

IT Security Sector Report

Fall 2004

UPDATA CAPITAL

Inside This Issue

	Page
Security Market is Buzzing	1
Security Industry Developments & Observations	2
Security M&A Transactions Year-to-Date 2004	4
Security Venture Investing Year-to-Date 2004	5
Public Company Trading Data	6

Recently Announced Updata Security M&A Deal:



Updata Capital, Inc.
www.updata.com

New Jersey Office:

125 Half Mile Road
Suite 201
Red Bank, NJ 07701
(732) 945-1000

Virginia Office:

2100 Reston Parkway
Suite 430
Reston, VA 20191
(703) 736-0020

For more
Information contact:
Don More
Partner
dmore@updata.com

Security Market is Buzzing

Stock Market. Price indices representing the 12 largest IT security companies market value-wise (Bellwether Index) and a basket of 19 other IT security vendors (Small Cap Index) rose 66% and 17%, respectively, in the 12 months ended November 17. During this time the NASDAQ rose 9% (**Figure 1, below**). Solid financial performance and security's persistent top-of-mind status have been the main value drivers. Last quarter, three-fourths of IT security firms beat/met consensus EPS estimates, and revenues increased 13% on average. A September CIO survey (Banc of America) ranked security as the #1 IT spending priority.

Reflecting a strengthening public market, trading multiples have expanded, as summarized in **Figure 2, below**. (Detailed valuation data is included on **page 6**.) In late September, fingerprint biometrics vendor Cogent went public, raising \$216 million. At Nov. 15, Cogent closed 64% above its first-day closing price, with a market value of \$2.3 billion.

M&A Market. At least 16 IT security M&A deals were announced in Q3 2004, 7 in Q4 through mid-November, and 43 year-to-date (YTD) 2004 (**Table on page 4**). 43 deals were also announced in the Jan.-Nov. period in 2003. Estimated total YTD IT security deal volume is \$5.3 billion (including \$3.6 billion paid by Juniper for Netscreen in Feb.), versus \$1.6 billion in the same 2003 period.

Thus far in 2004, there have been six public-to-public security M&A deals announced, most recently CA's pending purchase of access management vendor Netegrity. In 2003 there were four public-to-public security deals. Active segments in terms of transactions YTD: Identity/Access Management (8 deals) Managed/Consulting Services (7 deals), Anti-spam (7 deals), Wireless/Mobile Security (5 deals), Application Security (4 deals), and Endpoint Security (3 deals).

The most active security acquirers so far this year are: Symantec (4), Cisco (3), Betrusted (3) and CA (2). Symantec, Cisco, CA and Juniper constituted 85% of deal volume through November this year. Only 21% of 2004 deals exceeded purchase values of \$50 million (17% in 2003).

Venture Market. Updata records 10 private equity investments in IT security in Q4 through Nov. 15, and 81 YTD (**Table on page 5**), compared to 101 for 2003's Jan.-Nov. period. Total investment volume YTD 2004 is \$899 million, versus \$836 million in the same time last year, an 8% increase.

Recent popular funding areas are: Anti-spam (7 investments, \$157 million), Intrusion Detection/Prevention (8 investments, \$83 million), Wireless Security (8 investments, \$75 million), Biometrics (5 investments, \$57 million), and Secure Messaging (4 investments, \$38 million).

Figure 1: Year-to-Date IT Security Stock Indices



Figure 2: Security Trading Multiples Snapshot

(averages)

Quarter's end 2004	
Enterprise Value/2004e Revenues	
Q1	3.9x
Q2	3.4x
Current*	4.4x
2004e P/E	
Q1	38.5x
Q2	32.7x
Current*	39.8x

*at 11/15

Updata Security Bellwether Index: CHPK, COGT, GEMP, ISSX, JNPR, MFE, MVSN, RSAS, SFNT, SYMC, TMIC, WBSN
Updata Small Cap Index: ACTI, ALDN, BVEW, CGFW, DMRC, ENTU, HIFN, IDNX, ITNZ, NETE, NTIO, SCUR, SNWL, TMWD, TPTI, VDSI, VISG, WGRD, ZIXI

Security Industry Developments & Observations

Standalone Segments are Unifying. IDC projects demand for multi-function “threat management” appliances will increase 80% annually through 2008, outpacing growth of the underlying security segments. This reflects surveys indicating that organizations rank integration/centralization as top priorities in making security purchase decisions. Today, most Symantec customers purchase multiple products or appliances when they buy antivirus, which is why SYMC offers up to seven security functions in one box – Firewall, VPN, IDS/IPS, Antivirus, Web Filtering, Anti-spam, Management. Other appliance vendors include Cisco, Fortinet, ISS, TippingPoint. The list keeps growing: SurfControl recently launched an e-mail security appliance, and WatchGuard added gateway antivirus to its firewall. Accelerating erasure of functional lines between products will eventually render the “silo” security taxonomy meaningless to most customers.

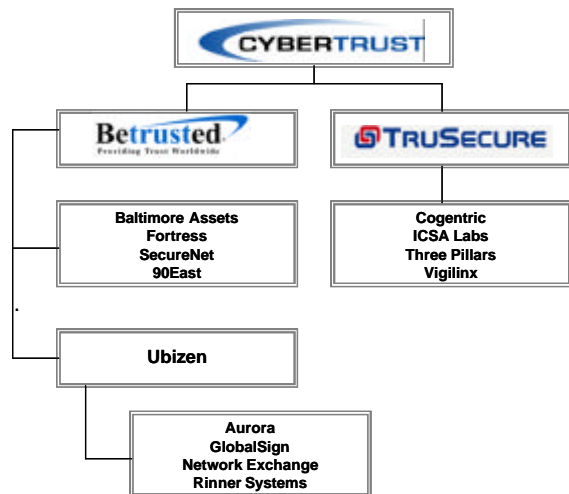
ISPs: The Killer Channel? America Online recently announced it will add McAfee Antivirus to the anti-spyware, anti-spam and web filtering (plus personal firewall for broadband) products AOL already includes in its monthly Internet access fee. Expect other ISPs to follow suit – some like Earthlink already include antivirus for added cost. The net impact likely will be to exacerbate pricing pressures in content security over time. Security deployment via ISPs should also make the Internet safer by protecting more home/SMB computers from being hijacked and used as attack platforms, e.g. in DDOS attacks.

Service Roll-ups Ahead. September’s merger of Betrusted and TruSecure, forming CyberTrust, creates the largest independent IT security solutions firm, with 4,000 customers and \$160 million of revenues. CyberTrust culminates a roll-up of numerous smaller firms (**Figure 3, right**), which by example could spur overdue consolidation in security services. Consulting and managed services remain security’s most fragmented segments and, logically, need not be so.

Endpoints: The Weakest Link. As laptops and other mobile and wireless client devices multiply, so do holes in the network perimeter, creating urgent need for (1) internal host-based security, (2) device connectivity control, (3) and wireless device/communications security. The Computer Security Institute found that 2/3’s of attacks occur from devices within the network. Further, up to 80% of security vulnerabilities come from client machines susceptible to remotely executable attacks. If, as Gartner predicts, by 2010 80% of key business processes will involve exchanging real-time information among mobile workers, much is yet to be done to protect mobile devices and control security risks arising from their connection to the network.

Will Phishing Spawn a New Security Segment? Phishing – using fraudulent websites and emails to steal personal information – cost U.S. banks and credit card companies \$1.2 billion and affected two million Internet users in 2003 (Gartner). However, don’t expect phishing to readily generate a discrete solution class akin to antivirus or anti-spam. The nature of the problem is susceptible to multiple solutions across segments “including anti-spam, e-mail content security, anti-fraud, identity management, authentication vendors and many others,” according to Radicati Group. Also, research indicates phishing is primarily directed by small numbers of organized criminal groups, who are far easier to hunt than legions of anonymous hackers and virus writers. To that end, the U.S. recently enacted The Identity Theft Penalty Enhancement Act, boosting criminal penalties against phishing and other forms of identity fraud.

Figure 3: Select Acquisitions Underlying CyberTrust



Going Beyond the Call. In last quarter’s security report, we wrote about the necessity of using preventive and proactive measures to stay ahead of the dynamic threat environment. In that regard, carriers and large ISPs have advantages: first, their birds’-eye view of Internet traffic enables earlier and more accurate discovery of attack patterns; second, they are well-placed to add managed security services for their customers. If properly executed upon, these advantages could lead to carriers becoming major security players over time. AT&T recently launched a network security initiative called Internet Protect, Sprint offers IP Defender, and MCI has partnered with VeriSign to the same end.

More Security Industry Developments & Observations

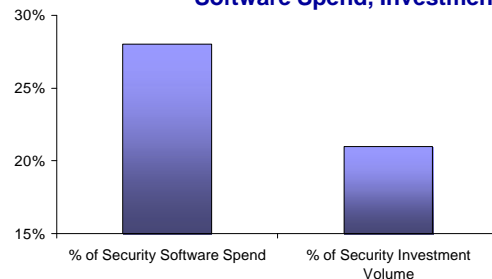
From Security to Information Integrity. Forrester Research recently wrote that, while “management functions like software deployment and usage tracking have traditionally been separate from security functions like patch management, and virus and spyware protection,” we should expect “much stronger integration between the two in the next two years.” Such convergence is evident among the big framework vendors – CA, Cisco, HP, Microsoft – who are building, partnering and buying (10 security acquisitions by these four since 2003) to offer combined system and security management. Symantec recently positioned itself as an Information Integrity provider, weaving together security and systems/storage management offerings gained through last year’s OnTechnology and PowerQuest acquisitions to reach the same point. As the circle widens, lines between security and other essential infrastructure functions will continue blurring.

Bigger is Better, But Not Always. The security industry’s fragmentation (analyst estimates vary between 600 and 1,000 vendors) is widely recognized. Evidence suggests consolidation is inevitable given the advantages that size conveys. Virtually all security companies with revenues greater than \$75 million are profitable; below that most are not. Small public players have demonstrated greater difficulty in meeting financial targets. Customers also demand multiple solutions from one vendor, which works against point solution providers. For companies seeking to be acquired, however, bigger is not always better. Cisco, Symantec and others say – and have shown through acquisitions – that smaller companies are attractive because they are typically easier to integrate and have more reasonable value expectations. Given that most acquisitions in the sector are driven by product/technology rather than market share, it’s not surprising that 80% of security M&A deals have values south of (often well south of) \$50 million. Also, as companies grow, the number of vendors that can buy them declines, so in a sense big private vendors not primed for IPO could become victims of their success.

Biometrics: Coming of Age. Cogent’s successful September IPO, together with recent big government contracts (e.g. the \$10 billion border protection contract from DHS) and Viisage’s first profitable quarter in three years prove biometrics is, finally, here. Spending in the space, \$1 billion this year, is forecast to triple by 2007, according to International Biometrics Group. While government is the short-term driver, the private sector will follow suit, e.g. in computer/facility access, and providing ID for purchases in stores. While most of the market is fingerprint-related, other forms (iris, face, hand) are growing share as technology improves.

Biometrics Highlights Broader IAM Wave. Demand drivers underlying biometrics growth suggest broader opportunities in Identity and Access Management (IAM). In authentication, government again is the lead demand driver, requiring all U.S. agencies to deploy access control platforms. In the private sector, compliance requirements are driving demand for strong authentication (e.g. PKI, tokens), auditing and data analytics as organizations attempt to create and enforce access policies. With CA’s Netegrity acquisition, all major framework vendors (BMC, HP, IBM, Microsoft, Sun), and some security companies (e.g. Entrust, RSA), now offer an integrated IAM solution set that includes – natively and through partners – authentication, management, web access, provisioning and single sign-on. While IAM has historically received a disproportionately smaller share of venture investing (**Figure 4, below**) despite attractive growth prospects, we expect investment to increase. Access/Authentication is cited as the top security priority in a recent CIO survey, ahead of Intrusion Prevention, Antivirus, Anti-spam, VPN, among other sectors.

Figure 4: IAM as % of Total Security Software Spend, Investment*



*First half 2004

Security’s “Mature” Sectors Remain High Growth. Antivirus and firewall are commonly regarded as the most mature IT security segments in that they have the highest market penetration and in that the top 3 vendors in each have 70%+ market share. However, these segments are far from saturation. In the consumer market, there are no more than 51 million antivirus subscribers out of 258 million households worldwide accessing the Internet (Wachovia). Penetration is even lower for personal firewalls, where demand is growing together with broadband usage. In the business market, penetration rates are higher but new technologies require security upgrades: VoIP networks need to be secured against viruses and intruders; and wireless LAN demand is expected to double in three years to \$500 million (Citigroup). Thus, even in security’s “mature” sectors, there remains headroom and opportunity for disruption.

Security M&A Transactions Year-to-Date 2004

(\$ in millions)

Ann't Date	Seller	Buyer	Deal Value	LTM Rev*	Mult of LTM Rev	Description
Nov-04	WholePoint	Mirage Networks	NA	NA	NA	Endpoint access control
Nov-04	Mobile Automation	iPass	\$20	\$4	5.0 x	Wireless device security management
Oct-04	Perfigo	Cisco	\$74	\$3	24.7 x	Network access control software
Oct-04	Legra Systems	Fortress Technologies	NA	NA	NA	Wireless security processing technology
Oct-04	AirPrism	Wavelink	NA	NA	NA	Mobile device security
Oct-04	Netegrity	CA	\$340	\$90	3.8 x	Identity & Access Management
Oct-04	Verinex Technologies	Jack Henry & Assocs.	NA	NA	NA	Fingerprint biometrics solutions
Sep-04	Netscape Security Solutions	Red Hat	\$23	NA	NA	Authentication certificate management
Sep-04	TruSecure	beTrusted	NA	NA	NA	Security consulting and managed services
Sep-04	Omniva Policy Systems	Liquid Machines	NA	NA	NA	Secure messaging Compliance
Sep-04	Lyric Associates	Symantec	NA	NA	NA	UK security consultancy
Sep-04	@Stake	Symantec	NA	NA	NA	Security consulting, auditing
Sep-04	BugScan	LogicLibrary	NA	NA	NA	Code vulnerability scanning
Sep-04	Datakey	SafeNet	\$9	\$6	1.5 x	Authentication
Aug-04	PestPatrol	Computer Associates	NA	NA	NA	Anti-spyware software
Aug-04	Foundstone	McAfee	\$86	\$18	4.8 x	Vulnerability management software
Aug-04	MessageRite	FrontBridge	NA	NA	NA	Secure message management
Aug-04	Mailblocks	America Online	NA	NA	NA	Anti-spam technology
Jul-04	Sanctum	Watchfire	NA	NA	NA	Web application security
Jul-04	AMR Networks	DynTek	NA	NA	NA	IT Security Services
Jul-04	Cerberian	Blue Coat	\$18	NA	NA	Web filtering software
Jul-04	SecureComputing [rejected bid]	CyberGuard [unsolicited]	\$247	\$81	3.0 x	Firewall, web-filtering, access mgmt
Jul-04	Turntide	Symantec	\$28	\$2	16.5 x	Anti-spam software
Jun-04	Trio Security	Symbol Technologies	NA	NA	NA	Mobile data security
Jun-04	ThreatFocus	PivX	NA	NA	NA	Network vulnerability scanning
May-04	Magnifire	F5	\$29	NA	NA	Web application security
May-04	Brightmail	Symantec	\$370	\$26	14.2 x	Anti-spam
May-04	V-One [deal terminated]	Steelcloud	\$16	\$4	4.4 x	VPN software
May-04	Asynchrony Solutions	JP Mobile	NA	NA	NA	Mobile device security
May-04	AmikaNow!	Entrust	NA	NA	NA	Anti-spam; content scanning IP
Apr-04	Webwasher	CyberGuard	\$41	\$9	4.8 x	Content security platform
Mar-04	Riverhead	Cisco	\$39	NA	NA	DDoS; Intrusion Prevention
Mar-04	Corvigo	Tumbleweed	\$39	NA	NA	Anti-spam software
Mar-04	Twingo	Cisco	\$5	NA	NA	SSL VPN technology
Mar-04	DeLean	Identix	\$3	NA	NA	Skin biometric technology
Mar-04	Fortress Solutions	BeTrusted	NA	NA	NA	Security consulting
Mar-04	SSP	Saflink	\$50	\$13	3.7 x	Identity management
Mar-04	Trulogica	Hewlett Packard	NA	NA	NA	Secure provisioning
Feb-04	Ubizen	BeTrusted	\$84	\$43	2.0 x	MSSP; application security
Feb-04	TransDigital Technologies	Viisage	\$50	NA	NA	Identity management (passports)
Feb-04	NetScreen	Juniper Networks	\$3,621	\$310	11.7 x	ASIC Firewall/VPN appliance
Jan-04	Asgard Holdings	SteelCloud	\$3	NA	NA	Network security services
Jan-04	Cobion AG	Internet Security	\$33	\$5	6.6 x	Content filtering; anti-spam

*Some revenue data represents estimates.

Security Venture Investing Year-to-Date 2004

(*\$ in millions*)

Invest. Date	Company	Description	Amount	Round
Nov-04	Wibhu	Wireless security - firewalls	\$10.3	A
Nov-04	Intellireach	E-mail filtering and management	\$7.0	A
Nov-04	Credant	Enterprise mobile device security	\$16.0	B
Nov-04	Sigaba	Secure messaging	\$8.0	C
Oct-04	Ironport	Anti-spam appliance	\$45.0	D
Oct-04	TrustDigital	Enterprise mobile device security	\$3.1	A
Oct-04	Caymas Systems	Access management appliance	\$12.0	B
Oct-04	Safend	Endpoint device security policy	\$2.0	A
Oct-04	TFS Technology	Authentication solutions	\$5.3	A
Oct-04	Solsoft	Network security policy management	\$7.0	F
Sep-04	CipherOptics	Mass secure data transfer	\$10.3	C
Sep-04	Retica Systems	Retinal biometrics	\$2.5	A
Sep-04	MX Logic	Anti-spam and e-mail security	\$11.0	B
Sep-04	Cloudmark	Anti-spam and e-mail security	\$11.0	B
Sep-04	A4Vision	Facial biometrics	\$12.8	C
Sep-04	AboveSecurity	Security monitoring technology	\$1.7	A
Sep-04	Proofpoint	Anti-spam and e-mail security	\$20.0	C
Sep-04	NFR Security	Intrusion Detection	\$6.0	D
Aug-04	Cranite Systems	Wireless networking security	\$10.0	D
Aug-04	Patchlink Systems	Patch management	\$30.0	B
Aug-04	FaceTime	IM security and management	\$16.0	G
Aug-04	Breach Security	Behavioral application security	\$7.5	A
Aug-04	FrontBridge Technology	Antispam service	\$10.0	D
Aug-04	Mirage Networks	Internal firewall	\$13.0	B
Jul-04	Janus Technologies	Security configuration management	\$3.3	A
Jul-04	Vernier	Wireless security	\$12.0	D
Jul-04	BNX	Secure identity management	\$9.0	F
Jul-04	Application Security	Database security	\$7.0	C
Jul-04	Vsecure Technologies	Network intrusion prevention	\$2.0	C
Jul-04	Netasq	Firewall appliance	\$3.7	C
Jun-04	Q1 Labs	Network monitoring, IDS	\$11.0	C
Jun-04	Guardium	Database security	\$5.0	B
Jun-04	Finjan	Behavioral anti-virus	\$10.0	B
Jun-04	Determina	Intrusion prevention	\$16.0	B
Jun-04	eEye Digital	Vulnerability assessment	\$15.0	D
Jun-04	Infraworks	File security	\$7.5	B
Jun-04	Bluefire	Wireless device security	\$10.0	C
May-04	e-Security	Security event management	\$5.0	C
May-04	Secure Software	Application security	\$5.3	A
May-04	TrustWave	Financial transaction security	\$10.0	A
May-04	Nevis Networks	Network security - stealth mode	\$10.0	B
May-04	Sensory Networks	Network security accelerator	\$6.0	B
May-04	Lockdown Networks	Vulnerability, patch management	\$4.0	na
Apr-04	WholeSecurity	Endpoint, identity security	\$10.0	B
Apr-04	Intrusic	Internal security, anti-espionage	\$2.1	B
Apr-04	Columbitech	Wireless LAN security	\$1.5	E
Apr-04	Senforce	Mobile computer security management	\$12.4	B
Apr-04	Vormetric	Stored data security	\$15.0	C
Apr-04	Lancope	IDS, vulnerability assessment	\$12.5	C
Apr-04	Trusted Network Technols.	Internal network firewall, access control	\$12.0	B
Apr-04	DigitalPersona	Fingerprint biometrics	\$13.0	C
Mar-04	CloudShield	Deep-packet inspection	\$20.0	C
Mar-04	Labcal	Authentication systems	\$1.8	A
Mar-04	Securityfy	Policy-based security mgmt	\$15.0	C
Mar-04	Upek	Fingerprint biometrics	\$20.0	A
Mar-04	GeoTrust	Digital certifs.; managed PKI	\$3.7	E
Mar-04	nCircle	Vulnerability management	\$15.0	D
Mar-04	Ciphertrust	Message security; anti-spam	\$42.0	B
Mar-04	SecurePipe	Managed security services	\$3.2	C
Mar-04	Fortinet	Network security appliances	\$50.0	E
Mar-04	Quarry Technols.	Security service routers	\$18.0	D
Mar-04	Layer N	High speed encryption chips	\$20.0	B
Mar-04	Infoblox	Network identity appliances	\$21.0	B
Mar-04	FaceTime	IM security	\$6.5	F
Feb-04	Cenzic	Security QA	\$2.0	D
Feb-04	Layer 7 Technols.	Web services security	\$1.0	A2
Feb-04	Tablus	Outbound data security	\$7.0	A2
Feb-04	Corestreet	Identity management	\$8.4	B
Feb-04	Preventsys	Network security auditing	\$3.0	B
Feb-04	Authentica	DRM	\$8.0	C
Feb-04	Ounce Labs	Application security	\$6.0	A
Feb-04	Discretix	Flash card security	\$9.5	B
Feb-04	iPolicy Networks	Carrier security appliance	\$26.0	A
Feb-04	OmniTrust	DRM; document security	\$6.0	B
Jan-04	Sourcefire	Intrusion detection/prevention	\$15.0	C
Jan-04	ServGate	Anti-spam	\$18.0	E
Jan-04	Protego	Security event management	\$6.3	A2
Jan-04	Thor	Provisioning software	\$15.0	B
Jan-04	Sana (Company 51)	Intrusion detection, prevention	\$10.0	C
Jan-04	SealedMedia	Document security systems	\$8.0	E
Jan-04	ArrayNetworks	SSL VPN Appliances	\$7.5	C

IT Security Sector Report

Fall 2004

Public Company Trading Data

(\$ in Millions)

Company	Market Value			Financial Data			Enterprise Value / Revenues		Equity Multiple Price / Earnings		
	Price 11/15/04	% of 52 Week Hi	Market Cap	Enterprise Value (1)	LTM Revenue	Q/Q Rev Growth (3)	LTM EBITDA Margin	CY2005	CY2004	CY2005	
ActivCard	\$7.75	86.3%	\$327	\$117	\$32	30.0%	-84.5%	3.6x	2.8x	NA	86.1x
Abaddin Knowledge Systems	31.30	97.4%	405	381	65	2.4%	16.4%	5.5x	4.7x	45.8x	32.7x
Bindview Development	2.96	57.0%	140	105	73	24.2%	3.2%	1.4x	1.2x	NM	12.7x
Check Point Software	23.28	85.7%	6,014	5,009	488	1.9%	57.0%	9.8x	8.8x	22.2x	20.2x
Cogent	30.29	99.3%	2,150	1,942	76	37.4%	42.3%	23.0x	12.9x	83.0x	57.2x
CyberGuard	5.37	44.1%	172	157	55	8.0%	13.2%	2.7x	2.1x	22.9x	21.4x
Digimare	9.50	59.9%	193	130	89	0.8%	12.5%	1.4x	1.3x	NA	114.0x
Entrust Technologies	3.72	66.8%	234	133	88	9.3%	4.0%	1.5x	1.4x	744.0x	59.5x
Gemplus International SA	2.14	73.7%	1,303	852	1,107	2.0%	10.5%	1.1x	NA	NA	NA
Hi/tn	7.84	41.5%	112	62	42	17.5%	-6.9%	1.4x	1.2x	NA	64.0x
Identix	7.59	84.8%	680	636	59	2.7%	30.2%	9.7x	7.3x	NA	NA
Internet Security Systems	23.45	98.0%	1,107	919	276	4.6%	19.4%	3.2x	2.8x	37.5x	28.9x
Intrusion	1.54	35.0%	8	8	6	52.0%	-81.9%	NA	NA	NA	NA
Juniper Networks	28.79	92.1%	16,201	15,291	1,299	17.9%	25.6%	11.5x	8.4x	65.6x	44.6x
Macrovision	25.81	91.7%	1,308	1,148	162	37.0%	40.7%	6.6x	5.3x	29.0x	24.8x
Netegrity (to be acquired by CA)	10.72	75.6%	435	367	90	-16.5%	-4.7%	3.8x	3.4x	NA	73.3x
NetIQ	12.60	82.4%	701	415	264	-4.7%	6.2%	1.6x	1.5x	122.9x	37.9x
McAfee	27.40	99.1%	4,716	3,869	939	-1.8%	17.9%	4.4x	4.5x	48.1x	26.6x
RSA Security	23.81	100.0%	1,615	1,429	295	1.5%	19.0%	4.7x	4.1x	47.0x	34.7x
Safenet	35.41	84.7%	870	696	157	9.4%	20.6%	3.4x	2.6x	26.6x	22.0x
Secure Computing	9.81	49.2%	358	310	91	10.9%	17.2%	3.3x	3.0x	30.4x	24.7x
SonicWALL	5.87	57.5%	433	172	122	-9.3%	4.4%	1.4x	1.2x	83.5x	43.1x
Symantec	60.58	97.0%	22,310	19,765	2,225	11.1%	36.7%	8.4x	7.0x	39.4x	32.3x
TippingPoint Technologies	32.35	95.0%	247	221	15	71.8%	-89.4%	7.8x	3.7x	NA	111.7x
Trend Micro	53.39	100.0%	7,228	6,573	548	16.4%	43.8%	11.5x	10.6x	NA	NA
Tumbleweed	3.92	44.3%	193	173	41	11.5%	-3.3%	4.0x	3.2x	NA	68.2x
Vasco Data Security	4.14	95.2%	146	139	27	3.2%	19.2%	4.7x	3.4x	37.6x	27.6x
Visaage Technology	7.02	49.1%	288	273	59	22.3%	14.5%	4.0x	3.3x	NA	65.1x
Watchguard Technologies	4.24	48.2%	143	66	85	-7.5%	-2.9%	0.8x	0.8x	NA	NA
WebSense	48.97	99.6%	1,186	961	103	8.5%	35.1%	8.7x	6.9x	46.3x	38.5x
Zix Corp	5.25	28.3%	166	142	11	23.8%	-288.6%	9.9x	4.0x	NA	NA
Mean		74.8%				12.8%	18.7%	4.4x	3.7x	39.8x	37.5x
Median		84.7%				9.3%	17.2%	3.8x	3.3x	38.5x	32.7x

(1) Enterprise value is equal to market capitalization plus debt and pfjd stock minus cash and cash equivalents

(2) Outliers, as indicated by a box, are excluded from mean and median calculations

(3) Q/Q revenue growth represents most recent quarter over previous quarter

Updata Capital, Inc. is a leading investment banking firm specializing in mergers and acquisitions for the information technology industry. Since its inception in 1987, Updata has managed over 400 mergers and acquisitions for software, IT services, e-commerce, infrastructure, telecommunications, e-services, and security firms, representing an aggregate value over \$12 billion.

Our clients rely on our deep understanding of technological vision and financial expertise to assure the successful execution of their strategic initiatives.



www.updata.com

New Jersey Office:

125 Half Mile Road
Suite 201
Red Bank, NJ 07701
(732) 945-1000

Virginia Office:

2100 Reston Parkway
Suite 430
Reston, VA 20191
(703) 736-0020

Partners

Ira Cohen: icohen@updata.com
Rich Erickson: rerickson@updata.com
Barry Goldsmith: bgoldsmith@updata.com
John MacDonald: jmacdonald@updata.com
Don More: dmore@updata.com
Michael Parent: mparent@updata.com

Partners

John Burton: jburton@updata.com
Chuck Ashley: cashley@updata.com
Joel Kallett: jkallett@updata.com
Kevin McNerney: kmcnerney@updata.com

© Reproduction of this information without express written permission is prohibited.

Updata Capital, Inc. Disclaimer:

The information and opinions in this report were prepared by Updata Capital, Inc. ("Updata"). The information herein is believed by Updata to be reliable and has been obtained from and based upon public sources believed to be reliable, but Updata makes no representation as to the accuracy or completeness of such information. Updata may provide, may have provided or may seek to provide M&A advisory services to one or more companies mentioned herein. In addition, employees of Updata may have purchased or may purchase securities in one or more companies mentioned in this report. Opinions, estimates and analyses in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Updata and are subject to change without notice. Updata has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, estimate, forecast or analysis set forth herein, changes or subsequently becomes inaccurate. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.