

IT Security Sector Monthly Report

March 2003

UPDATA CAPITAL

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Recently Announced Update IT Security Transaction:



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Market Update

Trading: Share Prices Remain Subdued – Update's index of 31 pure-play public IT security firms declined 10% year-to-date through February's end. The bellwether sub-index of 12 security companies with the greatest market capitalization similarly declined 10% in the first two months of 2003. The bellwethers represent 91% of the security industry's total market capitalization. The NASDAQ index declined 4% during this time. Update's security index currently trades at 45% of its 52-week high. NASDAQ presently trades at 69% of its 52-week high.

Update's security index trades at mean Enterprise Value/Calendar Year 2003E Revenue and EBIT multiples of 2.1x and 17.3x respectively (1.4x and 13.9x median). The average 2003 P/E-to-Growth ratio for the universe is 1.9x (1.1x median). Four companies trade at 2003 revenue multiples greater than 4.0x; all are profitable.

M&A: Activity Continues to Strengthen – At least nine combinations valued at more than \$220 million, including two public-to-public deals, were announced in January and February 2003. Last year at this time, seven transactions were announced. Notable recent transactions include: Cisco's acquisition of nex-gen intrusion prevention software firm Okena for \$154 million of stock; the acquisition by Tumbleweed of Valicert, a provider of secure data transfer and certificate

Bellwether Security Share Price Changes YTD

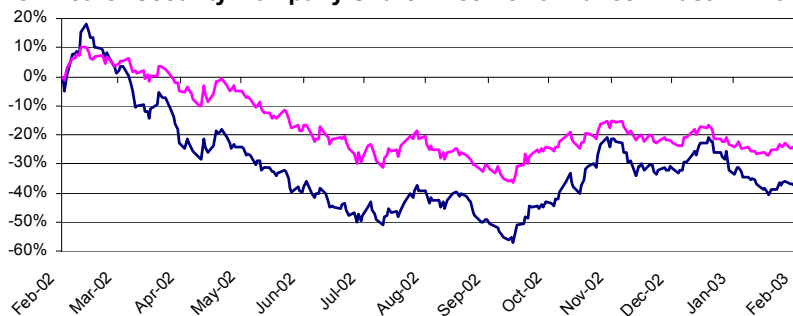
	1/2/2003	2/27/2003	% Change
CHECK POINT	\$14.05	\$14.80	5%
GEMPLUS	\$2.20	\$1.88	-15%
IDENTIX	\$5.21	\$4.03	-23%
INTERNET SECURITY	\$19.92	\$11.76	-41%
MACROVISION	\$15.77	\$12.55	-20%
NETSCREEN	\$17.68	\$19.11	8%
NETWORK ASSOCIATES	\$16.90	\$15.16	-10%
RSA SECURITY	\$6.64	\$6.96	5%
SYMANTEC	\$42.68	\$47.36	11%
TREND MICRO	\$17.00	\$17.21	1%
VERISIGN	\$8.48	\$7.43	-12%
WEBSense	\$21.62	\$14.08	-35%
Average			-10%
Median			-11%
NASDAQ	1,385	1,324	-4%

validation solutions in a \$13 million share exchange; and TruSecure's acquisition of threat intelligence management and security consulting firm Vigilinx (Update represented Vigilinx in this sale).

While disclosed deal multiples remain high on average – 11.5x deal value/last 12-month revenues in 2003 and 12.9x since the beginning of 2002 – they vary widely in individual transactions. Page 3 lists recent security M&A transactions.

Private Investment: Solid Pace Continues – In January and February, at least 10 investments in private security companies totaling more than \$96 million were announced. Over the past 12 months, at least 90 private security firms received investments totaling more than \$850 million. A list of recent investments is provided on page 3.

Bellwether Security Company Share Price Performance – Last 12 Months



— Bellwether Security Stocks — Nasdaq Composite

Industry Observations

Internet Attack Volume may be Leveling– Despite an increase in blended threats, worms and e-mail attacks, overall internet attack activity actually declined 6% in the second half of 2002, according to Symantec.

	Today	Year Ago Today
Enterprise Value/Current Year est. Revs.	2.1x	4.0x
Enterprise Value/Current Year est. EBIT	17.3x	29.7x
Total Pure-play Industry Market Cap	\$24.4B	\$35.9B
% of 52-week High	45%	45%

Patents in the News – Over the past several weeks, patents have made headlines as Check Point, Network Associates and Diversinet announced new technologies for enhancing product throughout, and VeriSign and RSA successfully defended a patent infringement suit over Secure Sockets Layer (SSL) technology. Expect more marketing of technology prowess – as well as patent-driven M&A and litigation – as established security vendors aggressively differentiate themselves in a crowded market.

Patch Management is a Must - 95% of breaches can be prevented through effective patch management, according to one security expert. A Carnegie Mellon study reveals that 99% of all intrusions arise from exploitation of known vulnerabilities and security holes.

Spam and Spyware Solutions Enjoy Great Demand – Unwanted marketing pitches via e-mail and pop-up ads present security risks, and consume time and storage. Spam volume has doubled in the past two years to 7.3 billion messages daily, according to IDC. Ferris Research put the total cost of combating junk e-mail at \$8.9 billion last year. A Websense study found that a third of European companies have been infected with some kind of spyware application. In response to the growing problem, more specialty vendors and antivirus, web filtering and content security firms are coming to market with solutions.

Security Services Market Heats Up – Demand for security consulting and managed services is forecast to grow 24% annually through 2006, according to a new IDC study. In comparison, security software spending is expected to rise 16% annually during this time. The data reflect that an increasing number of organizations are willing to outsource security functions due to network complexity and tight budgets. Datamonitor recently found that less than half of enterprises feel they have the internal resources necessary to protect their networks – and that number has been declining. Organizations are also willing to invest in larger, longer-term service arrangements. For example, Unisys recently signed a multi-million dollar two-year managed intrusion detection service contract with Lloyds bank in the UK. Service demand is expected to drive accelerated consolidation this year as software vendors and IT services firms seek to broaden their security service capabilities, and smaller pure play organizations work to build mass. In the past several weeks, One Equity Partners acquired PwC's beTRUSTEDed security group and TruSecure acquired Vigilinx, a consultancy and MSSP (Udata represented Vigilinx in that transaction). Counterpane and Q1 Labs, two monitoring services firms, recently raised private equity funding.

Certification Gains Renewed Significance – Security and privacy regulations play an increasingly central role in corporate governance. For example, U.S. financial services firms must adhere to the Gramm-Leach-Bliley Act, the Basel Accords, the USA Patriot Act and other requirements such as those of foreign jurisdictions. Each industry is also developing or has developed its own security standards applicable to members, a development encouraged by the federal government's cyber-security strategy. The implications are heightened demand for certification and assessment solutions that manage risk and compliance on an ongoing basis. Also, security products will increasingly be selected for their product certifications (e.g. Common Criteria for government), and the CISSP certification for information security professionals will only grow in value for customers.

Recent IT Security M&A Activity

Ann't Date	Seller	Buyer	Deal Value (\$ MM)	LTM Rev (\$ MM)*	Mult of LTM Rev	Description
Feb-03	Raqia Networks	Safenet	\$7	NA	NA	Semiconductors for security
Feb-03	Valicert	Tumbleweed	\$13	\$12	1.0 x	Authentication, secure messaging
Feb-03	Nexland	Symantec	\$22	\$8	2.7 x	Security appliance technology
Feb-03	beTRUSTed (PwC unit)	One Equity Partners	NA	NA	NA	Security consulting
Feb-03	Vigilinx	TruSecure	NA	NA	NA	Security consulting, threat intelligence
Feb-03	Systor Security Solutions	Beta Systems Software	\$1	NA	NA	Secure user rights administration
Jan-03	Deersoft	Network Associates	NA	NA	NA	Anti-spam software
Jan-03	NetOctave	CyberGuard	\$2	NA	NA	SSL accelerators
Jan-03	Okena	Cisco Systems	\$154	\$5	30.8 x	Intrusion prevention management
Dec-02	DSS Software	Diversinet	NA	\$12	NA	Systems integration services
Dec-02	Marshall Software	NetIQ	\$23	\$3	7.0 x	Antispam, content security
Nov-02	InterTrust	Philips and Sony	\$328	\$12	28.0 x	Digital content protection
Nov-02	Intel Network Systems	SimpleAccess (Shiva)	NA	NA	NA	VPN technologies
Nov-02	Midbar	Macrovision	NA	NA	NA	Digital copy protection
Oct-02	Cylink	SafeNet	\$29	\$34	0.9 x	Encryption solutions
Oct-02	Psionic	Cisco Systems	\$12	NA	NA	Behavioral IDS technology
Oct-02	TTR	Macrovision	NA	NA	NA	Digital copy protection
Oct-02	PentaSafe Security	NetIQ	\$255	\$30	8.5 x	Security policy management
Sep-02	Baltimore Hardware Assets	AEP Systems	\$6	NA	NA	Cryptographic hardware

Recent IT Security Private Investments

Date of Round	Company	Sector	Amount Raised (\$MM)	Round
Feb-03	Gilian Technologies	Web Application Security	\$5.0	C
Feb-03	Sourcefire	Intrusion Detection Software	\$11.0	B
Feb-03	Cryptek	Secure Messaging and Access	\$10.0	B
Feb-03	Pedestal Software	Security Policy Management	\$5.3	A
Feb-03	H5 Technologies	Test-based Content Scanning	\$6.5	B
Jan-03	Courion	Identity Management/Provisioning	\$13.0	C
Jan-03	Q1 Labs	Network Threat Monitoring	\$3.3	A
Jan-03	Counterpane	Managed Security Monitoring	\$20.0	D
Jan-03	Guardium	Database Security	\$4.0	A
Jan-03	Crossbeam	Security Applications Platform	\$18.0	C
Dec-02	Big Fish Communications	e-mail Security	\$6.5	B
Dec-02	Resilience	Security Appliances (runs Check Point)	NA	B
Dec-02	ArcSight	Threat Information Management	NA	C
Dec-02	Credant Technologies	Mobile Device Security Management	\$14.0	B
Dec-02	eEye Digital Security	Intrusion Prevention, Vulnerability Assessment	\$9.0	C
Dec-02	Liquid Machines	Policy-based Information Security	\$4.6	A
Dec-02	Cyota	Online Credit Card Authentication	\$8.0	C
Nov-02	Sygate	Policy-based Endpoint Security	\$17.5	D
Nov-02	MagiQ Technologies	Quantum Cryptography	\$6.9	A
Nov-02	FaceTime	Instant Messaging Security	NA	E
Nov-02	Bluefire	Wireless Device Security	\$6.0	B
Nov-02	GuardedNet	Threat Information Management	\$9.0	A
Oct-02	Lurhq	Managed Security Services	\$2.0	NA
Oct-02	Authentica	Secure Messaging	\$4.0	B
Oct-02	DataDomain	Stored Data Security	\$9.3	A
Oct-02	InkSure	Anti-counterfeiting Technology	\$6.7	A
Oct-02	Lumidigm	Biometrics Management	\$5.0	A
Oct-02	Cobion	Content Protection	\$5.9	A
Oct-02	nCircle	Vulnerability Assessment, Management	\$20.0	C
Oct-02	Vormetric	Stored Data Security	\$10.0	B
Oct-02	Intruvert	Intrusion Prevention Appliance	\$15.5	C
Oct-02	Interlink	Wireless Network Security	\$7.5	B
Oct-02	Tipping Point	Firewall/VPN/Intrusion Detection Appliance	\$10.0	Private Placement
Oct-02	Permeo Technology (NEC spin-out)	Application Security, Authorization	\$5.0	B
Sep-02	BigFix	Security Patch Management	\$8.0	B
Sep-02	Cranite	Wireless Network Security	\$12.0	C
Sep-02	AEP Systems Ltd.	Cryptographic Appliances	\$7.9	C2
Sep-02	Zix	Secure Messaging	\$16.0	Private Placement
Sep-02	Columbitech AB	LAN Communication Security	\$2.7	C
Sep-02	Finjan Software	Behavior anti-virus	\$8.5	E

Security Trading Data

Company*	Market Value			Enterprise Value		Revenues		EBIT		Equity Multiples	
	Current Price	% of 52 Week Hi	Market Cap	Enterprise Value	LTM	CY2003	LTM	CY2003	LTM	CY2003	
	\$		\$	\$							
ACTIVCARD SA	7.24	74.9%	300.0	56.3	1.5x	1.0x	NM	NM	NM	150.8x	
BINDVIEW DEVELOPMENT	1.20	44.4%	57.0	19.3	0.3x	NA	NM	NA	NM	NA	
CERTICOM	0.50	22.8%	16.0	12.2	1.0x	1.2x	NM	8.2x	NM	17.9x	
CHECK POINT	14.80	38.5%	3,633.4	2,318.7	5.4x	5.2x	9.1x	8.8x	14.2x	14.6x	
CYBERGUARD	5.90	75.3%	114.9	106.1	3.6x	3.1x	606.1x	26.5x	53.6x	25.1x	
DIGIMARC	10.80	52.5%	189.8	136.6	1.6x	1.3x	NM	33.2x	NM	45.0x	
ENTRUST TECHNOLOGIES	2.66	38.1%	172.4	40.9	0.4x	0.4x	NM	NM	NM	NM	
GEMPLUS	1.88	41.8%	1,140.4	796.7	1.1x	NA	NM	NA	NM	26.9x	
HI/FN	5.10	34.2%	54.0	3.9	0.1x	0.2x	0.5x	NM	NM	NM	
IDENTIX	4.03	38.2%	343.0	293.5	2.4x	3.5x	NM	NM	NM	NM	
INTERNET SECURITY	11.76	28.4%	584.6	382.3	1.6x	1.4x	11.9x	8.4x	24.5x	18.3x	
INTRUSION	0.26	14.1%	5.4	NM	NM	NA	NM	NA	NM	NM	
MACROVISION	12.55	39.8%	611.0	442.3	4.3x	4.1x	4.7x	8.2x	18.2x	17.3x	
NETEGRITY	4.12	23.0%	141.1	67.0	1.0x	0.9x	NM	NM	NM	NM	
NETSCREEN	19.11	91.9%	1,471.5	1,200.9	11.2x	5.2x	NM	45.4x	79.6x	35.0x	
NETWORK ASSOCIATES	15.16	50.3%	2,814.9	2,311.8	2.5x	2.3x	16.4x	14.1x	19.9x	20.9x	
NETWORK-1	0.08	3.7%	0.6	NM	NM	NA	NM	NA	NM	NA	
RAINBOW TECHNOLOGIES	8.19	65.5%	214.7	164.0	1.3x	1.2x	NM	21.8x	NM	28.4x	
RSA SECURITY	6.96	58.7%	400.2	374.6	1.6x	1.5x	1.6x	25.3x	NM	52.7x	
SAFENET	16.47	50.7%	128.9	96.7	3.0x	1.7x	27.0x	14.6x	48.4x	27.3x	
SECURE COMPUTING	4.76	21.7%	143.6	122.2	2.3x	1.6x	NM	21.4x	NM	28.5x	
SONICWALL	3.05	15.3%	205.5	NM	NM	NM	NM	NM	50.8x	82.4x	
SYMANTEC	47.36	98.1%	6,853.0	6,023.0	4.5x	3.7x	16.1x	13.6x	65.8x	24.7x	
TIPPING POINT	9.16	64.3%	40.6	8.3	NA	NA	NM	NA	NM	NA	
TREND MICRO	17.21	63.9%	2,278.6	1,907.5	5.9x	4.4x	15.8x	12.9x	36.6x	28.0x	
VALICERT	0.46	26.6%	11.8	10.3	0.8x	0.8x	NM	NM	NM	NM	
VASCO DATA SECURITY	0.82	27.3%	23.3	28.7	1.3x	1.3x	NM	NM	NM	NM	
VERISIGN	7.43	22.2%	1,763.5	1,359.6	1.1x	1.2x	6.8x	7.0x	8.6x	8.7x	
VIISAGE	3.62	41.4%	73.3	78.8	2.4x	NA	NM	NA	NM	NA	
V-ONE						NA	NM	NA	NM	NA	
WATCHGUARD	6.39	71.0%	207.9	118.6	1.6x	1.2x	NM	118.6x	NM	67.3x	
WEBSense	14.08	44.0%	303.9	163.4	2.7x	2.0x	12.4x	7.9x	19.6x	23.3x	
ZIXIT	4.62	70.2%	83.8	79.0	67.0x	NA	NM	NA	NM	NA	
			91%								
				Mean**	2.5x	2.1x	12.1x	17.3x	36.7x	31.2x	
				Median**	1.6x	1.4x	12.1x	13.9x	30.6x	26.9x	

*Bolted companies are in Updata's bellwether index and represent companies with the largest market capitalization.

** Numbers in italics not included in calculations

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



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