



SECURITY AN INDUSTRY STUDY

Things you will learn from this whitepaper:

1. How has licensing & education requirements made the security industry more efficient?
2. What are some of the most common issues facing the industry?
3. How has firm consolidation affected the industry's landscape?
4. What segments of the security industry have the most growth potential?

This whitepaper will have special interest to:

1. Attorneys consulting with security firms considering mergers or acquisitions.
2. Judges presiding over business & litigation cases.
3. Business mediators & arbitrators.
4. Those concerned with the valuation of security firms.

Notice & Disclaimer

In a forensic accounting setting, the purpose of an industry analysis is to allow a comparison of the subject company to its industry. This comparison is vital to assess the strengths and weaknesses of the subject company, as well as its industry and company specific risks.

The following study contains a brief, selected analysis of the specified industry. It is based upon a review of current economic statistics, articles in the financial press, reviews found in current business periodicals and information posted on numerous internet sites. It does not purport to be all-inclusive or to contain all of the information which a prospective investor or lender may require. Projections and opinions are based upon information provided by third parties. We make no representations or assurances that this information is complete or accurate. Neither Mark S. Gottlieb, CPA, PC nor any of its officers, employees, or representatives make any representation as to the accuracy of completeness of this report or its contents, nor shall any of the foregoing have any liability resulting from the use of the information contained herein or otherwise supplied.

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Industry Overview

The security industry is large and diverse. According to Lehman Brothers Security Industry Annual Report, the security industry's total revenue is estimated at \$100 billion, including national and international revenues. The industry is divided into two major sectors: security services and security equipment. Security services accounts for \$30-45 billion and security equipment accounts for \$40-50 billion, approximately. Both sectors have undergone considerable consolidation of late. This trend should continue as large operators seek to increase market share and/or increase expertise in specialty areas.

Demand for security services continues to rise due to concerns regarding terrorism, employee theft and computer security issues. Concern over the securing of assets, employees and information has increased. Governments, commercial businesses, and individuals are taking a proactive approach to security issues, especially in the wake of the September 11, 2001 attacks. A survey conducted by Access Control & Security Systems Integration Magazine found that on a 6-point scale, "people security" scored a 5.26, "facility security" scored 5.25, "asset security" scored 4.78, and "information security" scored a 4.84.

Firms in the security industry experienced considerable growth in 2002 and future revenue gains of as much as 15 percent are forecasted. The most prosperous markets are expected to be high-end residential and commercial security, and small commercial businesses.

Nature of Work

Security guard services are provided by firms for the protection of other firms and/or individuals. Security guard services are a significant part of the service sector of the security industry. Guards (also called security officers) patrol and inspect property to protect against theft, vandalism, fire and illegal activity. When necessary, they use radio and telephone communications to call for assistance from ambulance, police or fire departments. Security guards write reports detailing activities and observations during assigned shifts. They may also interview witnesses or victims, prepare case reports, and testify in court.

Although many security guards perform similar duties, specific duties can vary based on whether the guard works in a "static" security position or is assigned to mobile patrol. Static security guards usually serve a client at one location for a specific length of time. These guards become closely acquainted with the property and its associated individuals, complete all tasks assigned to them, and often monitor alarms and closed-circuit television cameras. Guards assigned to mobile patrol duty usually drive or walk from location to location and conduct security checks within an assigned geographical zone. They may detain or arrest criminal violators, answer service calls concerning criminal activity or problems, and issue traffic violation warnings. However, specific job responsibilities vary with the size, type, and location of the employer.

All security officers must show good judgment and common sense, follow directions and directives from supervisors, testify accurately in court and follow company policy and guidelines. Guards should have a professional appearance and attitude and be able to interact with the public. They also must be able to take charge and direct others in emergencies or dangerous situations. In a



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large organization, the security manager is often in charge of a trained guard force divided into shifts, whereas in a small organization, a single worker may be responsible for all security.

Licensing Requirements

According to the U.S. Department of Labor, guards obtain a State license, which is portable from firm to firm. Most states require that guards be licensed. In order to obtain a license an individual must be at least 18 years old, pass a background check, and complete classroom training in such subjects as property, emergency procedures, and detention of suspected criminals. Often, drug testing is required, and may be random and ongoing.

The appropriate government authority must license guards who carry weapons. Some personnel receive further certification as special police officers, which allows them to make limited types of arrests while on duty. Armed guard positions have more stringent background checks and higher entry requirements than unarmed guard positions, due to greater insurance liability risks. Compared to unarmed security guards, armed guards and special police typically enjoy higher earnings and benefits, greater job security, more advancement potential, and usually are afforded more training and responsibility.

Education Requirements

Many employers of unarmed guards do not have specific educational requirements. However, when hiring armed guards, employers prefer to hire individuals with a high school diploma or equivalent certification. Many of the jobs in the field require a driver's license. The amount of training a guard receives may vary. For armed guards the training requirements are stricter because employers are legally responsible for any use of force. An armed guard will receive training in areas such as weapons retention and must understand laws governing the use of force. According to the U.S. Department of Labor, Bureau of Labor Statistics, Occupational Outlook Handbook, 2002-03 Edition, many states are making ongoing training a legal requirement for maintaining certification.

Working Conditions

Guards usually work shifts of 8 hours or more, for up to 40 hours per week, and often remain on call in case of an emergency situation. Some employers run three shifts and rotate guards to equally divide daytime, weekend and holiday work. Guards usually eat on the job rather than leave the site they are guarding. Guards may cover a specific post or may patrol buildings and grounds, and are usually paid on an hourly basis.

Employment

Security guards held more than 1.1 million jobs in 2000. Industrial security firms and guard agencies employed 60 percent of all wage and salary guards. These organizations provide security services on a contract basis, and assign their guards to buildings and other sites as needed. Other security guards are employed directly by the organization they are responsible for guarding. Such employers may include: banks, building management companies, retail stores, hospitals, hotels, restaurants, bars, schools and governments. Most security guard jobs are found in metropolitan areas



throughout the country, and many individuals take a guard job as secondary employment to supplement their primary earnings. More than 1 in 7 guards work part-time. A significant number of law enforcement personnel moonlight as security guards.

Employment Outlook

Employment opportunities in the security industry should be very favorable through the year 2010. The U.S. Bureau of Labor Statistics predicts the nation's private guard force will increase by 21 to 35 percent through 2010, in response to increased fears of workplace violence, theft, and terrorism. Other job openings will stem from the need to replace retiring personnel. Many opportunities are expected for persons seeking full-time employment, as well as for those seeking part-time or second jobs. However, competition is expected for higher paying positions. These positions involve intensive training and usually are found at facilities requiring a high level of security, such as nuclear power plants or weapons installations. Due to advances in security technology, computer literate guards who understand "smart buildings" and possess an understanding of the loss prevention function will find their services in high demand.

Current Issues Affecting The Security Industry

Pros:

Due to increased demand for security, many opportunities exist for the creation of new firms, as well as greater demand for existing firms. Technological improvements and innovation are changing the role of the security guard. Security firms must keep abreast of these changes.

Cons:

Changing government mandates alongside federalization of security such as airports is changing the role of private security firms. The distinction between private security guards and police officers is often vague. Security firms must learn to manage these differences.

A continuous and important industry concern is low pay, insufficient training, and high turnover rates. Security guard firms will be forced to spend more on training and wages in order to meet public expectations and to remain competitive.

The perception of security guards is often one of over-zealous, buffoonish individuals who are not to be respected. Security firms need to improve hiring standards.

Industry Outlook

With demand for services steadily rising, the security industry continues to grow commensurately. Consolidation of firms should promote profitability and offset the federalization of certain security venues. Firms will need to invest more heavily in employee training as technology increases and state and federal laws evolve, and will need to screen diligently in hiring selection. If the security industry can continue to evolve in accordance with market needs, the potential for profitability remains high.



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