

Homeland Defense Journal

"He is best secure from dangers who is on his guard even when he seems safe." —Syrus Publilius

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Homeland Defense Venture Funding Analysis 2002

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There has never been a better time for companies serving the emerging U.S. homeland defense needs to seek venture capital funding. Companies providing products and services that protect and monitor physical and human assets, the backbone of our government's homeland defense initiatives, have seen a tremendous increase in funding levels this year, a trend that should continue in 2003.

Overall year-to-date 2002 funding levels for the U.S. security and defense industry currently total approximately \$1.25 billion, on a par with the total 2001 year-end funding of approximately \$1.5 billion. While providers of data, network and Internet security technologies and services topped the list in terms of actual funded dollars for both 2001 and 2002, overall funding year to date for this segment is only an estimated \$850 million, down from an estimated \$1.3 billion in 2001. The resulting \$450 million gap in funding for 2002 has been filled by segments of the industry more closely related to U.S. homeland defense needs, such as identification technologies, surveillance technologies and services as well as bio/chem defense technologies.

These segments have been analyzed by RCW Mirus and specific examples totaling over \$175 million in funds committed for 2002 have been detailed in the three exhibits below. The sample companies all have a vested interest in U.S. homeland defense activity, measured by either geographic sales focus or partnerships with U.S.-based

companies serving homeland defense needs. Additionally, the sample companies are both public and private, with the public players reporting the completion of a private placement and the private players reporting typical VC funding.

The identification technology samples, shown in exhibit I, total \$125 million in overall funding and include technologies relating to both human and article analysis and detection. Specific technologies range from fingerprinting, speech, image and behavioral recognition technologies to advanced X-ray machinery.

The primary reported use of proceeds for the samples listed above, was continued product development and expansion of sales and marketing efforts. Notable exceptions were U.K.-based Informer Systems, which reported that the company's venture financing was to be used to fund its partnership with Authentec, and Evive Corp., which reported that its funding was devoted to future unnamed acquisitions.

The surveillance equipment and services samples, shown in exhibit II, total at least \$38 million (one company did not

disclose funding level) in overall funding and includes primarily hardware and software video technologies, as well as pattern recognition software for surveillance purposes.

The primary reported use of proceeds for the samples listed above was continued product development with U.K.-based Image-Metrics, the exception, reporting that its two distinct capital infusions would be devoted to sales expansion in the United States.

The bio/chem defense technology samples, shown in exhibit III, total \$24 million in overall funding and include

Exhibit I - Identification Technologies

Announced Date	Target	Business Description	Size (\$mm)
11/6/02	Informer Systems Ltd.	Biometric Software products for fingerprints and smart cards	0.9
10/21/2002	OSI Systems, Inc.	Developer of security and inspection systems such as security x-ray scanners and metal detectors	21.6
9/20/02	Evive Corporation	Provider of turnkey biometric systems and software focusing on both video and fingerprinting	1.0
7/8/02	Priva Technologies	Developer of authenticity hardware/software performing security functions	14
7/2/02	ID Analytics Inc.	Identity theft prevention technology for credit granting industries	10.0
6/25/02	Indigo Systems Corporation	Developer of a variety of infrared solutions	17.6
5/29/02	American Science & Engineering, Inc.	Producer of X-ray inspection systems	19.7
4/25/02	Cernium	Developer of behavior recognition software and services for security industry	0.5
4/16/02	Imprivata	Provider of authentication platform/fingerprint biometric devices	13.5
3/25/02	Utopy	Developer of software that analyzes and interprets spoken conversations through phrases and emotions	4.0
3/1/02	Exact Identification Corporation	Manufactures fingerprint identity products	0.6
1/29/02	Imaging Automation, Inc.	Manufacturer of digital identification and image management systems	12.0
1/18/02	Fast-Talk Communications	Developer of products that can monitor speech as it is happening	8.5

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Government Sales Channel Drives Value for Homeland Defense Related Companies

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only companies with specific technologies that reportedly can detect and avoid attacks utilizing germs or chemicals.

The primary reported use of proceeds for the samples listed above, was again continued product development and expansion of sales and marketing efforts.

If your company is currently focused on human or physical asset monitoring, identification or protection, and if additional funds could accelerate growth, there is no time like the present to seek venture capital. The increased attention from the venture community in these segments of the security and defense industry should continue to make capital accessible and affordable to facilitate corporate growth.

Since 1987, RCW Mirus has been providing investment banking services to closely held and family-owned businesses, venture-backed companies and public corporations. Based in Boston, Mass., Mirus represents small businesses and medium-sized companies in a wide range of industries, including security and homeland defense, basic manufacturing, technology, distribution and services. Services include financial advisory and valuation services, including stock or asset sales, recapitalizations and corporate divestitures.

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Exhibit II - Surveillance Equipment and Services

Announced Date	Target	Business Description	Size (\$mm)
7/24/02	Systems Research and Development	Creator of intelligent fraud detection software for various threat detection purposes	NA
7/18/02	Silicon Optix	digital image processing, display device makers for surveillance and video	17
7/8/02	VistaScope	develops integrated security and surveillance management software	4.1
7/3/02	Image-Metrics Ltd.	Manufacturer of software that automates the extraction of information from images and video	4.2
3/1/02	Image-Metrics Ltd.	Manufacturer of software that automates the extraction of information from images and video	0.8
2/4/02	Adyaron Intelligent Systems Ltd.	Manufacturer of digital closed circuit television (CCTV) recording solutions	5.5
1/23/02	I.D. Systems, Inc.	Integrated wireless object monitoring solutions	6.2

Exhibit III - Bio/Chem Defense Technologies

Announced Date	Target	Business Description	Size (\$mm)
10/29/02	HiEnergy Technologies, Inc.	Developer counter terrorism and counter germ warfare technologies	1.6
10/1/02	HiEnergy Technologies, Inc.	Developer counter terrorism and counter germ warfare technologies	0.9
6/27/02	HiEnergy Technologies, Inc.	Developer counter terrorism and counter germ warfare technologies	1.7
6/25/02	Handylab	Developer of biodefense pathogen detection chips, microfluidic testing systems and genomic identification	5.5
4/3/02	Sceptor Industries	Developer of biological and chemical defense technologies	1.5
3/22/02	Sceptor Industries	Developer of biological and chemical defense technologies	0.5
3/5/02	Eurotech, Ltd.	Developer of chemical and electronic technologies for the environmental and security sectors	10.0
2/12/02	Eurotech, Ltd.	Developer of chemical and electronic technologies for the environmental and security sectors	2.5

