Security (Homeland & IT) and Defense

1Q09

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Contents

1. Industry News & Trends

US

- On April 6, the Secretary of Defense, Robert Gates, announced changes in the Defense budget. The proposed shift includes limiting production of the F-22 fighter to 187 planes, cancelling the order of new presidential helicopters, reducing the Army's future combat systems program and scaling back investment missile defense. The cost reductions will be used to increase funding toward combating counter-insurgency. Specifically, Mr. Gates proposed increasing the Army and Marine Corps and increasing funding for surveillance equipment.
- Secretary of Defense, Robert Gates, stated that (supplemental) spending for the war in Iraq and Afghanistan is estimated to be $170 billion, down from $195 billion in FY08. However, Mr. Gates stated that he had "no confidence in that figure" indicating the possibility of increased supplemental spending. Additionally, President Obama addressed the need for continued pressure in both Iraq and Afghanistan, suggesting that the troop reduction in Iraq may be slower than anticipated. Again, if the Iraq withdrawal is delayed, we can expect to see an increase in FY09 supplemental spending.
- On February 9, President Obama ordered the National Security and Homeland Security Advisors to conduct a 60-day US Cyber-security Review. The White House Office Press Secretary stated that "[The interagency report will be used to] develop a strategic framework to ensure that US Government cyber-security initiatives are appropriately integrated, resourced and coordinated with Congress and the private sector." Experts speculate that the National Security Agency will be assigned a larger portion of the domestic cyber-security mandate, to include protection against network cyber attacks. Additionally, there is a high likelihood of hiring additional cyber experts and increased private sector cyber-security contracts.

Australia

- The Australian Defense Force ("ADF") will increase troop levels in Afghanistan to 1,550 personnel to assist Coalition Forces in the training of the Afghan National Security Forces. Additionally, the ADF will release the Defense White Paper outlining future defense expenditures. Experts believe that Australia's defense vision will be driven by China's increasing global economic and military influence. Australia will likely react to China's increased defense spending.

Russia

- In 2009, Russia is increasing its official annual defense budget from $30 to $40.5 billion. The 25% increase in spending is part of an ambitious force modernization effort. Russia's structural shift toward brigade combat forces would allow them to respond to asymmetric threats. In order to accomplish the structural shift, Russia plans to invest heavily in technology such as night vision and communications.

India

- The Indian Airforce is seeking to purchase an advanced fighter to add to their fleet. Currently Boeing, Lockheed Martin, SAAB, MiG and Eurofighter are competing for the $10 billion, 126 aircraft contract. The Indian fighter aircraft contract is one of the largest outstanding global deals.

UK

- The UK's Ministry of Defense ("MOD") projected a budget increase of $1.5 billion from $48.9 to $50.4 billion in FY09. The MOD will focus spending on equipment purchase and service support. For example, the purchase of two aircraft carriers, an additional C-17 Globemaster, a 10-year contract to purchase the Pegasus aircraft engine from Rolls Royce, and the continued BAE support contract for the Harrier GR9.

European Union

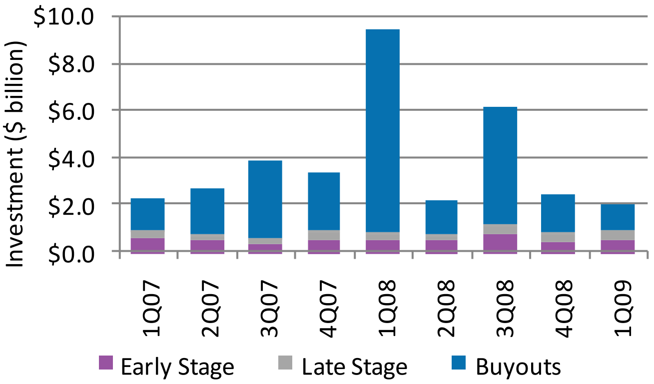
- The Trans-European Transportation Network Executive Agency ("TEN- Transport") is seeking to put €1 billion towards transportation infrastructure projects. As part of the European Union's economic recovery plan, TEN-Transport is seeking proposals in the following areas: Motorways of the Sea, European Rail Traffic Management Systems, and Intelligent Transport Systems for Roads.

China

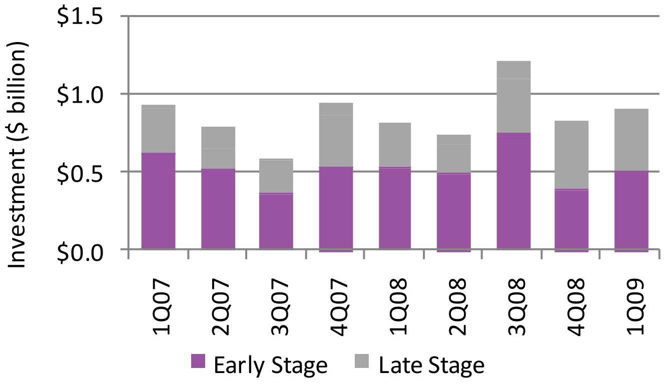
- China will increase FY09 defense spending to $70.3 billion an increase of 14.9%. China asserts that the majority of spending increases will be allocated toward increasing the salaries of the world's largest standing army. Additionally, China will allocate more spending to their space and naval sectors. On February 28, the US Deputy Assistant Secretary of Defense for East Asia, David Sedney suggested the increased capabilities are not congruent with its stated strategic goals and claims that China is underreporting defense spending.

2. Global Venture Capital & Private Equity Investment: 1Q07 to 1Q09

Global PE/VC Investment



Global PE/VC Investment (w/o Buyout)



Estimated figures based on disclosed transactions.
Early-stage: up to Series C or equivalent. Late-stage: Series D or equivalent and above.

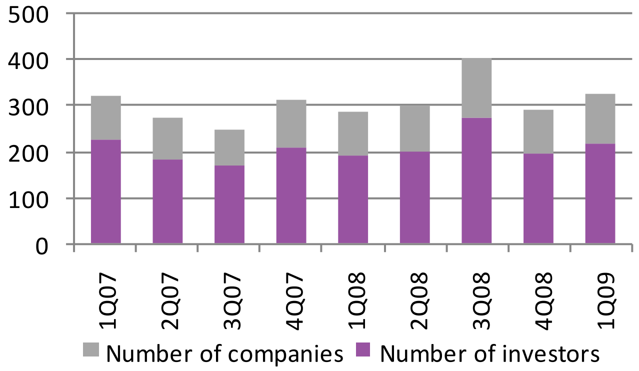
1Q 2009

- Just over $2 billion was invested in private companies in the Security (IT & Homeland) and Defense sector during 1Q09. This figure represents a 20% decrease on 4Q08 ($2.5 billion) and a decline of 79% compared to 1Q08 ($9.5 billion).
- Of the $2 billion invested in the sector during 1Q09, early-stage investment accounted for $514 million (25%), late-stage for $395 million (19%) and private equity buy-outs, the majority, with $1.1 billion (54%).
- Private equity buy-out investment in 1Q09 ($1.1 billion) declined 34% on 4Q08 ($1.6 billion) and almost 90% in comparison to 1Q08 ($8.6 billion). VB/Research tracked six buy-outs during 1Q09, compared with eleven completed transactions during 4Q08. Significant deals included the purchase by Vector Capital of Aladdin Knowledge Systems Ltd., a provider of identity and access management tools headquartered in Tel Aviv, Israel and the acquisition of Dmatek Ltd., by Francisco Partners and Sequoia Capital.
- Excluding private equity buy-outs, investment in the Security (IT & Homeland) and Defense sector marginally exceeded $0.9 billion in 1Q09. This figure represents a 6% increase on 4Q08 and a 3% increase in comparison to 1Q08.
- Early-stage investment in 1Q09 ($514 million) increased 32% on 4Q08 ($389 million) and was at a broadly similar level to 1Q08 ($529 million).
- Late-stage investment in 1Q09 ($395 million) was down 9% from 4Q08 ($435 million), but was up 42% on 1Q08 ($279 million).

2Q 2008 – 1Q 2009

- During the last four quarters total investment in the Security (IT & Homeland) and Defense sector has declined slightly from $2.4 billion in 2Q08 to $2.1 billion in 1Q09. Investment in the sector peaked in 3Q08 due in large part to the buy-out by First Reserve Corporation of the Richmond, BC-based helicopter services company CHC Helicopter Corp., for $3.6 billion.
- When private equity buy-outs are excluded early- and late-stage investment can be seen to have increased since 2Q08, rising from $812 million to $910 million in 1Q09. Investment again shows a peak in 3Q08 ($1.2 billion).
- Early- and late-stage investment in the European Security (IT & Homeland) and Defense sector has declined steadily over the last four quarters, falling from $213 million in 2Q08 to $93 million in 1Q09. This decline has been caused by a sharp drop in late-stage investment, from $108 million in 2Q08 to only $23 million in 1Q09.
- Global early- and late-stage funding for the sector during the last four quarters has been sustained by the US, where investment has risen from $518 million in 2Q08 to $785 million in 1Q09. In 2Q08 the US accounted for 70% of early- and late-stage investment in the sector globally ($740 million), with Europe accounting for 29%. In 1Q09 the US represented 86% of total early- and late-stage investment, with Europe having declined to only 10%.
- In 1Q09, 218 investors backed private Security (IT & Homeland) and Defense companies globally. Of these 52 (24%) were investing in the sector for the first time. Of these new investors 24 (46%) were venture capital firms, 10 (19%) were private equity funds and 10 (19%) were corporate investors.
- During the last four quarters the average size of investment has declined from $23 million in 2Q08 to $18 million in 1Q09. The average size of early- and late-stage investment fell from $11 million in 2Q08 to $9 million in 1Q09.

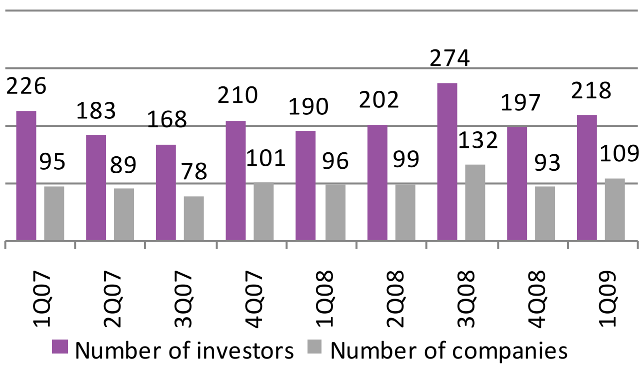
3. Number of Active Investors and Financed Companies Globally: 1Q08 to 1Q09



1Q 2009

- In 1Q09, approximately 218 unique investors backed private companies in the Security (IT & Homeland) and Defense sector, an increase of 10% on 4Q08 (197) and 15% on 1Q08 (190).
- Of those 218 investors, 150 (69%) were venture capital funds, 22 (10%) were private equity funds and a further 23 (11%) were corporate investors.
- Of those investors active in the Security (IT & Homeland) and Defense sector during 1Q09, 52 (24%) were investing in the sector for the first time. Of these new investors 24 (46%) were venture capital firms, 10 (19%) were private equity funds and 10 (19%) were corporate investors. First time investors include: Alafi Capital, Athenian Venture Partners, Cody Gate Ventures, Diamond State Ventures, Hasso Plattner Ventures GmbH, KPG Ventures, Meritus Ventures and Union Square Ventures.
- Approximately 109 private Security (IT & Homeland) and Defense companies secured investment in 1Q09, a 17% increase on the number financed in 4Q08 (93). Of these, 24 were raising institutional investment for the first time.

4. Early- and Late-Stage Investment – Europe: 1Q07 to 1Q09

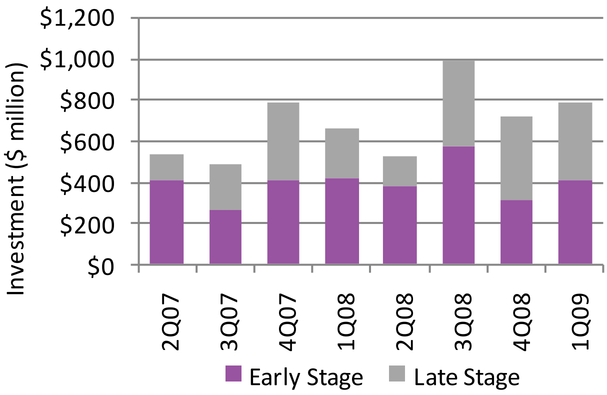


Early-stage: up to Series C or equivalent. Late-stage: Series D or equivalent and above.

1Q 2009

- In 1Q09, 101 Security (IT & Homeland) and Defense companies secured early- and late-stage investment globally, raising a total of $910 million, at an average deal size of approximately $9 million.
- Of global early- and late-stage investment in the sector only $93 million (10%) was invested in European Security (IT & Homeland) and Defense companies.
- Early- and late-stage investment in European companies has declined steadily over the last four quarters. Investment in 1Q09 was down 4% from 4Q08 ($97 million) and 56% from 2Q08 ($213 million).
- Early-stage investment in European Security (IT & Homeland) and Defense companies reached $70 million in 1Q09, representing 75% of total venture capital investment in the sector in Europe.
- The decline in total early- and late-stage investment in the sector in Europe over the last four quarters can largely be attributed to a fall in late-stage investment.
- Of the 101 Security (IT & Homeland) and Defense companies that closed early- and late-stage investment during 1Q09, only 18 (18%) were European, up slightly on the number financed in 4Q08 (16) and 1Q08 (16). In 1Q09, the average size of early- and late-stage funding in a European Security (IT & Homeland) and Defense company was $5.2 million.

5. Early- and Late-Stage Investment – North America: 1Q07 to 1Q09



Early-stage: up to Series C or equivalent. Late-stage: Series D or equivalent and above.

1Q 2009

- In 1Q09, 75 US Security (IT & Homeland) and Defense companies secured early- and late-stage investment globally, raising a total of $785 million, at an average deal size of approximately $10.5 million.
- In Q109, early- and late-stage investment in US Security (IT & Homeland) and Defense companies ($785 million) was up 9% on Q408 ($720 million) and up 19% on Q108 ($657 million).
- Of total early- and late-stage investment in US Security (IT & Homeland) and Defense companies in 1Q09, early-stage accounted for 52% ($410 million) and late-stage the remaining 48% ($375 million).

6. Top 10 Venture Capital Transactions: 1Q09 – Global

Company	Country	Amount ($m)	Sector	Sub Sector	Stage
Century Payments Inc.	USA - TX	50	IT Security	Electronic payment services	Expansion Capital
Obopay Inc.	USA	35	IT Security	Electronic payment services	Expansion Capital
SkyCross Inc.	USA-FL	23	Defense	Communications	Expansion Capital
Carrier IQ Inc.	USA - CA	20	Physical Security	Audio & electronic surveillance	Early Growth
Ocarina Networks	USA - CA	20	IT Security	Data backup, protection and recovery	Early Growth
Westec Intelligent Surveillance	USA - TX	20	Physical Security	Visual surveillance	Expansion Capital
Digital Reef Inc.	USA - MA	20	Defense	Information management and analysis systems	Early Growth
COPAN Systems	USA - CO	19	IT Security	Data backup, protection and recovery	Expansion Capital
Audience Inc.	USA	15	Physical Security	Emergency response and management	Expansion Capital
Virtual Computer Inc.	USA - MA	15	IT Security	IT security systems integration	Early Growth

- US-based companies dominated the Security (IT & Homeland) and Defense yet again, accounting for all of the top 10 early- and late-stage investments and 75 (74%) of the 101 companies financed globally during 1Q09. In total, US companies secured $785 million (86%) of early- and late-stage investment during 1Q 2009, at an average deal size of just over $10 million.
- The top ten deals accounted for 26% of early- and late-stage investment in 1Q09 ($910 million) with the largest deal accounting for 5% of total investment during the quarter.
- In 1Q09, IT Security companies accounted for five of the top ten early- and late-stage investments made globally.

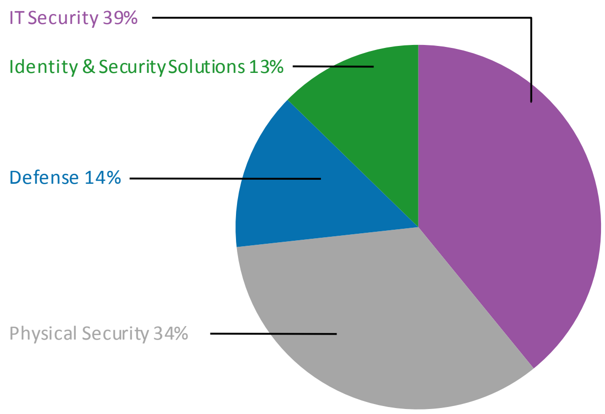
The largest investment was secured by Century Payments, Inc. ("CPI"), a payments services company, which closed $50 million of equity capital from Austin Ventures in January 2009. The money is being used to support a series of acquisitions, including that of National Merchant Solutions ("NMS"), a credit card payment processing company, which was completed in April. Other large IT Security deals included Obopay, Inc., a company that allows money to be transferred via text message, which secured $35 million of Series E investment from Nokia and the $20 million of Series B investment secured by data storage company, Ocarina Networks, in a round led by JAFCO Ventures.

7. Top 10 Venture Capital Rounds: 1Q09 – Europe

Company	Country	Amount ($m)	Sector	Sub Sector	Stage
Silecs Oy	Finland	8	Physical Security	Enabling (dual-use) technologies	Expansion Capital
Cambridge Broadband Networks Ltd.	UK	8	Defense	Communications	Expansion Capital
LiveScribe Inc.	Switzerland	7	Defense	Communications	Early Growth
Electro Power Systems Spa	Italy	7	Physical Security	Energy Storage	Early Growth
Agnitio SL	Spain	7	Identity & Security Solutions	Biometrics	Early Growth
Advanced Manufacturing Control Systems Ltd.	Ireland	7	Identity & Security Solutions	RFID	Early Growth
Eniram Ltd.	Finland	5	Defense	Naval	Early Growth
Inside Contactless SA	France	4	IT Security	Electronic payment services	Expansion Capital
Clearpace Software	UK	4	IT Security	Data backup, protection and recovery	Early Growth
Onset Technology Inc.	Israel	3	IT Security	Mobile security	Early Growth

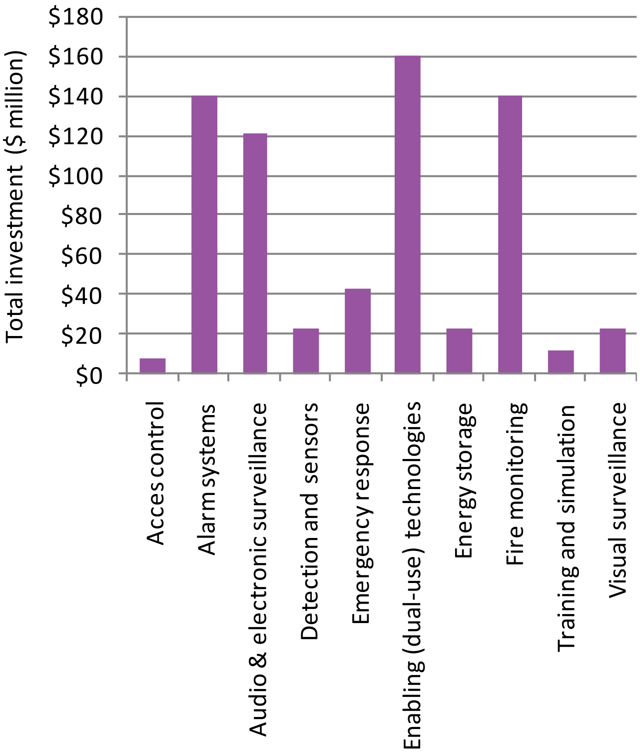
- In 1Q09, 18 European Security (IT & Homeland) and Defense companies, distributed across eight countries, secured early- and late-stage investment.
- Early- and late-stage investment in European Security (IT & Homeland) and Defense companies totaled $93 million, at an average deal size of just over $5 million.
- The top ten deals accounted for 65% of early- and late-stage investment in 1Q09 ($93 million) in Europe, with the largest deal accounting for 9% of total investment during the quarter.
- Of the ten largest investments made in Europe during 1Q09, two were in UK companies and two were in Finnish companies. No other country accounted for more than one of the ten largest deals completed in 1Q09.
- The largest investment in Europe during the quarter was made in Silecs Oy, a Finnish developer of specialty chemicals and coating materials for the semiconductor industry, which secured $7.7 million from Finnish Industry Investment Ltd, Swedish InnovationsKapital and British Tempo Capital Partners.

8. Global Investment: 1Q09 – Sector Breakdown



- In 1Q09, investment in private Security (IT & Homeland) and Defense companies marginally exceeded $2 billion globally.
- Of this total, the Defense sub-sector accounted for $285 million (14%), Identity and Security Solutions for $258 million (13%), IT Security for $794 million (39%) and Physical Security for $693 million (34%).

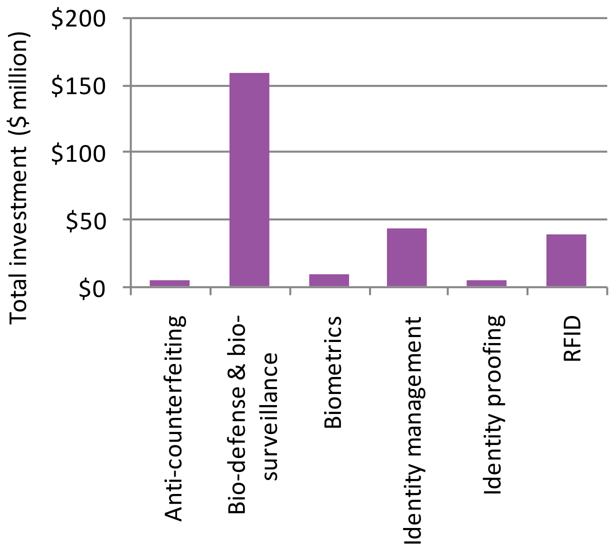
9. Global Investment:
1Q09 – Physical Security



1Q 2009

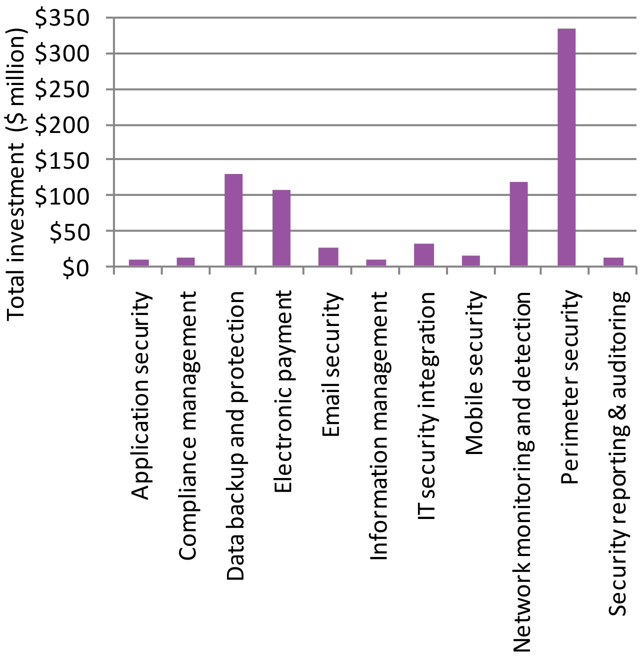
- Total investment in the Physical Security sub-sector reached $693 million in 1Q09, representing 34% of total investment in 1Q09 in the Security (IT & Homeland) and Defense sector.
- In total, 27 Physical Security companies secured funding from 62 unique investors during 1Q09, at an average deal size of $26 million.
- Within the Physical Security sub-sector the top five recipient sectors of investment in 1Q09 were: Enabling (dual-use) Technologies ($160 million); Fire Monitoring ($140 million); Alarm Systems ($140 million); Audio and Electronic Surveillance ($121 million); and Emergency Response ($43 million).
- Companies developing surveillance technologies accounted for the two largest deals completed in the Physical Security sub-sector this quarter. Carrier IQ Inc., a developer of Mobile Service Intelligence ("MSI") solutions, based in Mountain.
- View, CA, secured $20 million of Series C funding from Intel Capital and Presidio Ventures. Westec Intelligent Surveillance, a remote video monitoring company based in Coppell, TX, also closed $20 million in a round co-lead by Argonaut Private Equity and Egis Capital Partners.

10. Global Investment:
1Q09 – Identity and Security Solutions



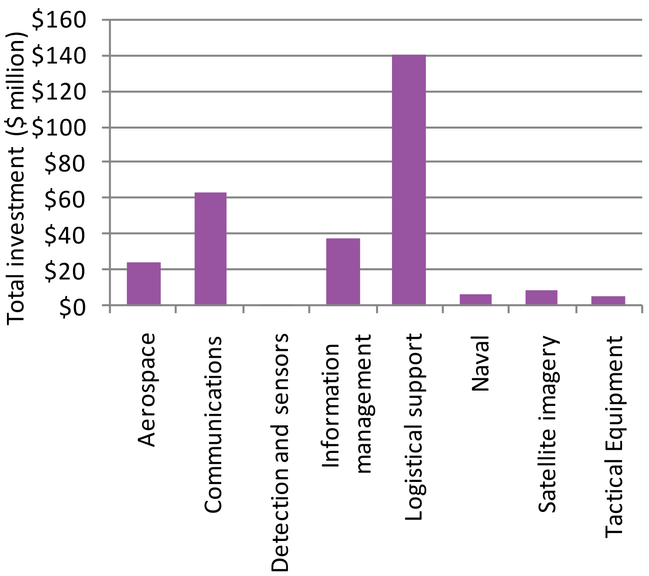
- Total investment in the Identity and Security Solutions sub-sector reached $258 million in 1Q09, representing 13% of total investment in the Security (IT & Homeland) and Defense sector globally ($2 billion).
- In total, 18 Identity and Security Solutions companies secured funding from 33 unique investors during 1Q09, at an average deal size of $14 million.
- Within the Identity and Security Solutions sub-sector the top five recipient sectors of investment in 1Q09 were: Bio-defense and Bio-surveillance ($158 million); Identity Management Systems ($44 million); Radio Frequency Identification ($39 million); Biometrics ($9 million); and Anti-counterfeiting ($4 million).
- Omni-ID, a developer of passive ultra-high frequency ("UHF") RFID technology, based in Foster City, CA, closed the largest deal in 1Q09, securing $15 million of Series C funding from UK-based CodyGate Ventures. Other significant deals included the $12 million of Series C funding secured by identity assurance and management company, TriCipher Inc. and the $8.3 million Series C investment in RFID business, GlobeRanger Corporation, by CenterPoint Ventures and Sevin Rosen Funds.

11. Global Investment: 1Q09 – IT



- Total investment in the IT Security sub-sector reached $794 million in 1Q09, representing 15% of total investment in the Security (IT & Homeland) and Defense sector globally ($2 billion).
- In total, 49 IT Security companies secured funding from 109 unique investors during 1Q09, at an average deal size of $16 million.
- Within the IT Security sub-sector the top five recipient sectors of investment in 1Q09 were: Perimeter security and firewalls ($332 million); Data backup, protection and recovery ($127 million); Network monitoring, detection and response ($118 million); Electronic payment services ($106 million); and IT security systems integration ($30 million).
- The largest deal completed in the IT Security sub-sector this quarter was the $160 million buy-out of Aladdin Knowledge Systems Ltd. by Vector Capital, a San Francisco, CA-based investor in established technology businesses. Aladdin Knowledge Systems, a provider of identity and access management tools and represents Vector Capitals third investment in the IT Security sector from its current fund, $1.2 billion Vector Capital IV.

12. Global Investment: 1Q09 – Defense

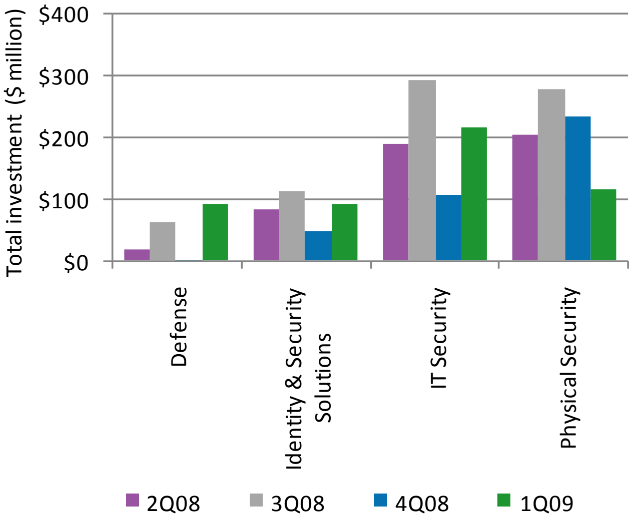


1Q 2009

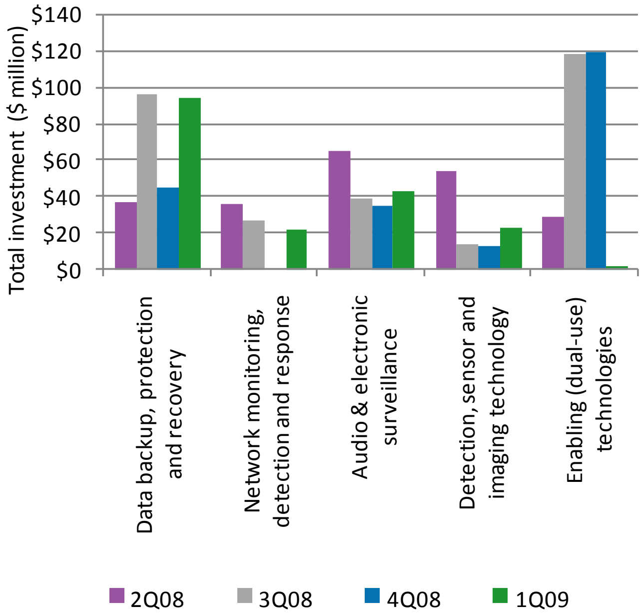
- Total investment in the Defense sub-sector reached $285 million in 1Q09, representing 14% of total investment in the Security (IT & Homeland) and Defense sector globally ($2 billion).
- In total, 17 Defense companies secured funding from 38 unique investors during 1Q09, at an average deal size of $17 million.
- Within the Defense sub-sector the top five recipient sectors of investment in 1Q09 were: Logistical support services ($140 million); Communications ($63 million); Information management and analysis systems ($38 million); Aerospace ($24 million); and Satellite imaging ($8 million).

13. Early-Stage Investments: Investment 2Q08 to 1Q09

Early-Stage Venture Capital Investment by Sector



Largest Early-Stage Venture Capital Investment by Sub-Sector



1Q 2009

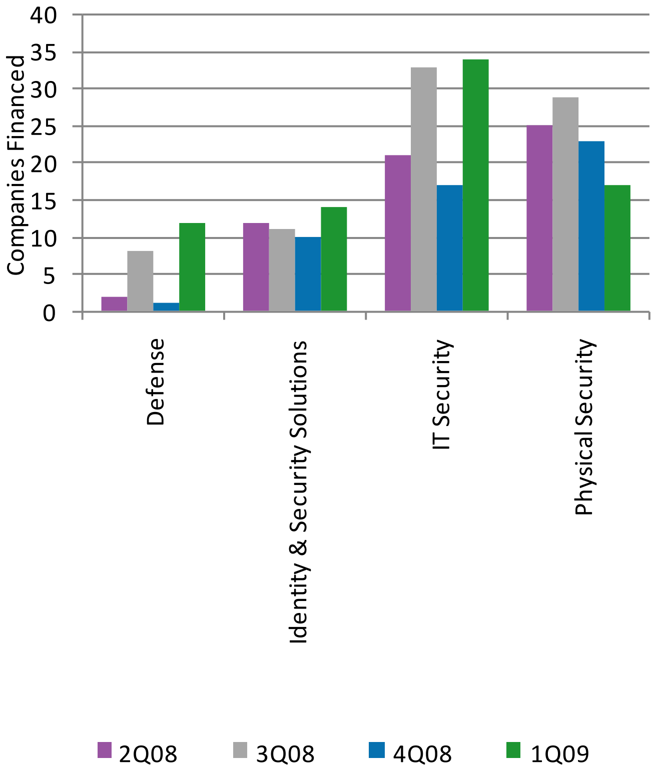
- During 1Q09, early- and late-stage investment in private Security (IT & Homeland) and Defense companies reached $514 million globally, accounting for 25% of total investment in the sector and 56% of total early- and late-stage investment. This represents an increase of 32% on 4Q08 ($390 million) and a rise of 4% on 2Q08 ($494 million).
- Of early-stage investment the largest proportion went to IT Security companies ($216 million), which accounted for 42% of the total investment. Defense companies secured $91 million (18%), Identity and Security Solutions companies raised $92 million (18%) and the remaining $115 million (22%) was invested in companies in the Physical Security sector.
- In 1Q09, early-stage investment in the IT Security sub-sector more than doubled in comparison to 4Q08 ($107 million) and was up 15% on 2Q08 ($188 million). Within the IT Security sub-sector the top five recipient areas of investment in 1Q09 were: Data backup, protection and recovery ($94 million); IT security systems integration ($27 million); Network monitoring, detection and response ($22 million); Email security ($19 million); and Perimeter security & firewalls ($12 million). Notable early-stage deals included: the $18.5 million invested in data storage company COPAN Systems, by Austin Ventures, Globespan Capital Partners, Firstmark Capital and Credit Suisse; and the $15 million of Series B investment secured by Virtual Computer Inc., a PC lifecycle management company, in a round co-led by Highland Capital Partners and Flybridge Capital Partners.
- In contrast, early-stage investment in the Physical Security sub-sector in 1Q09 declined by 51% in comparison to 4Q08 ($235 million) and was down 56% on 2Q08 ($204 million). Notable early-stage deals included: Rivulet Communications Inc., provider of mission-critical and real-time video applications over existing IP networks, which secured $11.5 million of Series C funding from ATA Ventures, Menlo Ventures, Performance Equity Management and Scorpion Capital Partners; and Superprotonic Inc., a developer of solid acid fuel cell (“SAFC”) technology, which secured $8 million of Series C funding from CMEA Capital, Nth Power Technologies and OnPoint Technologies.

2Q 2008-1Q 2009

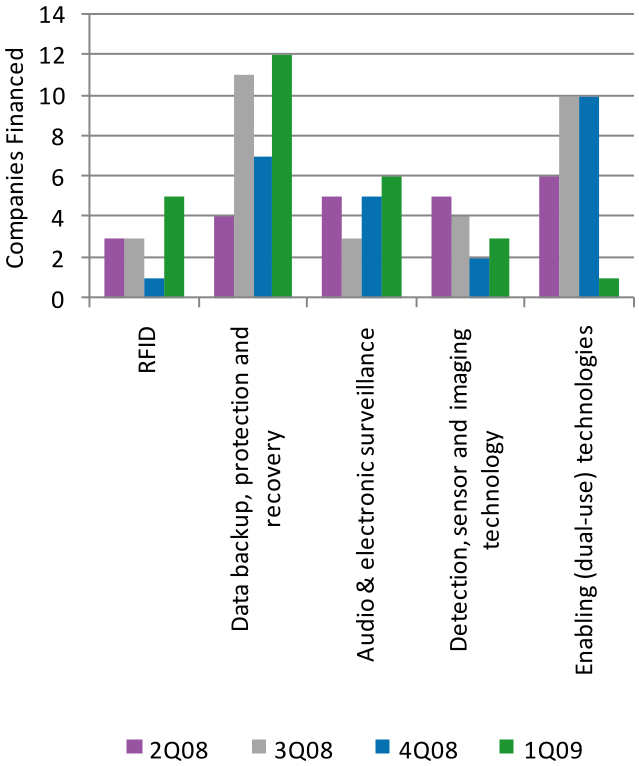
- During the period 2Q08-1Q09, early-stage investment in private Security (IT & Homeland) and Defense companies reached $2.1 billion globally. Physical Security companies secured $831 million (39%); IT Security companies $804 million (38%); Identity and Security Solutions companies $334 million (16%); and Defense businesses $172 million (8%).
- Within the Security (IT & Homeland) and Defense the top five recipient areas of early-stage investment during the period 2Q08 to 1Q09 were: Data backup, protection and recovery ($272 million); Enabling (dual-use) technologies ($269 million); Audio and electronic surveillance ($181 million); Detection, sensor and imaging technology ($104 million); and Network monitoring, detection and response ($85 million).

14. Early-Stage Investments:
Number of Companies Financed 2Q08 to 1Q09

Early-Stage Venture Capital Transactions by Sector



Early-Stage Venture Capital Transactions by Sub-Sector



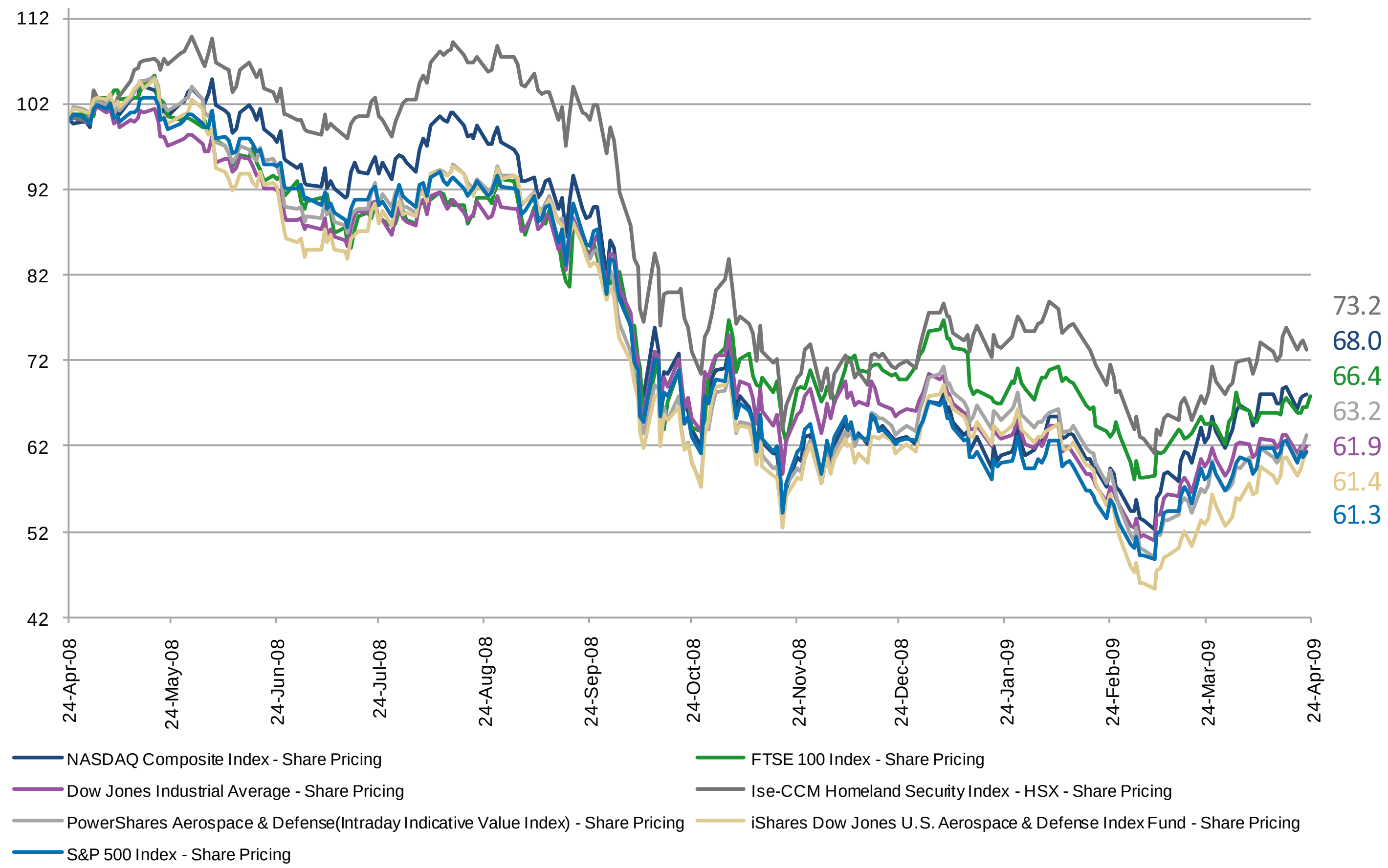
1Q 2009

- In 1Q09, 77 private Security (IT & Homeland) and Defense companies secured early-stage investment, at an average deal size of $6.7 million. This represents an increase of 51% on 4Q08 (51) and 28% on 2Q08 (60).
- Of those companies 12 (16%) were in the Defense sub-sector, 14 (18%) were Identity and Security Solutions businesses, 34 (44%) were developing IT Security technologies and 17 (22%) were Physical Security companies.
- In 1Q09, 34 IT Security companies secured early-stage investment, an increase of 100% on 4Q08 and 62% on 2Q08. The top five IT Security technology areas to benefit from early-stage investment were: Data backup, protection and recovery (12 companies); Perimeter security & firewalls (4); Email security (4); Application security (3); and IT security systems integration (3).
- In contrast, the number of Physical Security companies closing early-stage funding has declined steadily over the last three quarters. The number of early-stage Physical Security companies financed in 1Q09 was down 6% on 4Q08 (23) and 32% on 2Q08 (25).

2Q 2008-1Q 2009

- During the period 2Q08-1Q09, 269 private Security (IT & Homeland) and Defense companies secured early-stage investment. Of these 23 (9%) were Defense companies, 47 (17%) were Identity & Security Solutions companies, 105 (39%) were in the IT Security sub-sector and 94 (35%) were Physical Security businesses.
- During 2Q08-1Q09 the top five technology areas within the Security (IT & Homeland) and Defense to benefit from early-stage investment were: Data backup, protection and recovery (34 companies); Enabling (dual-use) technologies (27); Audio and electronic surveillance (19); Detection, sensor and imaging technology (14); and Radio Frequency Identification (12).

15. Markets: Relative Performance during 2008

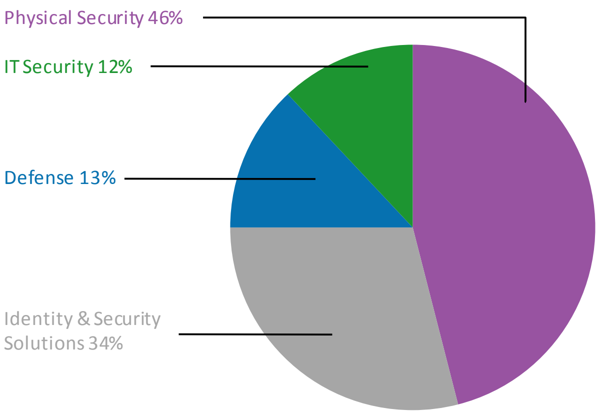


Source: Bloomberg, VB/Research

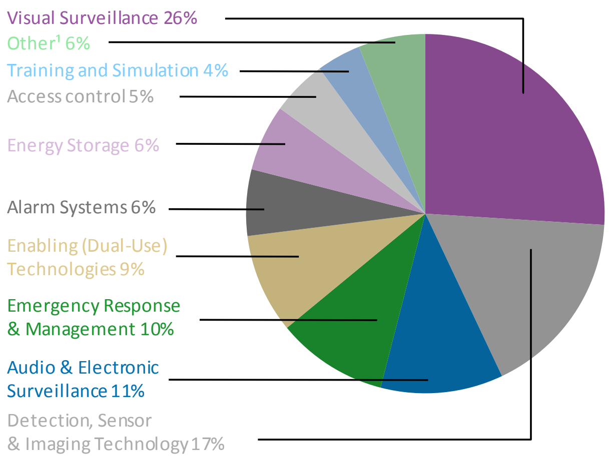
- During the past year the sector has not gone unprotected. Despite a recent upturn in the market, the sector indices registered a decline of between 27% and almost 40%.
- The best performing sector index (Ise-CCM – HSX) focused on Homeland Security registered a 27% decline. More importantly the HSX has outperformed the S&P, the Dow and NASDAQ by between 5% and 12%. This relative outperformance against the broader indices and more defense/aerospace indices reflects general investor sentiment, which is more bullish in security than in defense.
- The worst performing sector index (iShares – Dow Jones) declined by almost 40% during the past twelve months underperforming every major index (NASDAQ, S&P and Dow Jones).
- Given the heavy aerospace and defense weighting of this index and recent comments by the Obama administration VB/Research expects this index to continue to underperform the Homeland Security industry in the short term to medium term.

16. 2009 Outlook: Early-Stage

Early-Stage Investment by Sub-Sector



Early-Stage Investment in the Physical Security Sub-Sector

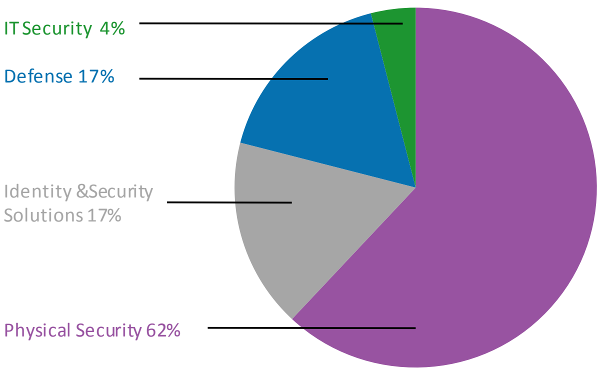


1 Includes Border security, Guarding and System installation, management and integration.

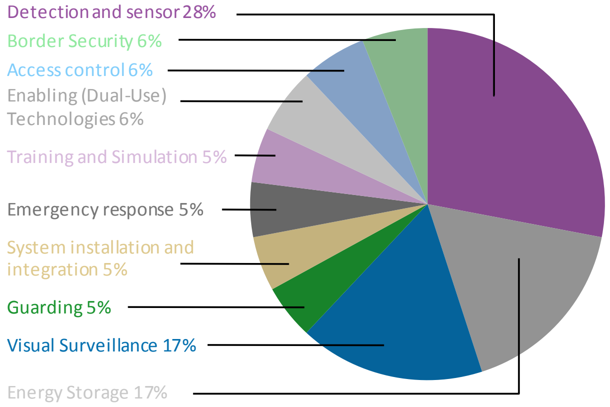
- During 4Q08–1Q09 VB/Research surveyed over 350 CEOs, CTOs, CFOs, venture capital, private equity and other institutional investors in the Security (IT & Homeland) and Defense to uncover fertile areas for investment in 2Q09. The charts above show a breakdown by sub-sector of those companies contacted that are currently seeking early-stage venture capital investment.
- Physical Security and Identity and Security Solutions are forecast to be the main areas of investment activity in 2009, accounting for 46% and 29% of those companies in the sector currently seeking early-stage funding.
- Within the Physical Security sub-sector the five areas expected to show greatest early-stage investment activity during 2009 are: Visual Surveillance (26%); Detection, Sensor and Imaging technology (17%); and Audio and Electronic Surveillance (11%); Emergency Response and Management (10%); and Enabling (Dual-use) Technologies (9%).
- Recent early-stage investment opportunities announced by VB/Research in the Physical Security sub-sector include: Bio-Sense Technologies, Ltd., a Petach Tikava, Israel-based guard dog monitoring company that is currently seeking US-based investors capable of providing $2 million of Series A funding; Vumii, Inc., an Atlanta, GA-based a developer of long-range, day/night surveillance camera systems, which is currently raising up to $8 million of investment; and Millivision, Inc., a South Deerfield, MA-based manufacturer of a concealed threat detection ("CTD") system that utilizes proprietary passive millimeter wave imaging technology, which is looking for $5 million of investment.

17. 2009 Outlook: Late-Stage

Late-Stage Investment by Sector



Late-Stage Investment in the Physical Security Sub-Sector



- At the late-stage level, Physical Security companies are expected to dominate investment activity during 2009, accounting for 62% of contacted companies that are currently seeking funding.
- Within the Physical Security sub-sector the five areas expected to show greatest late-stage investment activity during 2009 are: Detection, Sensor and Imaging technology (28%); Energy Storage (17%); Visual Surveillance (17%); Guarding (5%); and System integration and installation (5%).
- Recent late-stage investment opportunities announced by VB/Research in the Physical Security sub-sector include: Pivot3, Inc., a developer of high-bandwidth video data storage solutions, based in Spring, TX, which is currently seeking up to $15 million from European investors; Recon Robotics, Inc., a Edina, MN-based manufacturer of a rugged, remotely controlled surveillance robot, which is looking to raise in the region of $10 million to support an acquisition strategy; and Sonitor Technologies AS., an Oslo, Norway-based developer of an acoustic-based, real-time locating system (“RTLS”) for people and asset tracking, which is raising £10 million of expansion capital.

About VB/Research

VB/Research is a leading global source of research and deal intelligence on venture capital and private equity funds and their investments, M&A and the public capital markets covering the Security (IT & Homeland) and Defense sector.

By focusing on fundraisings currently marketed, acquisition targets, M&A opportunities and upcoming IPOs we deliver actionable intelligence that provides insight into tomorrow's industry leading companies. In addition, VB/Research's platform offers the most accurate and comprehensive databases tracking deals and investors in all asset classes including private placements, buyouts, PIPEs, M&A and IPOs since 2002.

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