing mergers and acquisitions (M&A), business valuation and strategic consulting services to middle market businesses. Headquartered in Washington, DC's technology, communications and government contracting corridor, we are among the largest independent middle market investment banks in the nation.



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talks to

Houlihan Lokey



Amélie Labbé Thompson
Senior Editor
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Houlihan Lokey is an international investment bank, with expertise in mergers, acquisitions, financings, financial restructuring, financial opinions and valuations. It is the largest investment bank by number of transactions in the world, and the largest restructuring firm as well. It has 14 offices around the world with a presence in the US, Asia and the EU, working in 16 different industry groups.

Global Security Finance spoke to Anita Antenucci, a Senior Managing Director in Houlihan Lokey's Washington, D.C. office and a member of Houlihan Lokey's Board of Directors. She leads Houlihan Lokey's Aerospace•Defense•Government Group.

What sector trends are you currently seeing in the ADG practice?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Anita Antenucci
Senior Managing Director
Houlihan Lokey

We do on average about 20 deals a year – the smallest last year being in the \$25 to \$30 million range, right up to a \$2 billion go-private deal. The number of deals stays pretty much constant for us but what changes is the mix of transactions in the areas that I focus on: aerospace, defense and government (“ADG”) contracting.

In any given year, you always see one sector increase and one sector decrease. For example, in 2011 and this year, the number of represented commercial/civil aerospace-oriented companies is higher than in 2009/2010, when the sector was struggling due to the economy. The opposite is also true: when there are fewer aerospace deals, there are more defense and government services ones.

At present, in this market, we are seeing more commercial aerospace deals, so there are fewer defense equipment ones. In addition, the government services space stays quite steady, although the transactions have involved niche companies as opposed to the much larger government services platforms.

"There are a lot of privately-held businesses in the security sector, and I think the situation is set to remain the same. A consequence of the decline in government budgets is the correlative decline in the IPO market for defense companies st that market participants will be more cautious and take less risk when acquiring."

Which sectors are of growing interest for buyers, sellers and investors?

Anita Antenucci

Amélie Labbé Thompson

The level of interest in a sector or sub-sector is not necessarily linked to the number of deals, especially in the current defense space.

We are seeing more deals and more interest at the moment in the commercial aerospace sector, in aerostructure and in OEM support to the civil aerospace. However, in defense, there is still a great deal of interest in command & control and cyber security, for example, but there are fewer deals, as there are also fewer sellers.

That being said, the larger companies are starting to expand their interest beyond defense and are looking into "growth sectors" such as unmanned vehicles. What is also notable is their interest in energy, oil & gas or healthcare – other high-technology, highly-regulated sectors where their skill sets might be applied.

How is the market adapting to the shift in government spending and sector changes?

Anita Antenucci

Amélie Labbé Thompson

We are definitely seeing more corporate divestitures than ever before and I would attribute that in large part to the fact that when those companies were trading for 10x EBITDA there was little point in divesting the business for anything less. Now that there are trading for less, say for 6.5x EBITDA, many of those businesses are worth that or more. In effect, it makes more sense now to divest businesses that do not fit. There is a little bit of catch-up going on with companies divesting businesses whose fit is less certain.

Some of those companies are in the core defense sector, with a different type of capability, but some of them are outside. For example, this year, we helped EU aerospace company EADS to divest a cyber security training business in the US - it is a very exciting core defense business for many defense companies but it did not make sense for a foreign owner in the US.

How have defense cuts affected the way companies relate to their domestic market and target foreign markets?

Anita Antenucci

Amélie Labbé Thompson

Non-US headquartered companies have to acquire to gain presence in the US – that is almost the only way to do it, and it is certainly not a new phenomenon as it has been a consistent trend since the late 1990s. In addition, many EU companies are acquiring outside their home markets due to pressure on spending there.

What is a little newer, however, is that US contractors have not been as aggressive in acquiring outside the US as foreign companies have in the US. There is in effect no shortage of opportunity in the US and there are a fair amount of funding possibilities (at least up until two years ago) which would explain this imbalance.

However, at present, in order to keep margins and growth up to the levels that have been expected, you really do need to think about positioning in a foreign market. Those markets rely heavily on US equipment, especially new defense markets in South and Central Asia for example. In comparison, the EU is neither new nor growing, so there probably would not be as many new opportunities there.

Has the role of private equity changed? Do you think there is any advantage to this type of financing?

Anita Antenucci

Amélie Labbé Thompson

There has been a very steady increase in the number of private equity firms interested in this sector since the mid-1990s. There was a point where the ADG industry was a bit scary for those firms, but there have been so many success stories that it is attracting more interest. Interestingly, only a handful of those are comfortable with both the aerospace and government services sectors.

There are a lot of privately-held businesses in the security sector, and I think the situation is set to remain the same. A consequence of the decline in government budgets is the correlative decline in the IPO market for defense companies. An exit strategy for the founder who does not want to sell 100% of the company would be private equity – it could be a good solution as strategic buyers will not traditionally buy anything other than the entire business itself.

Houlihan Lokey

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Houlihan Lokey is an international investment bank with expertise in mergers and acquisitions, capital markets, financial restructuring, and valuation. The firm is ranked globally as the No. 1 restructuring advisor, the No. 1 M&A fairness opinion advisor over the past 10 years, and the No. 1 M&A advisor for US transactions under \$1 billion, according to Thomson Reuters. The firm serves over 1,000 clients each year, ranging from closely held companies to Global 500 corporations.

Global Security Finance

talks to

Arent Fox LLP



Amélie Labbé Thompson
Senior Editor
Global Security Finance



Arent Fox is a diversified US law firm with 350 lawyers and a full service corporate practice consisting of 31 practice groups, including mergers and acquisitions, government contractors, import/export, litigation, intellectual property, life sciences and real estate/finance. Arent Fox offices are in Washington, D.C., New York and Los Angeles, California.

Arent Fox represents middle-market and Fortune 500 government contractors in contract and compliance work.

Global Security Finance spoke to Carter Strong, a Partner in Arent Fox's Corporate and Government Contract Groups. He has substantial experience in merger and acquisition transactions and financing transactions, including on behalf of publicly and privately held government contractors.

What is the main legal issue facing the defense and government contract industry at the moment?

Amélie Labbé Thompson
Senior Editor
Global Security Finance

Carter Strong
Partner
Arent Fox LLP

One situation we are clearly seeing right now is a significant rise in bid protests for government contract awards. As US federal agencies are launching a major efficiency drive to trim billions out of the Pentagon's accounts over the next few years, defense companies are bracing for leaner times, lower profit margins and tougher negotiations for government contracts. So, with the US federal government cutting funding for defense projects across the board, contract awards have become more competitive as they are ultimately a source of guaranteed work.

What can you say about the impact of budget cuts on the sector?

Carter Strong

Amélie
Labbé Thompson

We are also seeing increasing concern about sequestration and the announced end of the much debated "Bush tax cuts" next year. These concerns have generated substantial uncertainty in the government contract arena, affecting mergers & acquisitions involving federal government contractors.

I also heard from senior executives at publicly-traded government contractors that some of the largest security and defense primes are or will be seeking approval or support from the Department of Defense and other federal government agencies to allow them to provide their services and products to "friendly" foreign governments, once sequestration is implemented. Indeed, increased sales to friendly non-US governments may be viewed as a safety valve or survival effort for industry participants once changes are implemented.

From your perspective, how important is the cross-border element in the defense/government M&A space?

Carter Strong

Amélie
Labbé Thompson

We are seeing more foreign companies seeking to enter the US to generate new revenues, particularly in view of budget restraints and declining or stagnant economies in Western Europe. In the UK, there are some very large players that are trying to deploy their services abroad especially in the US, which is one of the largest markets worldwide - if not the largest. Much of this effort results from exhausted domestic demand and related domestic budget constraints.

What trends are you noticing in terms of the number of transactions?

Carter Strong

Amélie
Labbé Thompson

I think most industry observers are in agreement that there is a decrease in the number of M&A transactions, for all the reasons discussed above. However, there is significant belief here that Congress may not allow sweeping sequestration defense budget cuts to take effect.

M&A activity premised on revenue related to the Iraq and Afghanistan war efforts has evaporated. However, other federal government areas of interest include environmental and food-related verticals, as well as the traditionally "hot" sectors of cyber security, homeland security, healthcare, and, partly because of budget cuts, equipment maintenance and sustainment work.



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"The day-to-day security of our country," he concluded, "starts with the dedication and effectiveness of our first responders."

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"One situation we are clearly seeing right now is a significant rise in bid protests for government contract awards."

How has industry financing evolved in the past few years?

Carter Strong

Amélie
Labbé Thompson

Private equity is definitely playing a bigger role, and particularly since the height of the recession. Maybe there is an argument for the presence of private equity firms, with more flexible financing methods, to increase even more with acquisition and trading multiples declining in many government sectors.

In addition, I would say we are seeing in the news a lot of CEOs and senior executives at defense and security firms retiring, whether or not their companies have been sold, rather than weathering the storms anticipated for the US federal government sector during the next 12 to 24 months.

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Arent Fox

Market Analysis

Global Security Investment Overview



The following analysis is based on data extracted from the Global Security Finance online platform

Global security investment up 23% in 2011 as VCs flock to cyber security

Venture capital and private equity investment in the global security sector (excluding buyouts) totalled \$7.4 billion in 2011, a 23% increase on the \$6 billion recorded in 2010. While investment volumes posted a sizeable increase in 2011, it should be noted that total investment

"While investment volumes posted a sizeable increase in 2011, it should be noted that total investment on a quarterly basis has fallen for four consecutive quarters from a peak of \$2.1 billion in 1Q11 to \$1.4 billion in 1Q12."

on a quarterly basis has fallen for four consecutive quarters from a peak of \$2.1 billion in 1Q11 to \$1.4 billion in 1Q12. The annual increase was underpinned by a surge in investment in the cyber security sector, which grew 40% year-on-year to \$3.8 billion.

Reflecting the growing appeal of cyber security, six of the ten largest venture capital and private equity

"The dearth of investment in physical security can partly be explained by established players ramping up physical security R&D expenditure, which increases competition for technology developed by venture-backed companies."

deals in 2011 (excluding buyouts) involved cyber security companies, two of which offer electronics payments services. These were Sweden-based Klarna

AB, which secured \$155 million from DST Global and General Atlantic LLC, the largest financing round of 2011, and Square Inc., which inked \$100 million from Kleiner Perkins Caulfield and Byers and Tiger Global Management LLC.

Cyber security was not the only sector to record an increase in total investment volumes in 2011. Venture capital and private equity investment (excluding buyouts) in the defense sector totalled \$1.4 billion in 2011, a 31% increase on the \$954 million recorded in 2010.

In contrast, investment in the physical security sector fell to \$1.1 billion in 2011, a 26% decrease on the \$1.4 billion recorded in 2010. This trend is showing no signs of abating in early 2012 – only \$130 million was invested in physical security companies in 1Q12, 60% below the 2011 and 2010 quarterly average of \$323 million. In fact, venture capital and private equity investment in physical security (excluding buyouts) is now at its lowest quarterly level since the beginning of 2010.

The dearth of investment in physical security can partly be explained by established players ramping up physical security R&D expenditure, which increases competition for technology developed by venture-backed companies. For example, Honeywell International recently announced plans to establish R&D centers in India.

Furthermore, investors are aware of increased competition in certain physical security verticals as new market entrants emerge. For example, the fragmented home security market is witnessing growing competition from telecoms providers, such as Verizon, who are rolling out home automation solutions to their substantial national customer base that include security as part of a complete broadband package.

For investors with a mandate to invest across the entire security sector, it is likely that the decrease in physical security investment has also resulted from a re-allocation of capital to higher growth sectors such as cyber security.

\$138 billion

global security M&A activity
totalled \$138 billion in 2011

▲ 40%

increase in investment in the
cyber security sector in 2011
compared to 2010

\$7.4 billion

venture capital and private
equity investment (excluding
buyouts) in 2011

Sector consolidation continues apace

Global security M&A activity totalled \$138 billion in 2011, a substantial 30% increase on the \$106 billion recorded in 2010. This increase was caused by a surge in the number of deals – 700 M&A transactions were announced in 2011, compared with a meager 469 in 2010. M&A deal volumes also rose significantly due to the large number of mega deals. Some 25 \$1 billion+ deals totaling \$80 billion were announced in 2011, well ahead of the 13 \$1 billion+ deals totaling \$21 billion announced in 2010.

This trend has continued apace in early 2012 – 201 global security M&A transactions were announced in 1Q12, the second highest quarterly number since the beginning of 2010.

The annual increase was caused by a wave of consolidation in the cyber security sector. Some 263 cyber security companies were acquired for a total value of \$61.8 billion in 2011, a significant increase on the 110 cyber deals totaling \$32.7 billion recorded in 2010.

Cyber Security is highly attractive to buyers due to the substantial federal budget spend and a buoyant enterprise market for solutions that secure and protect data across the increasingly global cloud infrastructure.

On the flipside M&A activity in the identity and security solutions sector decreased significantly in 2011. M&A activity in this sector only reached \$9 billion in 2011, a significant decrease on the \$25.9 billion worth of deals announced in 2010. The paucity of deals in the identity & security solutions sector is an understandable development given the aggressive M&A activity in this sector in 2010. L-1 Identity Solutions in particular has completed a number of acquisitions over the last few years, namely with the recent purchases of: Bioscrypt, a Toronto, ON-based biometrics workforce management provider for \$43.8 million; and Digimarc Corporation,

a Beaverton, OR-based provider of national security technology solutions for \$310 million. Other acquisitions include Viisage, Identix, Integrated Biometric Technology, SecuriMetrics, Iridian, SpecTal, ComnetiX, McClendon, and Advanced Concepts.

Global Security Finance

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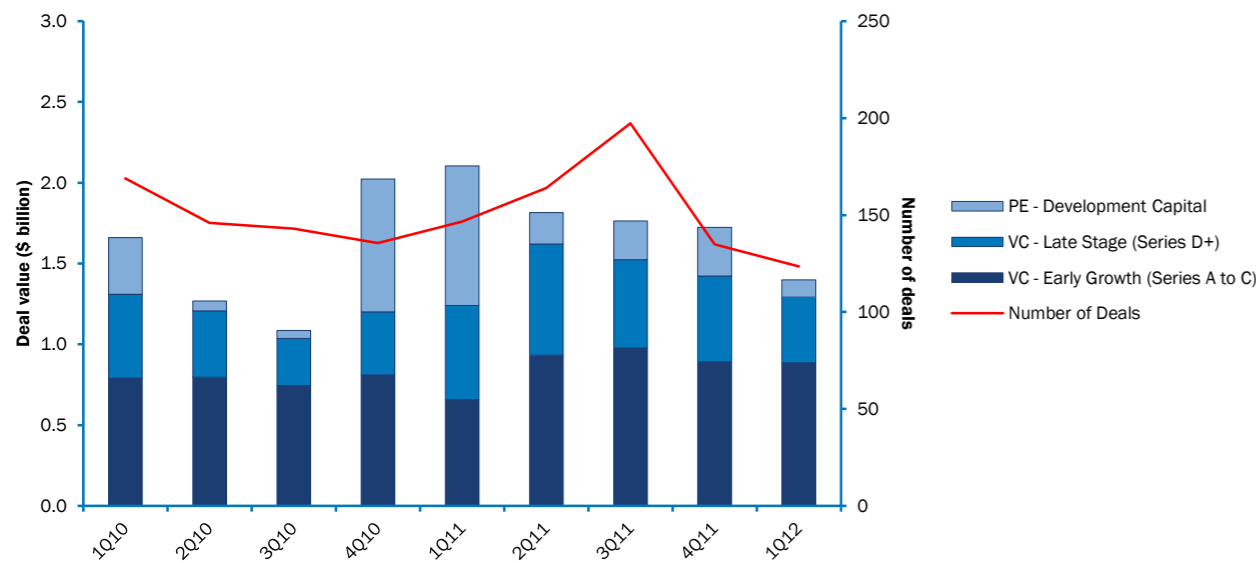
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Global Venture Capital Investment Analysis



Global Venture Capital and Private Equity Investment: 1Q10 to 1Q12



Average Quarterly VC/PE Investment 1Q10 to 1Q12

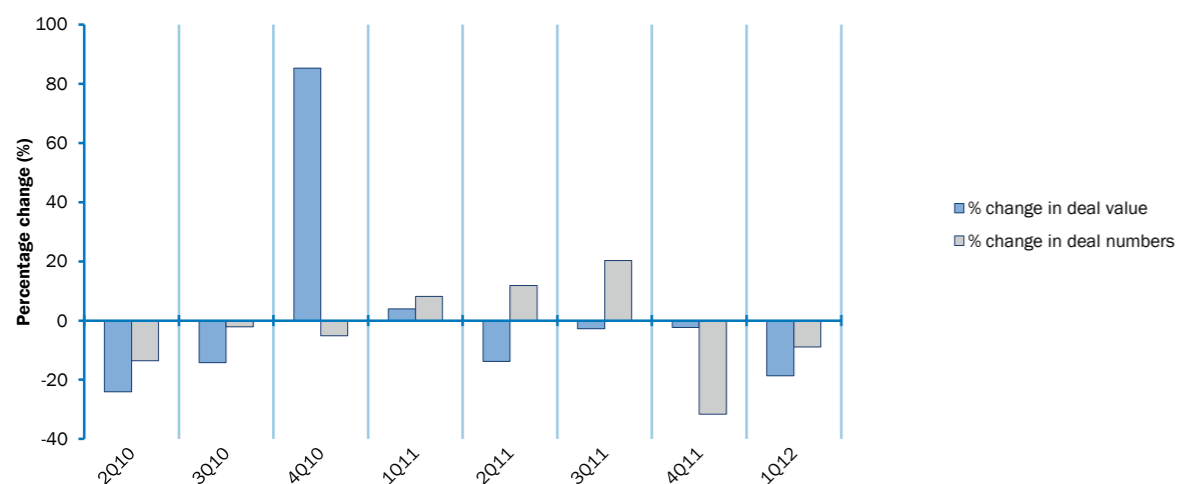
Venture Capital (early-stage)	\$832 million
Venture Capital (late -stage)	\$484 million
Private Equity (development capital)	\$332 million

Average Deal Size: 1Q10 to 1Q12

Venture Capital (early-stage)	\$8.69 million
Venture Capital (late -stage)	\$14.44 million
Private Equity (development capital)	\$33.66 million

Source: Global Security Finance

Percentage Change in Venture Capital and Private Equity Deal Value and Deal Numbers: 2Q10 to 1Q12



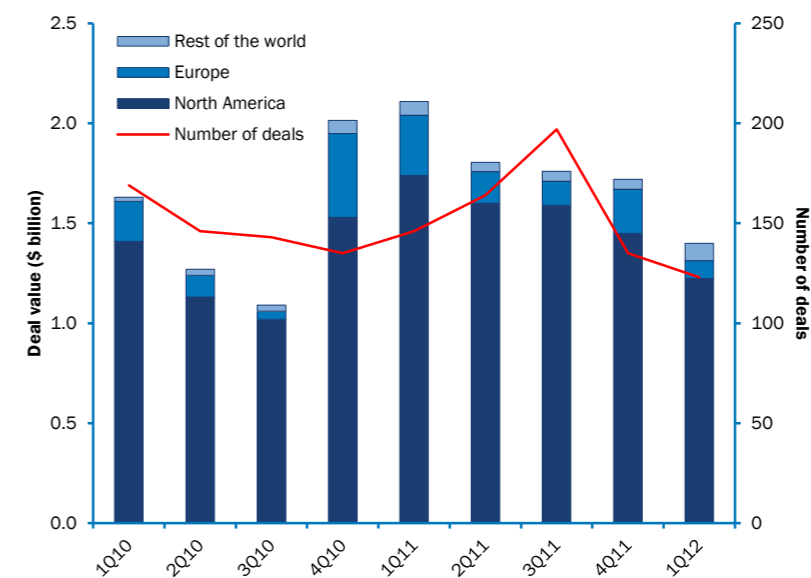
Source: Global Security Finance

Top 10 Venture Capital and Private Equity Transactions by Deal Value: 2011

Project/Company	Country	Sector	Sub-Sector	Investor(s)	Amount (\$ million)
Klarna AB	Sweden	Cyber Security	Electronic Payment Services	DST Global, Sequoia Capital, General Atlantic LLC	155.0
OSisoft LLC	USA	Cyber Security	Data backup, protection and recovery	Kleiner Perkins Caufield & Byers, Technology Crossover Ventures	135.0
Boston-Power Inc.	USA	Physical Security	Energy Storage	Oak Investment Partners LP, GSR Ventures, Foundation Asset Management AB	125.0
Mu Sigma Inc.	USA	Cyber Security	Application Security	General Atlantic LLC, Sequoia Capital	108.0
Tabula Inc.	USA	Cyber Security	Data backup, protection and recovery	Crosslink Capital, DAG Ventures LLC, Balderton Capital Management LLP, Greylock Partners, Integral Capital Partners, New Enterprise Associates Inc.	108.0
Square Inc.	USA	Cyber Security	Electronic Payment Services	Kleiner Perkins Caufield & Byers, Tiger Global Management LLC	100.0
Intrexon Corp.	USA	Identity & Security Solutions	Bio-defense & Bio-surveillance	Third Security LLC	100.0
DriveCam Inc.	USA	Physical Security	Visual Surveillance	Welsh, Carson, Anderson & Stowe	85.0
MANDIANT Corp.	USA	Physical Security	Vulnerability Assessment	Undisclosed	70.0
Nexxon Ltd.	UK	Physical Security	Energy Storage	Imperial Innovations Group plc, Invesco Perpetual	65.2

Source: Global Security Finance

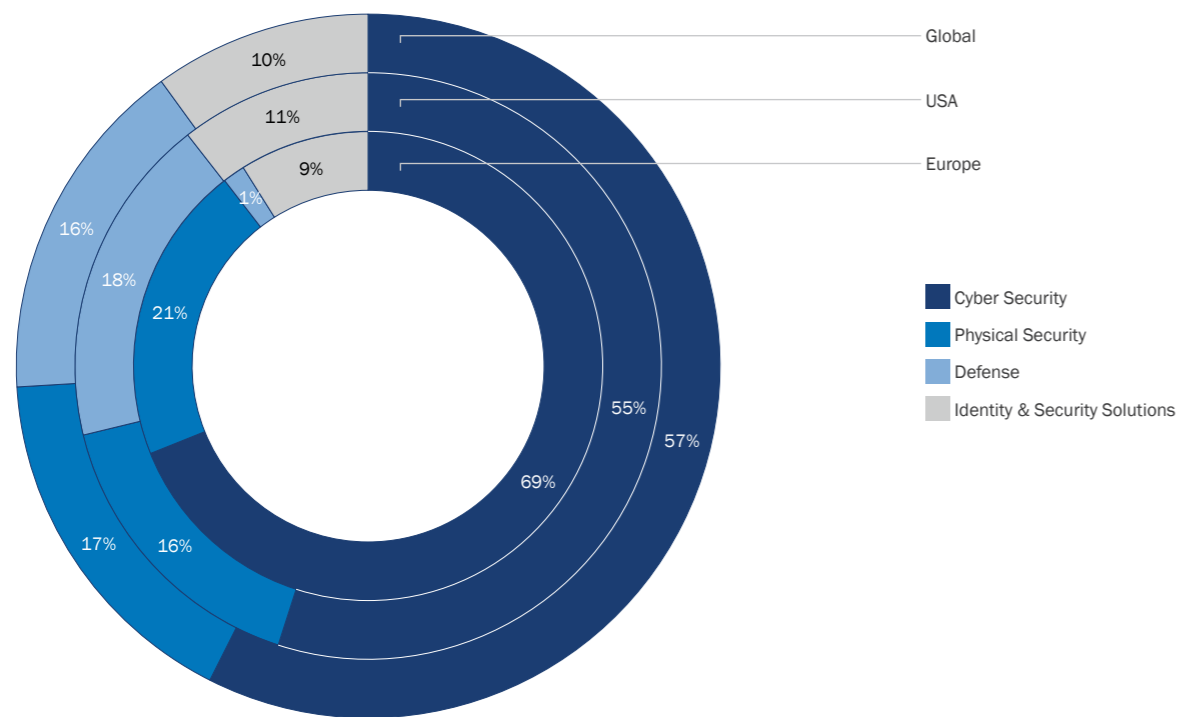
Global Venture Capital and Private Equity Investment by Region: 1Q10 to 1Q12



North American VCPE activity peaked at 1Q11, with a total value of \$1.75 billion. European deals peaked at 4Q10 with a total value of \$420 million. VCPE deals for the Rest of the World also peaked in 4Q10 with a total value of \$700,000.

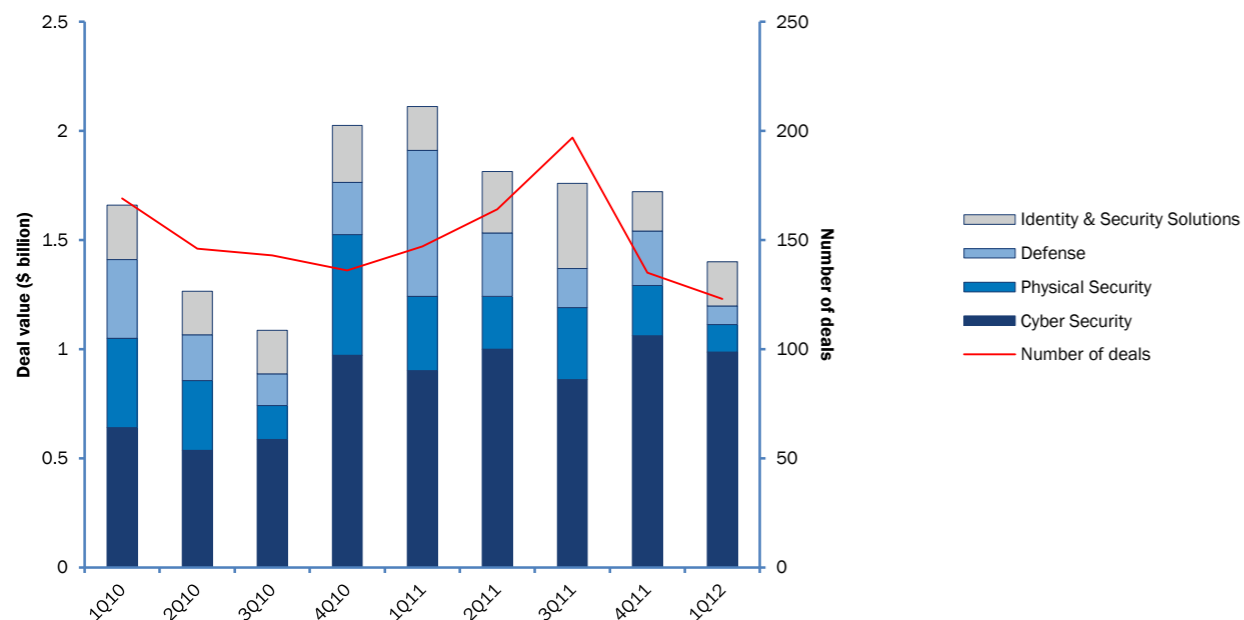
Source: Global Security Finance

Venture Capital and Private Equity Investment by Sector: 2011 (Global, USA, Europe)



Source: Global Security Finance

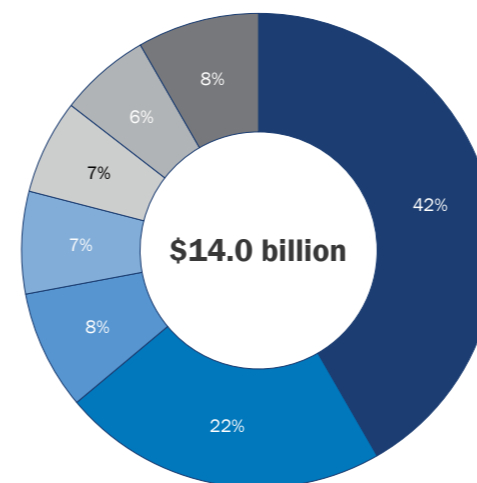
Global Venture Capital and Private Equity Investment by Sector: 1Q10 to 1Q12



Source: Global Security Finance

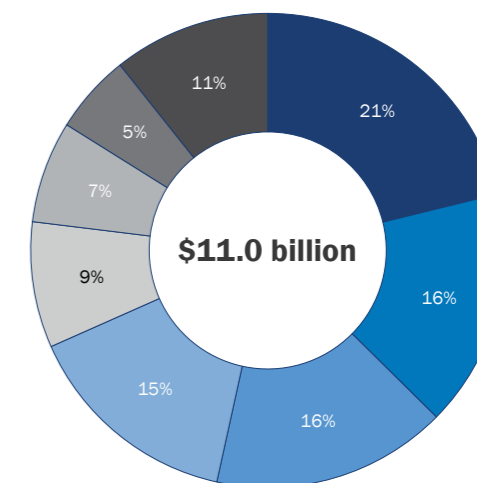
Cyber Security deals made up 57% of total Global Security deals, followed by Physical Security deals, which accounted for 17% of deals. Investment in defense-focused companies stood at 16%, and Identity and Security Solutions made up 10%.

VC / PE in Cyber Security by Sub-Sector: 2011



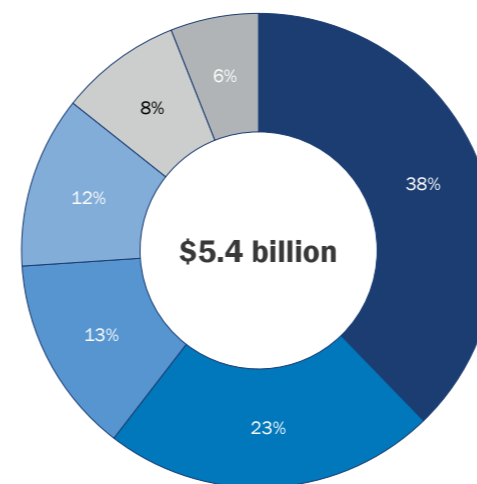
- Data backup, protection and recovery
- Electronic Payment Services
- IT Security Systems Integration
- Application Security
- Network monitoring, detection and response
- Mobile Security
- Other

VC / PE in Physical Security by Sub-Sector: 2011



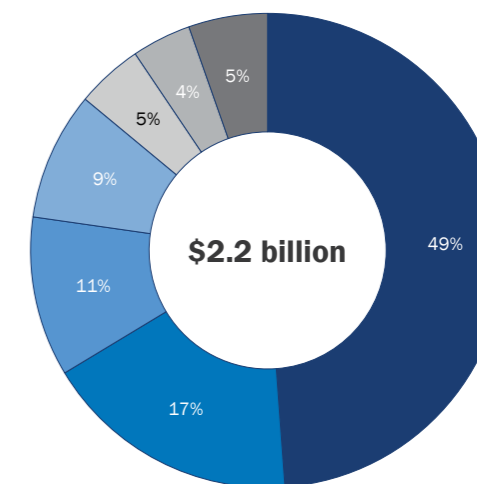
- Energy Storage
- Visual Surveillance
- Detection, sensor and imaging technology
- Enabling (dual-use) Technologies
- Alarm Systems
- Vulnerability Assessment
- Emergency response and management
- Other

VC / PE in Identity & Security Solutions by Sub-Sector: 2011



- Bio-defense & Bio-surveillance
- Identity proofing and fraud prevention services
- RFID
- Anti-counterfeiting & Anti-theft
- Identity Management Systems
- Other

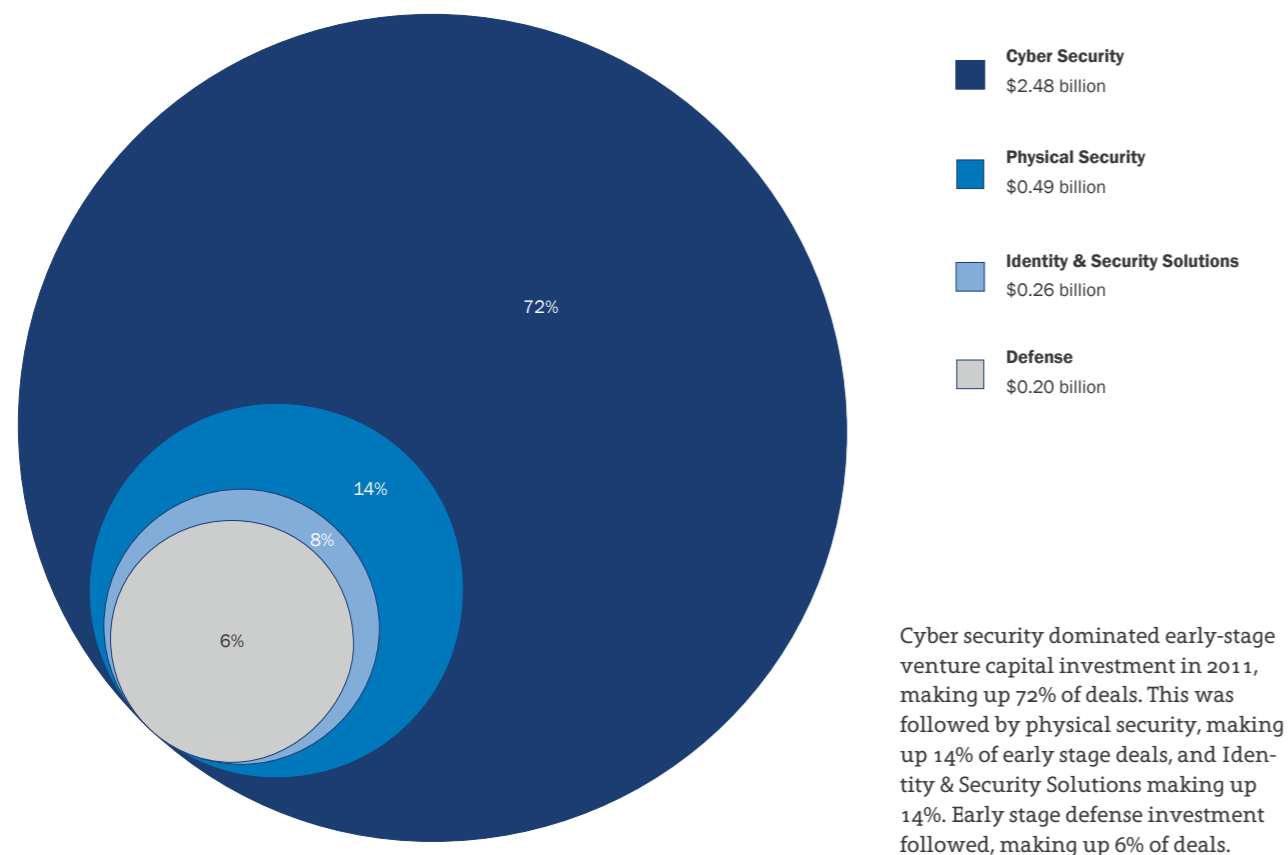
VC / PE in Defense by Sub-Sector: 2011



- Aerospace
- Information management and analysis systems
- Logistical Support Services
- Tactical Equipment
- Communications
- Unmanned Vehicles
- Other

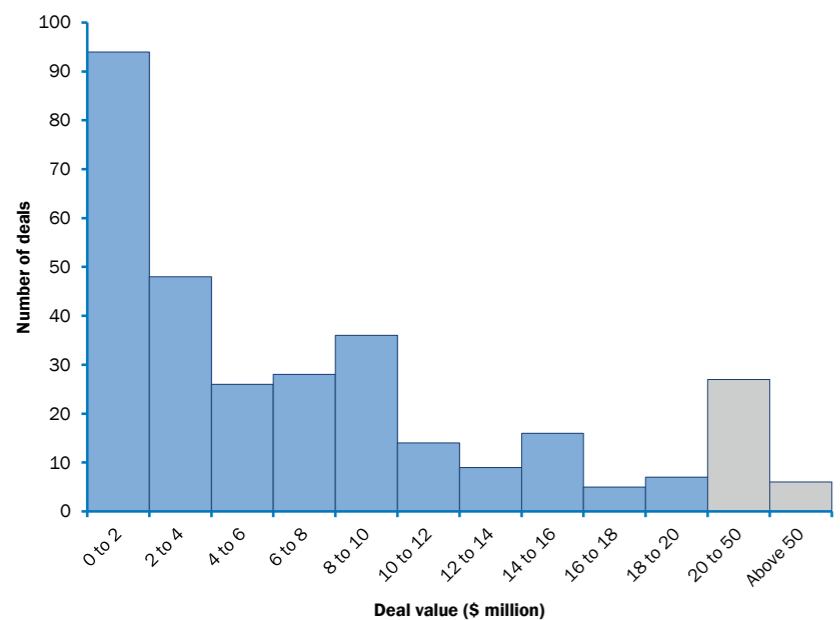
Source: Global Security Finance

Early Stage Venture Capital by Sector: 2011



Source: Global Security Finance

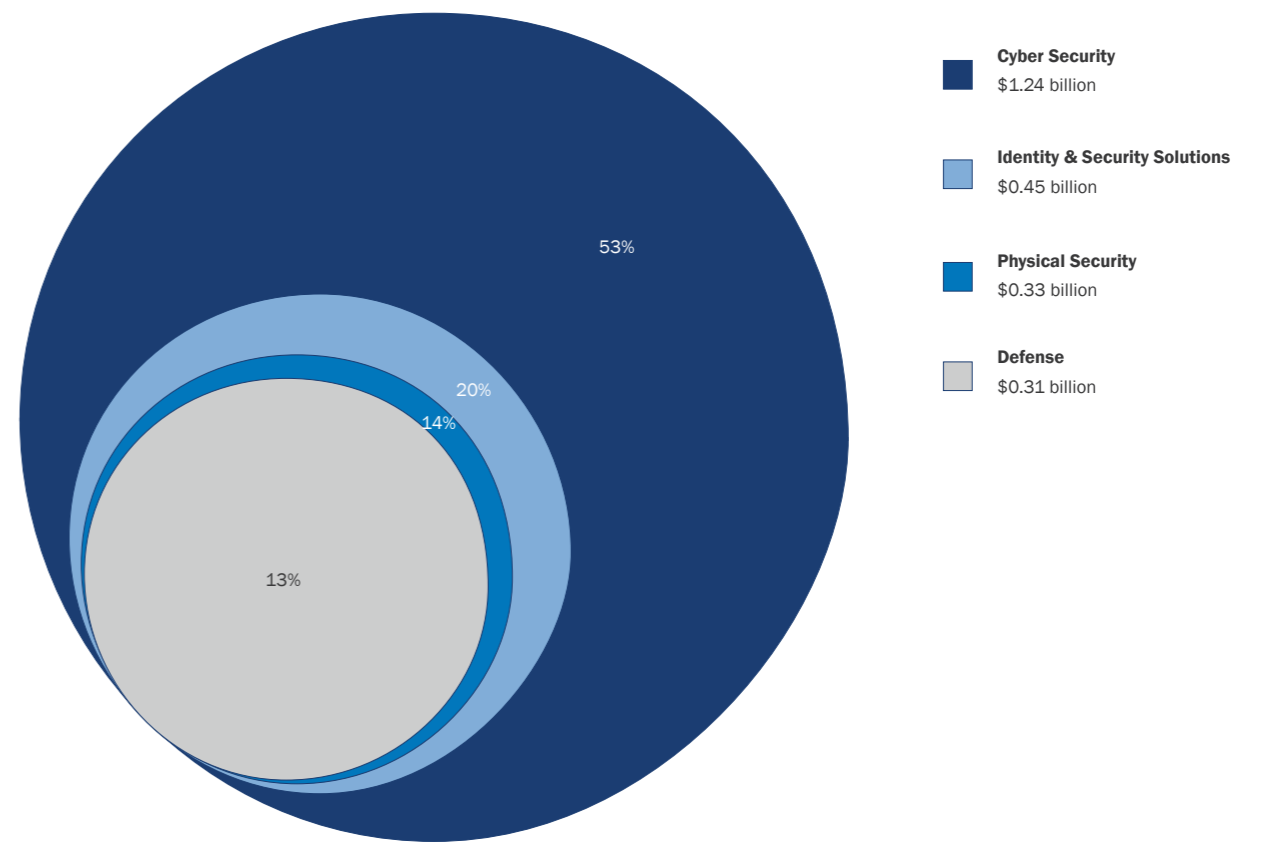
Early Stage Venture Capital Deal Distribution: 2011



Deals with a value of \$0-2 million dominated early stage venture capital with a total of 94 deals. There were 48 deals with a value of \$2-4 million and 36 deals with a value of \$8-10 million. There was also a significant number of transactions in the \$20-50 million range with a total of 27 deals. However, deals over \$50 million were much less common, with only 6 deals at this level.

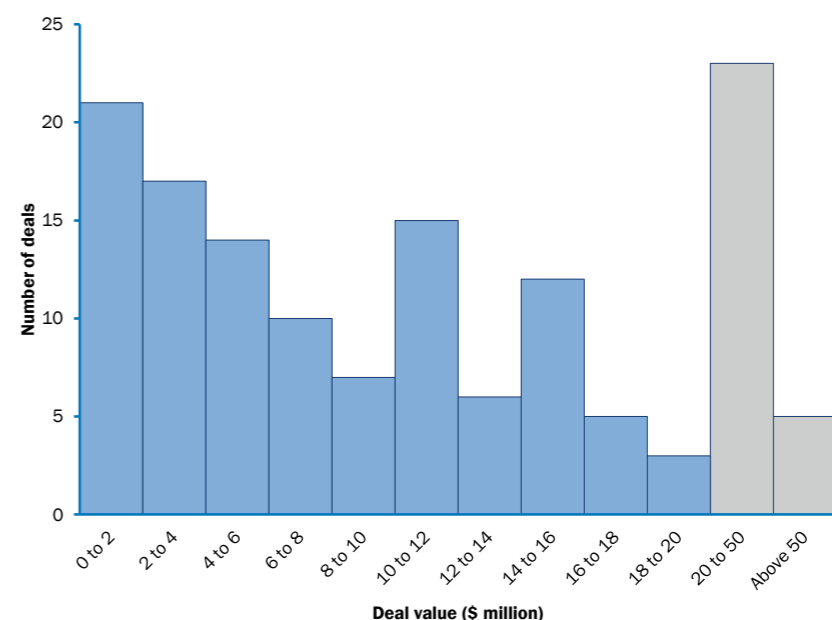
Source: Global Security Finance

Late Stage Venture Capital by Sector: 2011



Source: Global Security Finance

Late Stage Venture Capital Deal Distribution: 2011



Source: Global Security Finance

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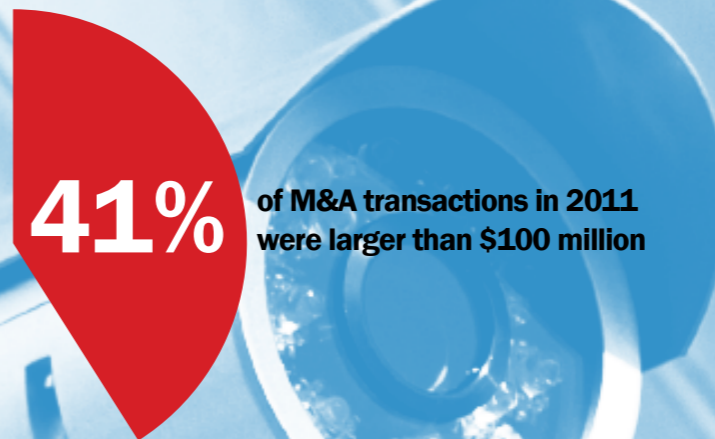
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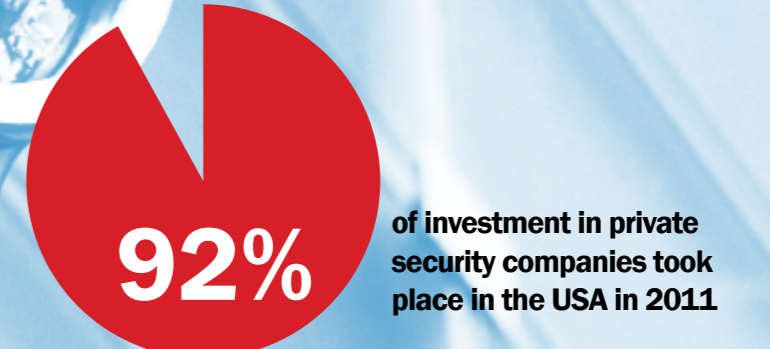
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\$61.6 bn
of cyber security M&A deals transacted in 2011

\$6.4 bn
invested in the US security industry in 2011



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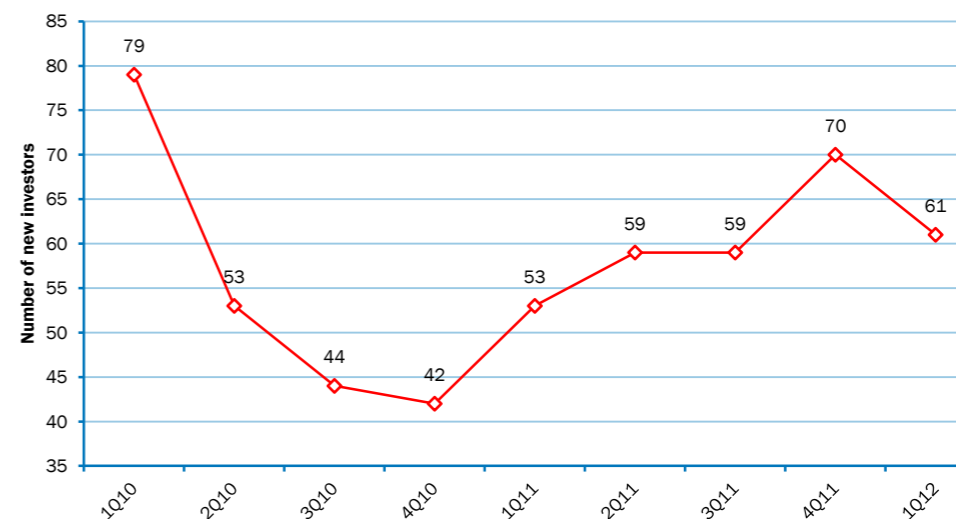


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Investor Analysis



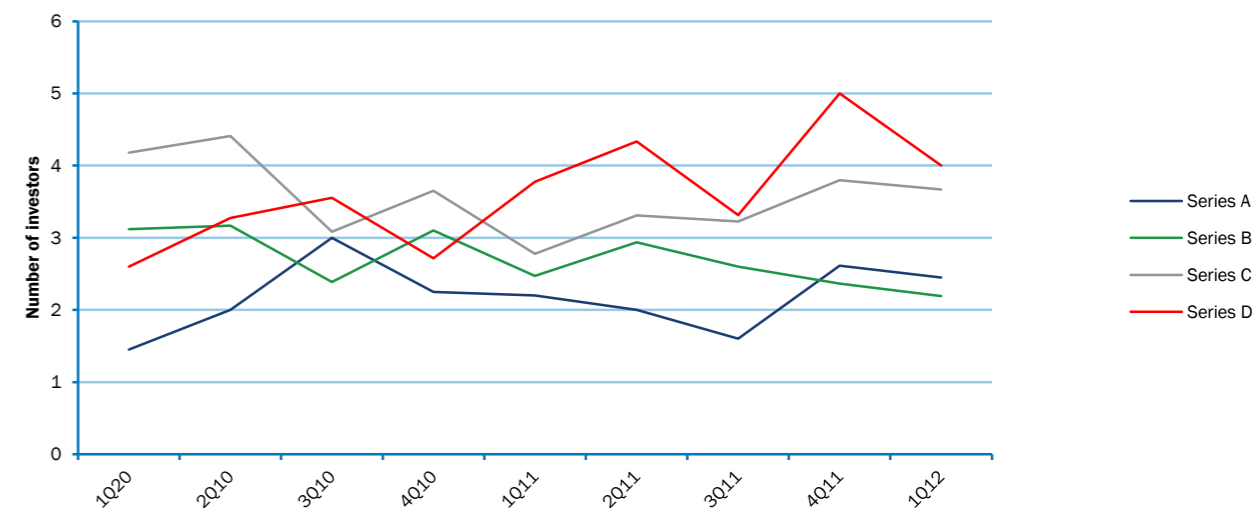
Number of new investors in the Global Security Sector: 1Q10 to 1Q12



Source: Global Security Finance

The number of new investors in the Global Security market climbed throughout 2011, peaking in 4Q11, up from 42 for the same period a year earlier.

Average Number of Investors per Transaction: 1Q10 to 1Q12

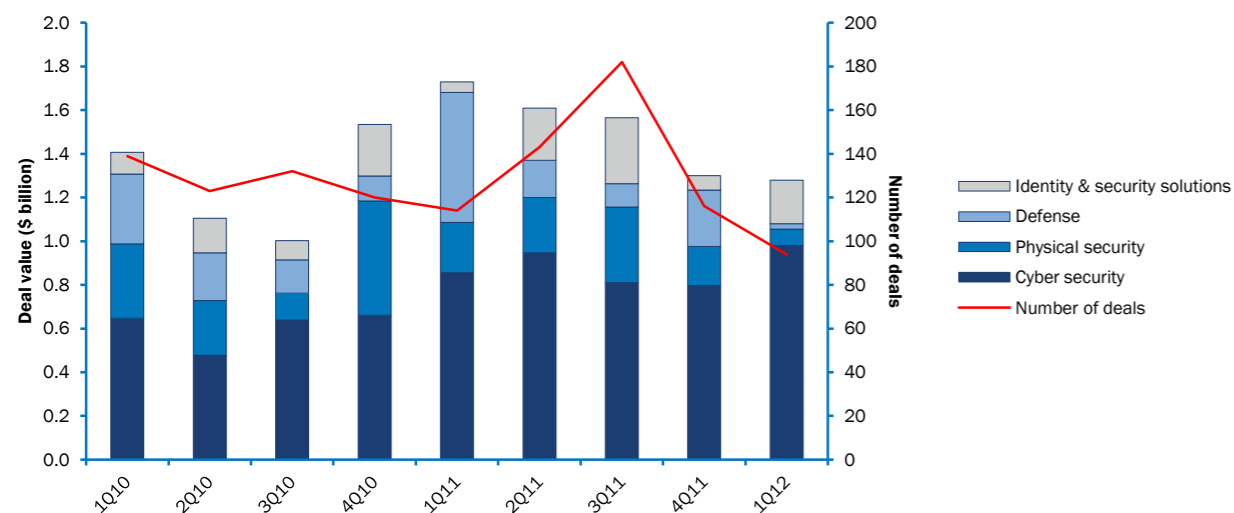


Source: Global Security Finance

US Venture Capital Investment Analysis



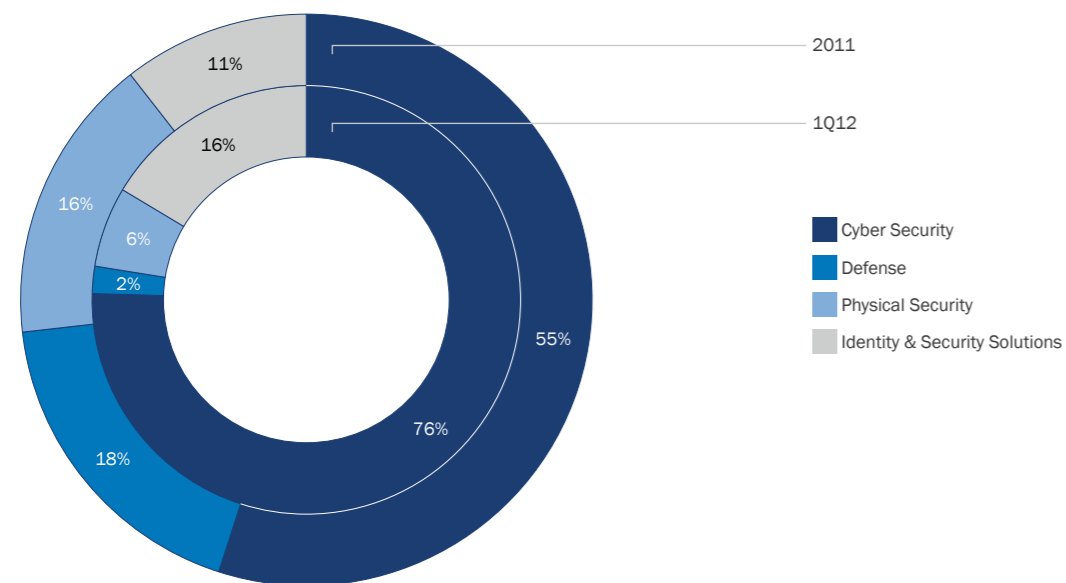
Venture Capital & Private Equity Investment in the USA: 1Q10 to 1Q12



Source: Global Security Finance

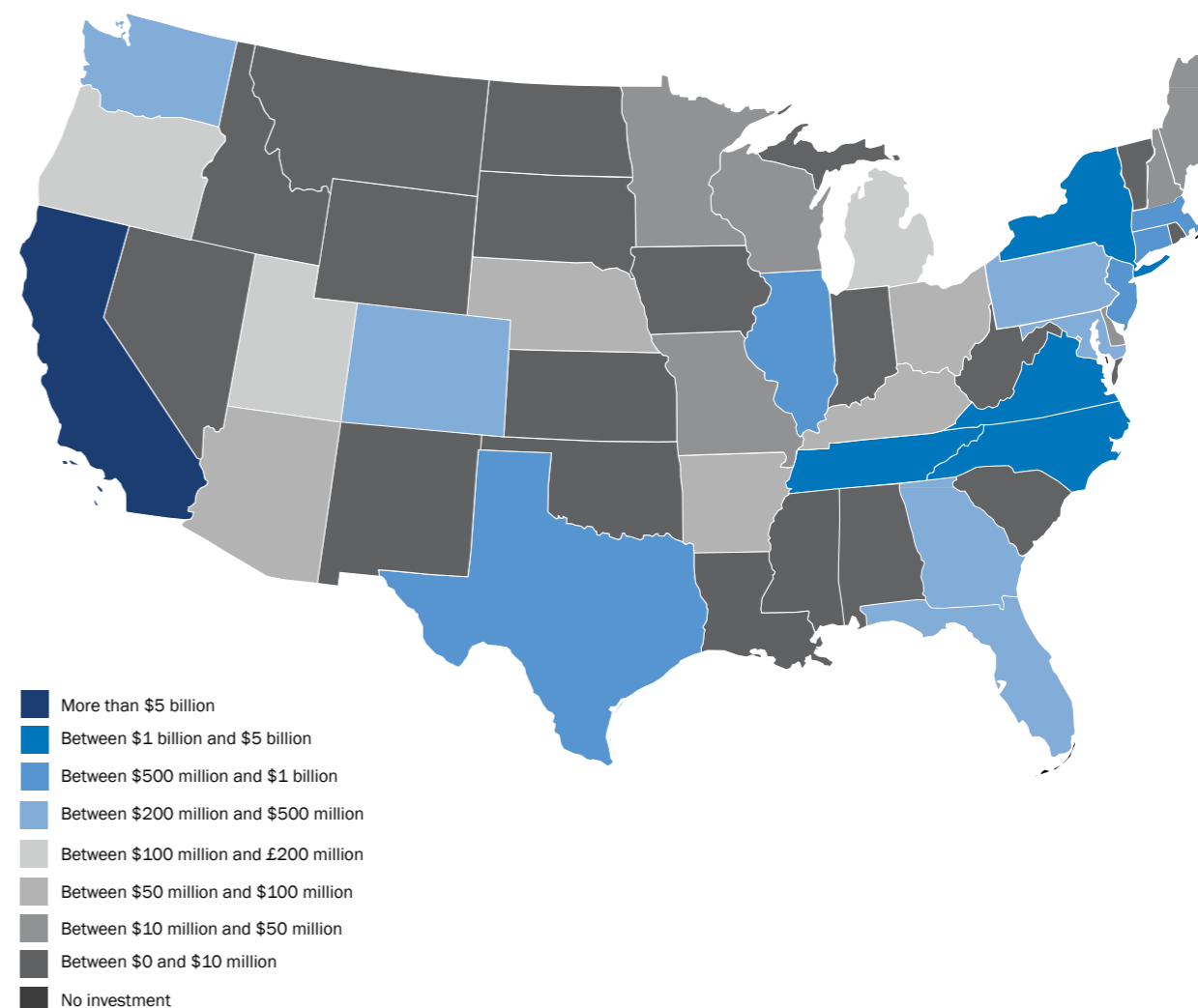
North American VCPE deals peaked at \$1.7 billion in 1Q11 up from \$1 billion in 3Q10. There was little change between 4Q11 and 1Q12, although investment in the Identity & Security Solutions sector almost tripled.

Venture Capital & Private Equity Investment in the USA by Sector: (2011 & 1Q12)



Source: Global Security Finance

Venture Capital & Private Equity Investment in the USA by State: 2011



Source: Global Security Finance

Top 10 US States by Total Investment Value: 2011

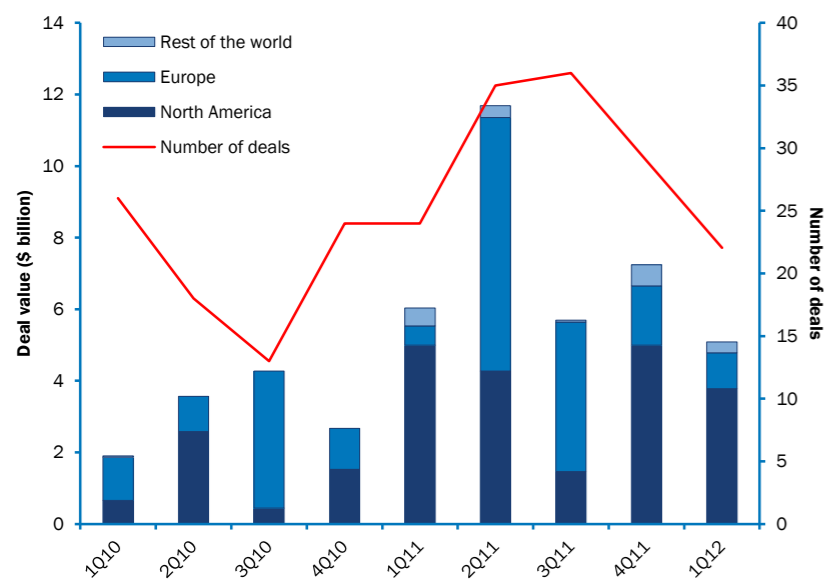
US State	Number of deals	Deal value (\$ million)
California	225	6475.57
North Carolina	11	3879.15
Virginia	22	2696.90
Tennessee	2	2515.25
New York	34	1107.37
New Jersey	14	927.49
Massachusetts	52	837.97
Texas	31	699.31
Connecticut	4	666.95
Illinois	14	517.59

Source: Global Security Finance

Private Equity (Buyouts) Investment Analysis



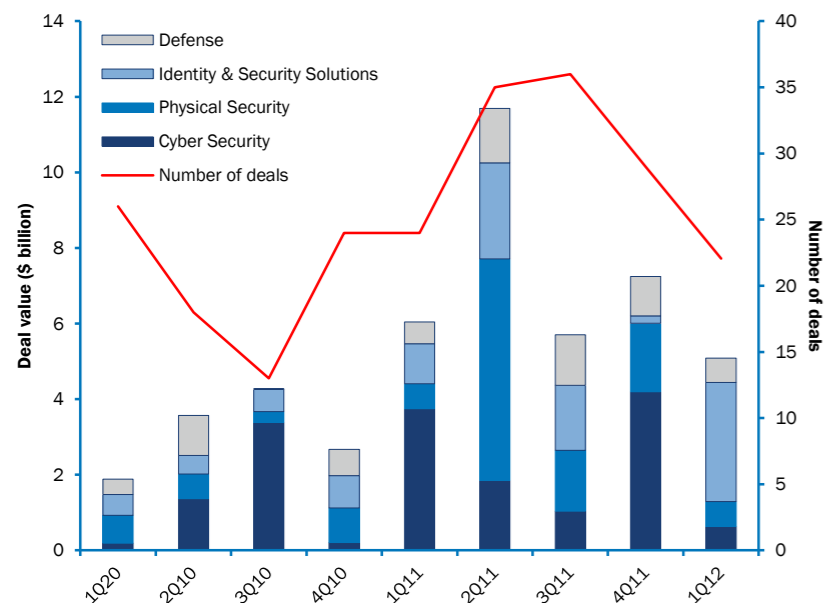
Private Equity (Buyouts) by Region: 1Q10 to 1Q12



Private equity deals gathered speed in 2011 with the number of deals and deal value growing throughout 2011, peaking at just under \$12 billion in 2Q11. This was significantly up on 2010 where deals fell to 1Q10.

Source: Global Security Finance

Private Equity (Buyouts) by Sector: 1Q10 to 1Q12



Physical Security saw the largest deal with Securitas Direct AB, the Swedish alarm firm, acquired by Bain Capital and Hellman & Friedman for \$3.4 billion in June 2011.

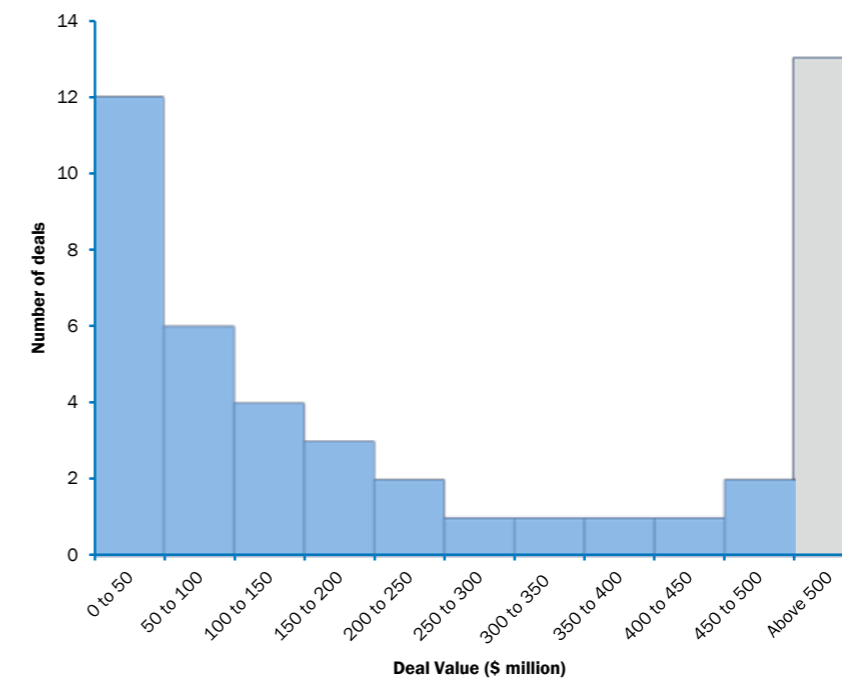
Source: Global Security Finance

Top 10 Private Equity (Buyout) Transactions by Deal Value: 2011

Project/Company	Country	Sector	Sub-Sector	Investor(s)	Amount (\$ million)
Securitas Direct AB	Sweden	Physical Security	Alarm Systems	Bain Capital LLC, Hellman & Friedman LLC	3,439.9
CommScope Inc.	USA	Cyber Security	Network monitoring, detection and response	The Carlyle Group LLC	3,325.0
Emdeon Inc.	USA	Cyber Security	Electronic Payment Services	Blackstone Group LP	2,246.4
SRA International Inc.	USA	Identity & Security Solutions	Consulting & Investigation Services	Providence Equity Partners LLC	1,880.0
Oberthur Technologies (Card Systems & Identity divisions)	France	Identity & Security Solutions	Identity proofing and fraud prevention services	Advent International Corp.	1,639.3
RAC Ltd.	UK	Physical Security	Emergency response and management	The Carlyle Group LLC	1,616.6
Blue Coat Systems Inc.	USA	Cyber Security	Network monitoring, detection and response	Thoma Bravo LLC, Ontario Teachers Pension Plan	1,300.0
Capital Safety Group Ltd.	UK	Physical Security	Emergency response and management	Kohlberg Kravis Roberts & Co.	1,200.0
FCI Microconnections	France	Physical Security	Access Control	Astorg Partners	813.4
Photonis SAS	France	Physical Security	Detection, sensor and imaging technology	AXA Private Equity	700.0

Source: Global Security Finance

Private Equity (Buyouts) Deal Distribution: 2011



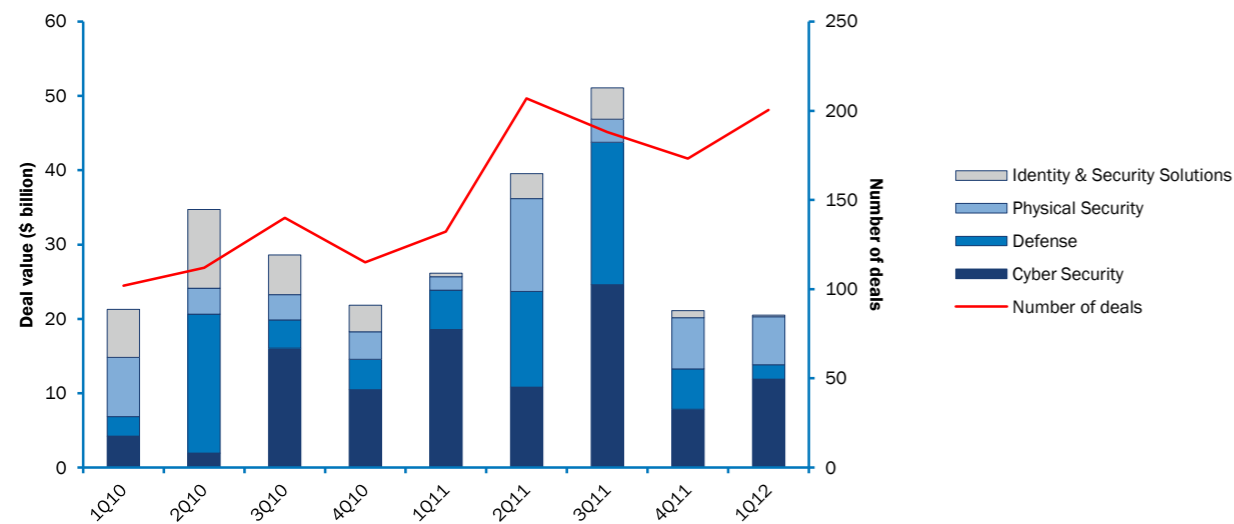
Of the top ten global private equity buyout transactions in 2011, most activity was above the \$500 million mark, with 14 deals completed. There were 12 deals with a value of up to \$50 million, 6 deals between \$50 and \$100 million and deals between \$250 million and \$450 million much less common, with only a scattering transactions.

Source: Global Security Finance

Global Security M&A Analysis



Global Mergers & Acquisitions: 1Q10 to 1Q12



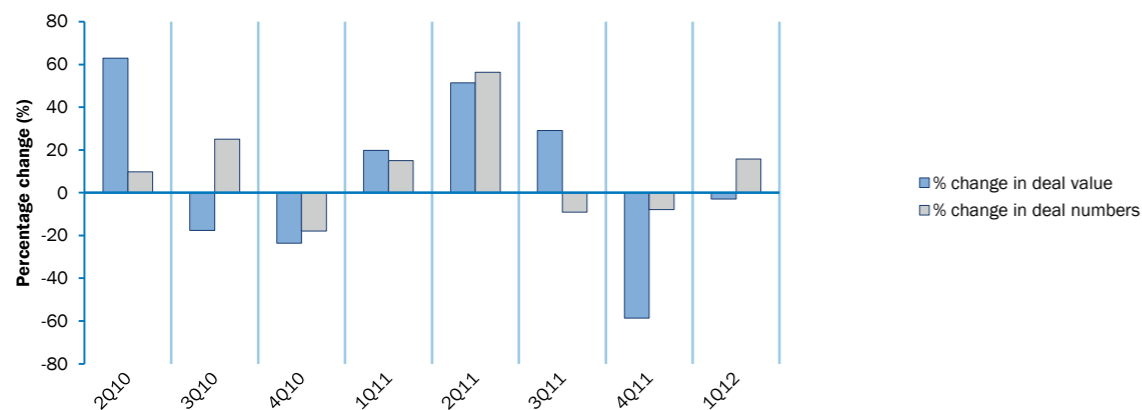
Average M&A investment: 1Q10 to 1Q12

Average quarterly M&A deal volume	\$29.42 billion
Average number of deals per quarter	152
Average M&A transaction value	\$192.05 million

Source: Global Security Finance

M&A activity in 2011 was most significant for Cyber Security deals, which accounted for nearly half of total deals (45%). Around a third of deals were defense-focused (30%), followed by those concerning Physical Security (18%) and finally, Identity and Security Solutions (7%). Notably, five of the top ten 2011 M&A transactions were Cyber Security deals.

Percentage Change in Mergers & Acquisitions Deal Value and Deal Numbers: 2Q10 to 1Q12



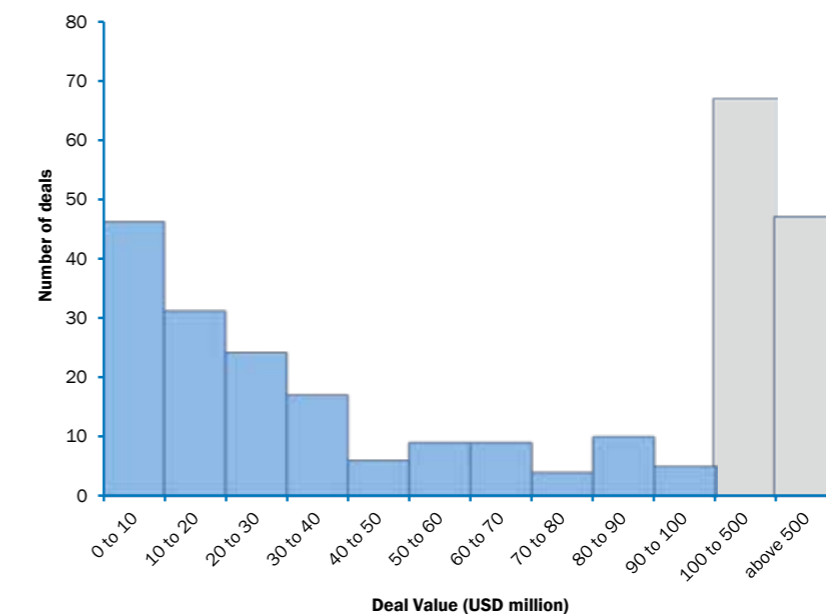
Source: Global Security Finance

Top 10 Global Mergers & Acquisitions by Deal Value: 2011

Target	Country	Sector	Sub-Sector	Acquirer(s)	Deal Value (\$ billion)
Goodrich Corp.	USA	Defense	Aerospace	United Technologies Corp.	16.50
Autonomy Corp. plc	UK	Cyber Security	Data backup, protection and recovery	Hewlett-Packard Company	10.25
McAfee Inc.	USA	Cyber Security	Perimeter Security & Firewalls	Intel Corp.	7.68
Avio SpA	Italy	Defense	Aerospace	Safran SA	4.30
Hitachi Global Storage Technologies (Hitachi GST)	USA	Cyber Security	Data backup, protection and recovery	Western Digital Inc.	4.30
NetLogic Microsystems Inc.	USA	Cyber Security	Data backup, protection and recovery	Broadcom Corp.	3.70
Securitas Direct AB	Sweden	Physical Security	Alarm Systems	Bain Capital LLC, Hellman & Friedman LLC	3.44
Savis Inc.	USA	Physical Security	Vulnerability Assessment	CenturyLink Inc.	2.50
Emdeon Inc.	USA	Cyber Security	Electronic Payment Services	Blackstone Group LP	2.25
Deutsch Group SAS	France	Defense	Aerospace	TE Connectivity Ltd	2.06

Source: Global Security Finance

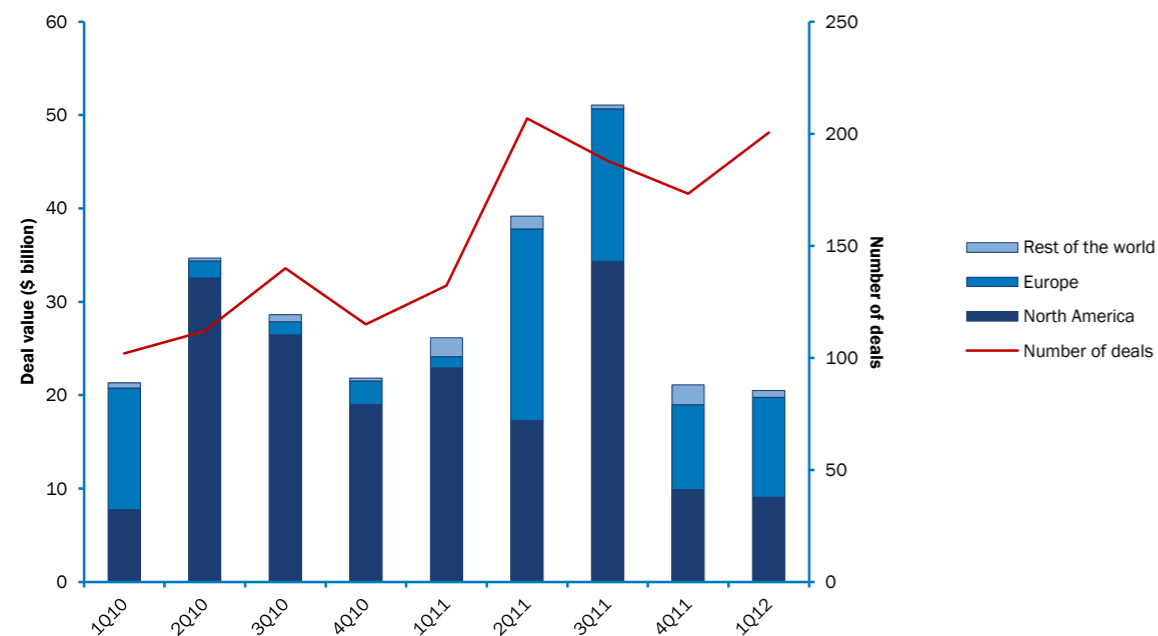
Mergers & Acquisitions Deal Distribution: 2011



The number of overall deals reached its highest point in 2Q11, standing at 215, while deal value was the strongest in 3Q11 at \$48.4 billion, boosted by United Technology Corp's acquisition of Goodrich for \$16.5 billion.

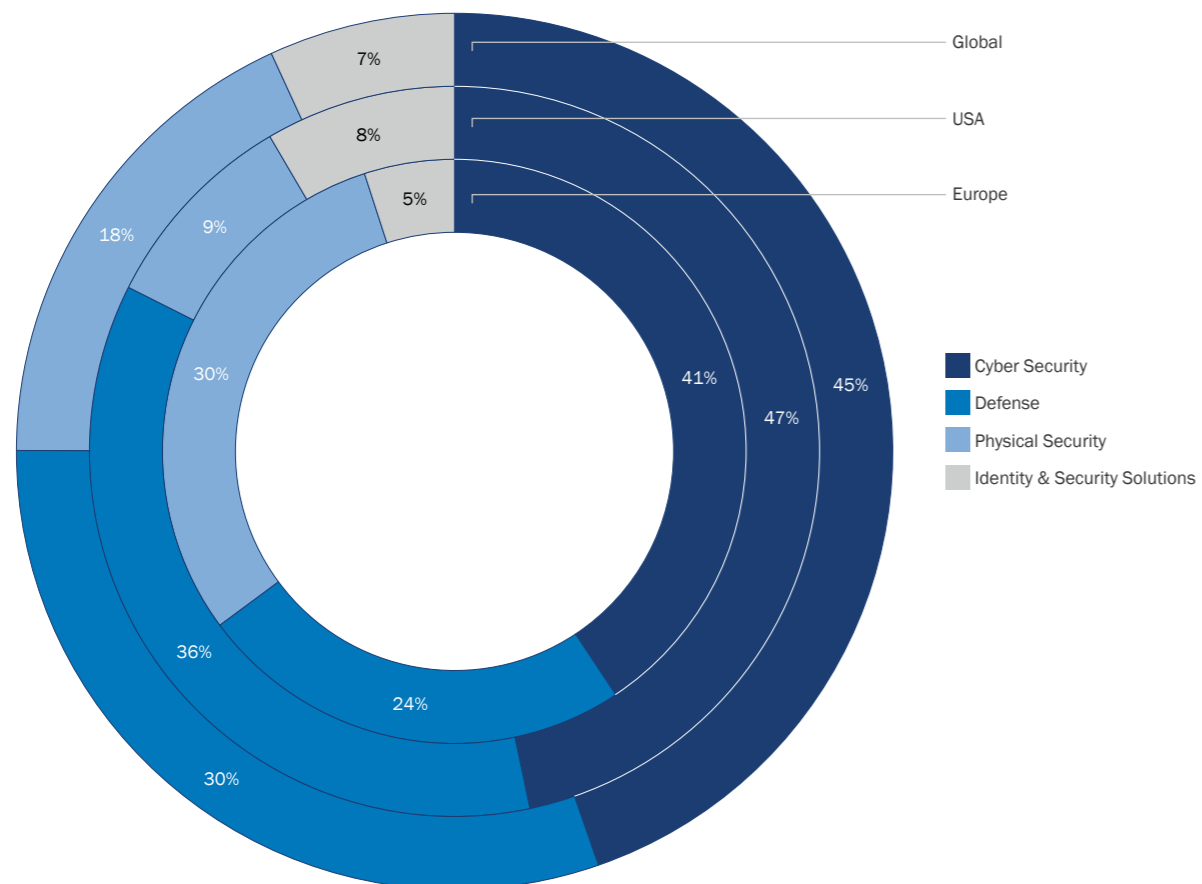
Source: Global Security Finance

Global Mergers & Acquisitions by Region: 1Q10 to 1Q12



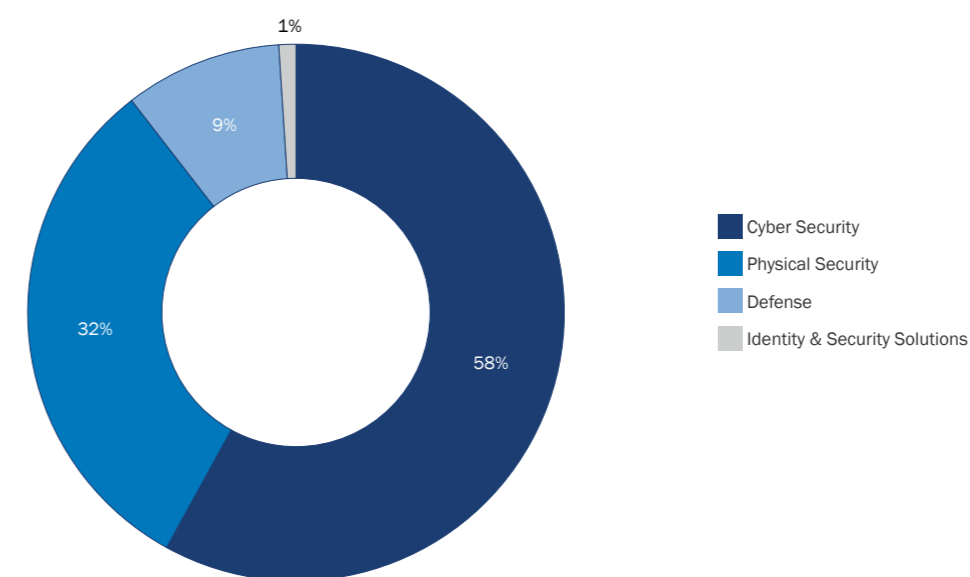
Source: Global Security Finance

Mergers & Acquisitions by Sector: 2011 (Global, USA, Europe)



Source: Global Security Finance

Mergers & Acquisitions by Sector: 1Q12



Source: Global Security Finance

Top Five Global M&A Transactions: 1Q12

Target	Country	Sector	Sub-Sector	Acquirer(s)	Deal Value (\$ billion)
Tyco International Ltd. (Flow Control Business)	USA	Physical Security	Access Control	Pentair Inc.	4.63
NDS Group Ltd.	UK	Cyber Security	Application Security	Cisco Systems Inc.	4.00
Quest Software Inc.	USA	Cyber Security	Data backup, protection and recovery	Insight Venture Partners	2.00
TransUnion Corp.	USA	Identity & Security Solutions	Background Screening & Verification Services	Advent International Corp., GS Capital Partners LP	0.80
AmSafe Global Holdings Inc.	USA	Defense	Aerospace	TransDigm Group Inc.	0.75

Source: Global Security Finance



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Global Security Finance 250

Published by
Global Security Finance
A division of VB/Research Ltd.
50-52 Wharf Road
Wenlock Business Centre, Gr. 06
London, N1 7EU, UK

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