Iron Gate Technologies

by
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As Steve Beitler donned his Special Forces jacket and set out for his weekly round of trap shooting, he knew that he had a tough decision to make. Beitler was a Managing Director at Trident Capital, a $1.3 billion venture capital firm that invested in early through late stage information technology and business services companies. A recent investment opportunity called Iron Gate Technologies had just initiated its first round of "hacker" testing for its Portcullis security technology and was hoping that Trident would present it with a $3 million "Round A" term sheet. Beitler had been introduced to Iron Gate by Brian Gannon of Dunrath Partners, a venture capital firm specializing in investing in seed stage technology companies. In October 2001, after speaking to industry contacts and performing several months of due diligence, Beitler had to decide whether to move forward and present Iron Gate with a term sheet on the following Friday. Should Beitler recommend that Trident Capital invest in Iron Gate? And, if it did so, at what valuation? While Iron Gate appeared to possess very attractive technology, the management team was incomplete and the company was at a much earlier stage than Trident usually invested.

1.   Trident Capital and Steve Beitler

Trident Capital was founded in 1993 by Bob McCormack, Don Dixon and Rock Schnabel to invest in information technology and business services companies. (Biographies of Trident's founding partners can be found in Exhibit 1). In 2001, Trident's investment strategy was focused on the networked economy. Key investment sectors included information technology (IT) infrastructure management and outsourcing, the Internet and mobile data communications. Within this space, Trident invested in seed, early, expansion and late stage venture financings and management buyouts. Trident started with a $44 million fund in 1993. After eight years of strong performance, the firm had amassed assets under management of over $1.3 billion. This included the $725 million recently committed to Trident's fifth fund. A list of Trident's past investments can be found in Exhibit 2.

Steve Beitler had spent much of the early part of his career in the military, rising to the rank of Lieutenant Colonel in the Special Forces (Green Berets). As part of his duties as a Special Operations Intelligence Officer, he had been exposed to several information security

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[*] Some information has been disguised. Copyright ©2003.

technologies, including encryption and biometric identification. At the end of his Army career, Beitler went to work in the Department of Defense, where he helped manage a $180 billion budget and served as "chief of staff" to the Under Secretary of Defense. After working in the military and government, Beitler worked in several operational capacities at two Fortune 500 companies – Sears and Helene Curtis. He leveraged his background in finance and information technology, fields that he had pursued since his days in the military and Department of Defense. Beitler joined Trident in 1998. He was hired by Bob McCormack, with whom Beitler had worked at the Department of Defense. McCormack thought that Beitler's experience in operations and in security technology would be useful to Trident. Exhibit 3 provides a detailed description of Steve Beitler's background.

2.   The Venture Capital Industry and Trident

During the late 1990s, the venture capital (VC) industry went through a phase of unprecedented growth. VC investments, particularly those related to the Internet performed spectacularly well as VCs were able to take companies public after historically short investment periods. Based on and driven by that success, VC partnerships raised and invested increasingly large amounts. The frenzy peaked in early 2000.

In the spring of 2000, the environment changed dramatically. The market for technology stocks cooled dramatically and technology spending began to decline.   VC investment activity began to slow as well as existing portfolio companies began to struggle and require greater and greater attention.

By 2001, VCs were no longer interested in companies that were not profitable or on a "path to profitability". Trident, whose funds were still performing well relative to the rest of the industry, had also retrenched to focus on its existing investments. In its recent dealings, Trident had become far more selective about the companies in which it would invest. Exhibit 4 shows the capital committed to VC partnerships from 1980 to 2001.

Going forward, Trident planned to focus its efforts on certain key investment sectors in which it had had success and believed that opportunity still existed. Beitler felt that one such industry was the security industry. Since his arrival at Trident, Beitler had lobbied his partners to create a separate practice in security. Recently, Trident had realized two big successes in that area. Trident successfully sold off Signio, a secure payment company, to Verisign for $735 million. And Securant was subsequently acquired by RSA Security. Although he had not led either deal, Beitler had been involved in the due diligence for both. The successes of Signio and Securant provided the impetus for Trident's partners to give Beitler was the mandate to start and lead the security practice at Trident in late 2000. Exhibit 5 describes the security sector.

3.   Iron Gate Technologies

Iron Gate Technologies was spun out of CERIAS, the Center for Education and Research in Information Assurance and Security, at Purdue University. Founded by Dr. Gene Spafford, a recognized expert in the field of information security, CERIAS was the world's foremost

university center for multidisciplinary research and education in area of information security and is designated as a National Security Agency (NSA) Center of Excellence. CERIAS researchers worked on computer, network and communications security as well as information assurance. The center had also spawned a number of successful security companies, including Tripwire.

Iron Gate Technologies began as a research initiative in 1998 by Dr. Mikhail Atallah, a member of the faculty at CERIAS. Dr. Atallah and his PhD student, Hoi Chang, developed the technology over the next two years with $100,000 in funding from CERIAS. This resulted in the creation of two products: Portcullis and Barbican.

Portcullis[1] was an anti-tampering software solution. It functioned by automatically and randomly embedding agents or "guards" within binary code (base level software code). Barbican[2] was an encryption alternative that enabled secure communication between two parties. The tamperproof software sector is described in exhibit 6. Portcullis and Barbican are described in detail in exhibits 7 and 8.

Atallah and Chang had spent most of their professional careers in academia. As researchers, their main focus was in validating the proof of concept upon which Portcullis and Barbican were based. Thus, initially, these technologies were not developed with any specific application in mind. However, after they had succeeded in creating beta versions of both technologies, they realized that they would need outside help to handle the business aspects of moving forward. In the near term, they needed someone to negotiate terms for a separation from CERIAS and to establish the company.

In late 2000, Atallah and Chang began to leverage their contacts contacting alumni and former students, some of whom had successfully launched companies out of CERIAS. One of these contacts, a former student of Dr. Atallah's, strongly recommended Richard Earley of Dunrath Partners for his expertise in developing seed stage technology companies. Through this contact, they arranged a meeting with Earley in February 2001.

4.   Dunrath Partners

Dunrath Partners (previously known as "Earley Ventures") was founded by Rich Earley and Brian Gannon to identify and develop promising seed stage companies. Dunrath considered itself a "full-service business builder" private equity fund. By integrating strategic and operational consulting with venture capital, Dunrath offered hands-on expertise in addition to its capital to create value for its limited partners. In order to better ensure the success of Dunrath's investments, Earley would frequently assume an active role in these companies as temporary CEO, injecting additional non-monetary value to the investment. Usually, he would remain for a span of 6-12 months or until a more permanent management team could be put in place. Dunrath's other Managing Partner, Brian Gannon, was a seasoned private equity investor, whose

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[1] A Portcullis is a heavy grilled door with iron spikes at the bottom that hangs over the gateway of a fortress to prevent the entrance of an enemy.

[2] A barbican is an exterior defense that protects the entrance of a castle. It confined an approaching enemy to a narrow front, often leaving the attackers in the open, and offered an easy target for the castle defenders.

primary responsibility was to serve as the key negotiator and objective investing partner of Dunrath while Earley took on operational duties with portfolio companies. An example of an early success of Dunrath Partners was the sale to Intel of a reprogrammable chip logic company called Nuron for $90 million. Nuron's technology significantly accelerated the speed at which data could be encrypted.   Exhibit 9 includes Brian Gannon's and Rich Earley's biographies.

5.   Dunrath and Iron Gate

Earley had a great deal of credibility with Atallah and Chang because of the role he had played in developing Nuron.   Earley was very interested. After several discussions and due diligence sessions, he agreed to invest and help Atallah and Chang take the technology outside of CERIAS. Before actually making the investment, however, Earley had to work out terms for the acquisition of the technology with the university.

After intense negotiations, Iron Gate and Purdue agreed that Purdue would own 5% of Iron Gate with dilution protection until the company received $3 million in equity financing. Regardless of the number of rounds of financing, as long as the total equity financing stayed below $3 million, Purdue's interest would always reflect a 5% ownership in Iron Gate. So, if a VC were to invest $500,000 in Iron Gate with a pre-money valuation of $600,000, Purdue would maintain a 5% ownership in the company on a pre-money basis worth $30,000 and a post-money basis worth $55,000. The terms of the agreement stipulated that the post money value would simply be written up to reflect a 5% ownership in the company without any additional capital infusion from Purdue. In addition, Purdue would also have a royalty on gross receipts according to a pre-specified schedule.

Once the agreement with Purdue was in hand, Dunrath could invest. In exchange for an initial $300,000 investment, Dunrath took a 49% equity interest and Earley assumed the position of temporary CEO at Iron Gate. Dunrath subsequently established the legal corporate entity, developed the initial corporate infrastructure, and formulated the business plan and short-term strategy. The rest of the company's ownership was held by employees, founders, and directors of the company. Exhibit 10 provides an overview of all investments in Iron Gate and the terms negotiated with Purdue.

Iron Gate's ongoing management team was not yet in place. Richard Earley had stepped in as CEO and was expected to remain at this post for 6-12 months. Hoi Chang, the primary developer of Iron Gate's products, would serve as the Chief Architect. Mikhail Atallah had a one-year sabbatical available from Purdue, during which he would serve with the company as the Chief Scientist. Eric Davis, a technology manager responsible for commercializing information technologies for Purdue University, was the acting COO, but would serve in a business development capacity once a permanent senior management team was put in place. The company had also been in ongoing discussions with various experienced individuals to assume a CTO position with Iron Gate. Management biographies can be found in Exhibit 11.

In April, Iron Gate also began to examine its options for obtaining additional capital and expertise to drive the commercialization of its technology. Earley initially was unclear whether

the company should approach angels or venture capitalists. An interim angel round would allow Iron Gate to raise additional capital and to develop its technology with far less dilution and interference in day-to-day operations. Yet, a knowledgeable and experienced venture capital firm with a strong network could be valuable and accelerate the company's growth. Earley also wondered if Iron Gate was too young to attract the attention of the venture capital community.

Dunrath decided to see if VC firms would have any interest. Earley and Gannon contacted venture capitalists they knew who had a strong information technology practice. To their surprise, a dozen VC firms, including Trident, expressed strong interest in Iron Gate.

6.   The Initial Meeting

Brian Gannon had initially approached Steve Beitler about Iron Gate at a business dinner. Beitler and Gannon had previously done deals together and were long time friends. Beitler told Gannon he was interested in learning more about the company.

On May 18, 2001, Steve Beitler, Nick Etten, a senior associate, and summer analyst Mitchell Glickman attended the initial Iron Gate presentation at Dunrath's offices. The session was to include two presentations. The first presentation was a "big picture" overview of the company and its technology followed by a detailed technical due diligence session with Iron Gate engineers.   Beitler had invited a Trident technical consultant to probe the technology during this session. Aside from Trident, five other venture capital firms were on hand for the presentation, which Beitler duly noted. Despite the seed stage nature of the company, it seemed to be attracting attention from significant investor groups.

The presentation consisted of an overview of the company and a demonstration of Portcullis. As Beitler had been told, the management team was incomplete and its marketing strategy was undefined. The product demonstration involved a program that required a password login to play a movie on a personal computer. The goal was to play the movie without the password. As explained by the company's engineers, hackers will generally deactivate the software that facilitates the logon process to easily gain access to restricted information; in this case, the movie. However, once Iron Gate's solution was installed (which took seconds), such a deactivation was no longer possible. In its most basic form, the very fact that the solution was integrated directly into the software code without materially affecting performance was unusual and possessed building block potential. Trident's technical consultant was also impressed with the product's strength and versatility. When Beitler left the meeting, he privately informed Gannon and Earley that Trident was interested in finding out more and doing some due diligence.

7.   Beitler's Due Diligence of Iron Gate

Beitler left the meeting and began his due diligence on Iron Gate. Beitler had two primary concerns. First, was Portcullis as technologically strong and applicable as it appeared to be?   In essence, an investment in Iron Gate was a bet that Portcullis was uncrackable or sufficiently

difficult to crack. Second, was there really a market for Portcullis and Barbican and how big was that market?

Technology

For the technological part of his due diligence, he consulted several technical advisors. The technical specialist from the initial presentation had stated that it was impossible to "prove" that Portcullis was impervious to attack, but if it could slow down hackers by even a month, which he currently believed it could, the benefit would be substantial and well worth the expense of the product.

One consultant, a former NSA specialist and an internationally recognized expert in the area of computer system intrusion detection and network security, was very positive about Portcullis. The advisor stated,

> *"The product actually reflects the book wisdom of how security should be done…It's pretty clear that someone paid close attention to the classic security properties in combination with the functional properties that have been sore spots in many security technologies delivered to date. I like this product a lot."*

However, the security specialist did point out that Portcullis had not been tested at all for interpreted platforms which could constrain early wireless applications. The specialist also advised that portability to other programs may take significant research and development time and expense because Portcullis was devised and tested on Win32 platforms only.

Beitler also spoke with the former CTO from a major security software company who said that his former employer did not have a solution that was remotely comparable to Portcullis and that they could greatly benefit from Portcullis by reducing the rampant piracy of its software.

With regard to Barbican, another network security expert stated:

> *"In encryption, if one successfully guesses the key, any protection afforded by the encryption is gone. In the [Barbican] approach, although one might be able to guess a key, the protection still remains…This ups the complexity and level of effort one must apply to defeat the protection…I again like the design as it deals with a lot of the traditional road blocks to access control and confidentiality…"*

Another specialist, however, believed that while the product would be useful, its applications might not be as broad as originally hoped. Apparently, the technology's performance was dependent on the specific means used to obscure the data. Thus, it might not generalize to any program or algorithm. However, it did work for some very important ones. As such, niche markets might have to be sought.

Overall, Beitler's technical due diligence found that both of Iron Gate's products were designed with significant rigor and background knowledge. However, the products were not without risk:

1. Portcullis - This approach has not been tested at all for interpreted platforms (e.g., Java bytecodes). As many mobile devices use such interpreted environments for certain applications, this may constrain early placements (at least until interpreter-friendly approaches are devised).

2. Both products are still pre-beta, non commercial versions. Significant problems could arise in the beta phase.

3. Portcullis - The solution was devised and tested specifically on Win32 platforms. Portability to other programs may take significant research and development time and expense.

4. Portcullis - There is no guarantee that the properties that make Portcullis such an appealing security protection could not be subverted into a serious attack vector. Additional work needs to be applied to containing unauthorized use of the technology.

5. Barbican - The strength of Barbican would make it appealing as long as it could be exported without government objections. Given the level of perceived threats to domestic security, the government's stance on the export of such a technology is currently uncertain.

6. Portcullis - Portcullis may run counter to some established security strategies (e.g., Tripwires' file integrity checks). This may force some significant retraining of clients who wish to use it for enterprise network security protection).

Market and customer acceptance

To ascertain whether there would be commercial interest in the Iron Gate technologies, Beitler also used his various contacts in the software industry and government.

First, he identified several contacts who were willing to provide feedback for the Iron Gate team concerning the types of functionality that would be most sought after in the private sector.

One of these contacts, the VP and CTO of portal technologies and applications at a leading Internet security firm, told Beitler that Portcullis was "a very interesting technology that has broad applicability that goes beyond the software piracy and DRM application spaces." He suggested that Iron Gate develop a new set of guards of agents that could inspect the code at run-time for potential viruses and/or Trojan horses. He added that Portcullis was "a great technology, with great potential and broad applicability which can 'benefit' from concerns generated by events of September 11th."

Sceond, he identified several contacts whose organizations might have a need for the Portcullis technology. He introduced Iron Gate to those organizations to see whether they would be interested in beta testing the software. Most of these potential beta testers came from his

contacts in the military, many of whom had gone on to technology positions in the private sector. The companies and organizations included NSA, Veridian, Lockheed, AOL, and DARPA.

For example, Beitler introduced Iron Gate to one of the federal government's largest defense contractors who Beitler felt would likely be very interested in Portcullis. The Department of Defense (DOD) had recently promulgated an anti-tampering initiative that was compelling contractors to adopt anti-tampering techniques. Iron Gate's technology could help companies under pressure by the DOD to meet their anti-tamper initiatives and mandates.

Another of Beitler's contacts, a director at a major insurance and risk management group, had noted that it was difficult for digital media distributors to get insurance unless they took extraordinary steps to protect their technology and media. Using Iron Gate's products would enhance their customer's ability to obtain insurance and the company's ability to place it. Beitler's contact expressed interest in introducing Iron Gate to Vivendi, Universal, Sony, Escient and Eli Lily. The insurance company also was a potential customer for Iron Gate products for internal use and a potential investor.

Beitler also contacted several companies who he thought might have an interest in investing in the company or co-developing products with Iron Gate.

By October, Iron Gate had identified three companies that had committed to being beta customers for Portcullis. Several others were clearly giving it serious consideration.

Management

Finally, of course, Beitler needed to understand the strengths and weaknesses of the management and scientific team. It was clear that the management team was highly incomplete. Earley, while a successful entrepreneur thus far, would not be the permanent CEO. Dr. Atallah was highly regarded in the field of security, but was not a businessman. Beitler had had brief conversations with potential CTO's who expressed interest in further discussions. He had also identified qualified individuals (e.g., former members of the NSA) who might be willing to assume a position on Iron Gate's board. Ensuring the right team was in place was a major factor that Beitler needed to consider.

Financials

Beitler also asked Earley and Iron Gate to prepare a set of financial forecasts. These are included in Exhibts 12A-C.[3] Earley and Iron Gate believed that they could attain revenues of $50 million within five years and could become profitable within three years. The forecasts assume no venture capital financing. Beitler also collected information about public companies in the information security space and capital market information. These are included in Exhibits 13 and 14.

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[3] These forecasts have been disguised.

8.   The Term Sheet

Although the technology was still in its infancy, Beitler saw the potential of Portcullis immediately. He was also somewhat aware of the other technologies currently in existence and understood how different Iron Gate was from these potential competitors. He was certain that some branches of the government and the military as well as private companies employing tamper proofing technologies would share his enthusiasm for Iron Gate.

Overall, Beitler was sufficiently positive on Iron Gate that he decided to draw up a term sheet. While he did not have all of the answers, he felt that he understood the technology well enough and had the necessary contacts to present Iron Gate with a compelling value proposition. The term sheet is included in exhibit 15.

In constructing the term sheet, Beitler was careful to protect Trident's interests while making sure that there was a shared alignment of incentives that included the Dunrath and Iron Gate teams. Trident would invest in convertible preferred stock. The investment called for $1.185 million initially with an additional $2 million later if Iron Gate achieved certain milestones. The initial investment would come in at $0.64 per share while the later investment would come in at $1.00 per share. The initial investment represented a pre-money value of slightly less than $3 million.

The investment had many features of a standard "Round A" term sheet: pre-emptive rights, co-sale rights, drag along rights, anti-dilution protection, liquidation preference, vesting schedule, information rights, demand rights, piggyback registration rights, etc. Beitler requested two out of five seats on the board. He also inserted an exclusivity clause to preclude other venture capital firms from soliciting Iron Gate.

Beitler had decided to stage or "tranche" its investment with the requirement that the company meet specific milestones to receive all of the capital so that Trident could monitor Iron Gate's progress. Discussions about the specifics of what the milestones would be, as well as how compliance would be judged, were negotiated informally between both parties. The criteria required for the second investment amounted to an assertion that Portcullis would be deemed "Commercially Viable," as jointly defined by Beitler and the founding scientists at Iron Gate. The milestones that were tentatively agreed upon by both parties were:

1. Successful completion of version 1.1 of Portcullis with a variety of features.
2. Successful completion of the "hacker" test the Company was currently undergoing.

9.   Final Thoughts

While Beitler was initially comfortable with his term sheet, he still had some concerns. Was Iron Gate too early stage? Would Iron Gate and Earley accept his terms?

Beitler wondered how Iron Gate would view his term sheet. In terms of potential fit, Beitler felt he had a lot to offer to Iron Gate. Not only did he have a strong network in information security to leverage, but he felt he had a good sense of the people and resources that would be necessary to get the company to commercial viability. Beitler had a number of other potential beta testers and customers to introduce to Iron Gate in addition to the ones he'd already contacted. The Iron Gate team could also leverage Beitler's experience in the security sector to avoid potential pitfalls that might arise along the way. For example, the marketing strategy had yet to be fully defined, making it unclear who the customers would be. While Beitler reasoned that the end customer for Portcullis would likely be developers of software, he knew that there were several strategic decisions to be made. Finally, while Earley had done an excellent job establishing the company and moving the technology out of an academic environment, Beitler knew that Iron Gate needed a more robust management team and felt that he would be effective in helping to build it. He already had identified a suitable CTO. In addition, Beitler could also find several well-known figures in the information security sector to serve on the Board.

Still, Beitler was uneasy. He had some genuine concerns that tempered his enthusiasm about the company. No matter how he looked at it, Iron Gate was very early stage. Beitler was concerned about the amount of time that he would need to devote to developing the company while continuing to juggle his other responsibilities as a Managing Director at Trident. In fact, Bob McCormack, one of Trident's founders, had pointed out that it would be hard to sell the Trident partners on investing in a company that was this early stage. He suggested that it might be wise to wait six months and see if Iron Gate could "fly on its own". Indeed, while Beitler's partners thought the company's technology could have potential, they were hesitant. A seed-stage investment could require as much as three times the post-investment time commitment that a more mature portfolio company would require. And, since the technology market had lost its luster in the spring of 2000, many of Trident's portfolio companies required significant attention. Many were being refocused, recapitalized, and occasionally shut down. Trident was looking for lower-risk investment opportunities for the remaining capital of its fourth fund and its new fifth fund, not a high-risk seed stage investment.

Iron Gate's two-product portfolio further complicated the investment decision. Beitler wondered whether these products should exist within the same company or whether they were in fact two separate companies. There were applications where they could be used in tandem, but this could just as easily be accomplished with strategic agreements. If they were to remain under the same roof, Barbican could occupy the resources that should be devoted to commercializing Portcullis. But, its solution was so different that putting it on hold to develop Portcullis was very feasible. How much value should Trident really attribute to Barbican?

Customer acceptance could also prove to be a significant issue for Portcullis. Software developers are very protective of the code they write. As such, a genuine concern was whether they would allow a new product to insert guards and jumble the whole thing up. What happened if something went wrong? Further, how should the product be priced? Clearly, a small software company that sold 500 copy licenses per year should pay a different rate than a Microsoft.

Finally, Beitler also was concerned that term sheet negotiations with seed stage companies were often very difficult because venture capitalists demanded a significant amount of equity at a low

valuation to compensate for the increased risk. This was complicated by the fact that other venture capitalists were interested in Iron Gate. When Beitler told Gannon that Trident's valuation would be in the low single-digits, Gannon revealed that he had been offered a valuation "in the mid-teen's" by a competing firm. While Earley had intimated a preference to work with Trident, would the valuation be a "deal breaker?" Beitler was also worried about Iron Gate's reaction to the tranched structure. Was commercial viability the appropriate milestone? Would Earley be tempted by offers to invest the full amount now?

As Beitler raised his shotgun to his shoulder and glimpsed the first clay pigeon over his sights, he contemplated his options.

Exhibit 1: Trident Founding Partners

Honorable Robert C. McCormack, Lake Forest
Bob McCormack is a Co-Founder, Co-Chairman, and Managing Director of Trident Capital. From 1990 to 1993, Bob served as the Assistant Secretary of the Navy (Financial Management) and Comptroller of the Navy. From 1987 to 1990, he held several senior positions in the Office of the Secretary of Defense in Washington, D.C. From 1981 to 1987, Bob was a Managing Director of Morgan Stanley & Co. Earlier in his career, he was a Senior Vice President with Dillon Read & Co.

Bob serves as a Director of CCBN.com, Inc., DeVry, Inc. (DV), Illinois Tool Works, Inc. (ITW), Meadwestvaco (MWV), Northern Trust Corporation (NTRS), Imaging Portals, Inc. and The Revere Group, Ltd.

Bob earned his B.A. from the University of North Carolina and his M.B.A. from the University of Chicago, Graduate School of Business.

Donald R. Dixon, Palo Alto
Don Dixon has been a Co-founder and Managing Director of Trident Capital since 1993. From 1988 to 1993, Don was Co-President of Partech International, a private equity fund manager associated with Banque Paribas. From 1983 to 1988, he was a Managing Director of Alex. Brown & Sons. Earlier in his career, Don was a Vice President of Morgan Stanley & Co., and a Senior Account Officer at Citibank, N.A.

Don serves as a Director of Aptia, Inc., Avesta Technologies, Inc., eOnline, Inc., Epicor Software Corporation (EPIC), Evolving Systems, Inc. (EVOL), infoUSA.com, Fairview Partners Holdings, PGI, Inc., Signio, Inc. and eMerchant Solutions, Inc.

Don earned his B.S.E. from Princeton University and his M.B.A. from Stanford Graduate School of Business.

Honorable Rockwell Schnabel
Rock Schnabel currently serves as the U.S. Representative to the European Union. Ambassador Schnabel comes to Brussels from Los Angeles, California, where he was Co-Founder and Co-Chairman of Trident Capital. Prior to that, he served as president of a California-based investment bank.

From 1989 to 1992, Rock served at the Department of Commerce, first as under secretary of commerce for travel and tourism, then as deputy secretary of commerce and finally as acting secretary of commerce. In 1986, Rock was confirmed as U.S. Ambassador to Finland, a post he held until 1989. Rock was also a member of the Los Angeles Olympic Committee, and served as the envoy to the Netherlands for the 1984 Olympic Games.

The ambassador, who is originally from the Netherlands, is a graduate of that country's Trinity College. He also holds an honorary doctorate of law degree.

Exhibit 2: Trident Portfolio Companies

IT Infastructure

Internet and Communications

Add Phone

American Cellular Corporation

APTEGRITY

aD ARSDIGITA

BarterNet
Marketplace for the New Economy

boats.com

byte mobile

C 7 GROUP

cbca inc.

ccbn.com

circles

CrossMedia SERVICES

customer analytics, inc.

DAOU SYSTEMS, INC.

Engage

Imaging Portals
POWERING GROWTH

infoUSA.com

iPIX

MERCHANT e-SOLUTIONS

MAPQUEST.COM

MEGAPATH NETWORKS

Micro WAREHOUSE

mobyson

mgage

QUESTRA

signio

UltraLink
An iBenefit Company

VIANT

ZoneTrader.com

Exhibit 3: Steve Beitler

Steve Beitler, Managing Director, Trident Capital

Steve Beitler joined Trident Capital in 1998 as a Managing Director. Steve founded the security practice at Trident.

From 1994 to 1998, he was Assistant Corporate Controller at Sears, Roebuck & Co. From 1989 to 1994, Steve was Corporate Director-Strategy & Development at Helene Curtis Industries, Inc., a subsidiary of Unilever.

During his service in the US Army, Steve served as a Lieutenant Colonel in the Special Forces (Green Berets). Steve has also held posts in the government as Assistant (Chief of Staff) to the Under Secretary of Defense (Acquisition), Assistant to the Assistant Secretary of Defense (Production and Logistics), and Intelligence Officer to the SECDEF and CJCS. He also managed the daily operations of 850 professionals and a $180 billion budget.

Steve holds a BA in International Relations and a Certificate in Asian Studies from the School of International Service at American University. He also holds an MS in Strategic Intelligence from the Defense Intelligence College and has also pursued Graduate Studies at the University of Chicago.

Steve currently serves as Vice Chairman of the Illinois Venture Capital Association.

Exhibit 4: Commitments to Venture Capital Partnerships 1981 – 2001.

Capital committed to venture capital partnerships 1980 - 2001

(in $ billions)

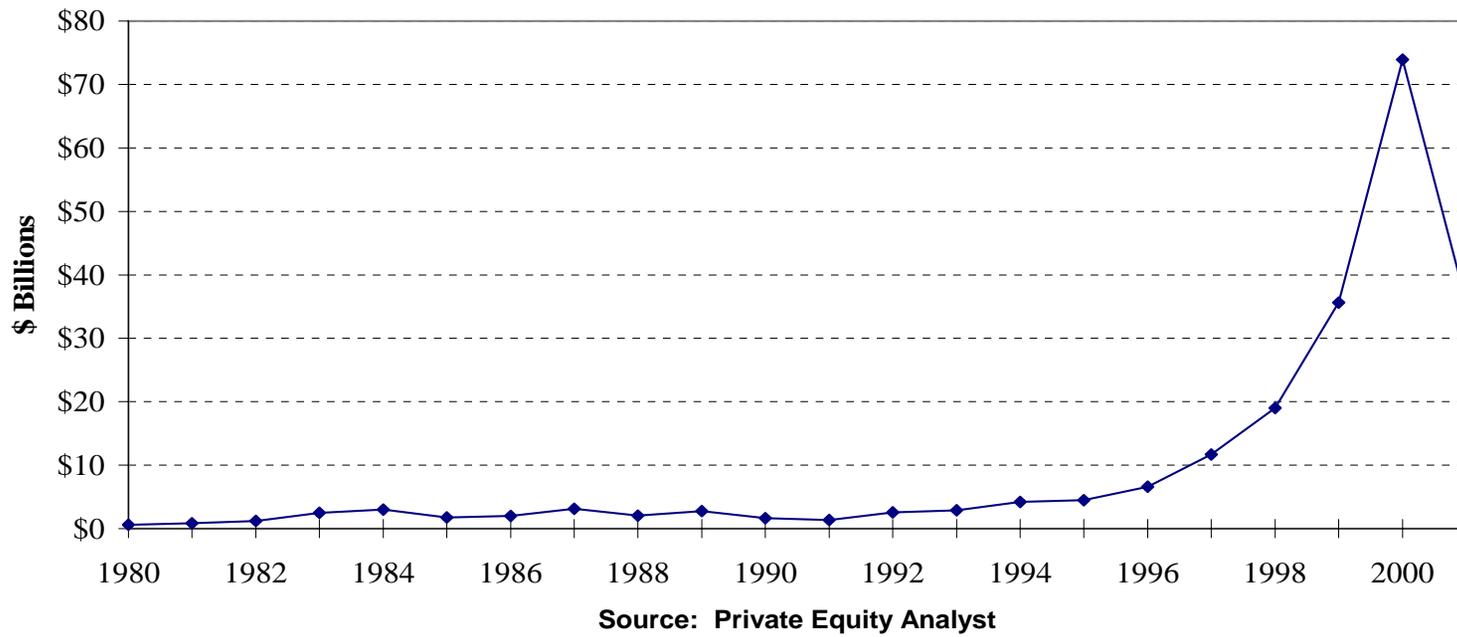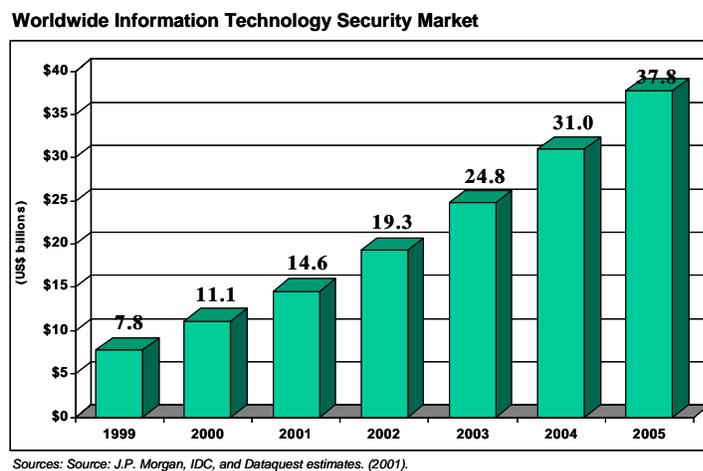

Source: Private Equity Analyst

Exhibit 5
The Security Sector

With the rapid progress of the digitized world in the 1980s and 1990s, particularly network infrastructures and the Internet, individuals and corporations faced an increasing need to defend their systems and their information. The response to hackers and other threats such as viruses began with the widespread adoption of firewalls and anti-virus software, but these solutions were quickly found to be inadequate.

In 2001 alone, it was estimated that over 30,000 hacker-oriented sites existed on the web, often with tools so user-friendly that even a novice could inflict severe damage. A 2001 survey conducted by the Computer Security Institute (CSI) with assistance from the FBI reported that respondents estimated $377.8 million in losses from computer breaches in 2001, up from $265.6 million in 2000.[4] In response, a variety of other solutions were developed such as complex encryption solutions to facilitate the safe transmission of electronic information, intrusion detection (ID) services/devices that enabled an attack to be discovered and stopped in real time, and even biometric solutions that permitted only individuals with certain unique physical characteristics (e.g., fingerprints, irises, facial features) to access classified information. The invention and development of these technologies led to an explosion of the IT Security sector.

Worldwide Information Technology Security Market

Sources: Source: J.P. Morgan, IDC, and Dataquest estimates. (2001).

In 2001, the size of the Information Security market was approximately $14.6 billion.[5] Traditional technologies such as anti-virus, firewalls, and authentication represented over 50% of the market, while emerging solutions remained underutilized. As the traditional markets matured, areas such as intrusion detection (ID), biometrics, and virtual private networks were expected to grow at rates from 30% to 65%.[6]

While Information Security was still an evolving sector, certain companies had already become quite large and exerted a significant amount of influence in the market. Market leaders included Symantec, Check Point Software, Macrovision, VeriSign, Network Associates, RSA, and Cisco. While first-movers did grow significantly through organic means, growth through acquisition became imperative as the market matured and security needs evolved. Merger activity was approximately $1.5 billion in 1998 and 1999, but more than doubled to $3.9 billion in 2000.[7]

Although billions of dollars in venture funding had been invested in the security sector, companies were slow to dedicate capital and other resources to IT security. Historically, companies spent only 1-3% of IT budgets on security. At a security conference held at the end of 2001, Richard Clarke, Chairman of the President's Critical Infrastructure Protection Board and special advisor to the President for cyberspace security, stated that the

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[4] The Wall Street Journal Europe, <u>PC Attacks Surged in the Second Half</u>, January 28, 2002.
[5] J.P. Morgan, IDC, and Dataquest estimates. (2001).
[6] First Union (2001); Lehman Brothers (2001); IDC; Infonetics; Gartner Group.
[7] Lehman Brothers (2001).

average company spent .0025 percent of revenue on IT security, "a little bit less than what most companies spend on coffee."[8]

A growing number of companies, however, recognized the need to devote significant resources to protecting their systems and information. One new trend was the transfer of IT security responsibility from the Network Manager or CFO to a designated Chief Security Officer (CSO) and even the CEO. This enabled a more objective and focused approach to maintaining an organization's critical infrastructure.

The push for increased protection and privacy also prompted governments worldwide to pass legislation to protect their citizens and businesses. The European Union was one of the earliest adopters with the Data Protection Directive in 1998, which imposed onerous restrictions on EU enterprises regarding the use of customer/employee information and information security practices. The US also passed and proposed various laws and regulations, including the Gramm-Leach-Bliley Act (1999), which instituted privacy and security guidelines for financial institutions and the "Privacy Rule" under the Health Insurance Portability and Accountability Act (HIPAA), which created national standards regarding the protection of medical records and other personal health information.

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[8] s+bs enews, Security Concerns Prominent on CEO Agenda, February 12, 2002.

Exhibit 6
The tamperproofing sector

Traditional IT security technologies focused on keeping intruders out of proprietary networks and systems. However, none of these solutions had been proven to be 100% effective. As such, a need to protect IT assets in the event that a network is compromised was essential. Technologies that prevented the manipulation of software code of internal applications were expected to provide this level of protection. In the absence of such solutions, software could not be fully trusted to perform or conceal confidential data once an attacker gained access to a system. Hackers had also proven themselves to be very adept at breaking the copy protection that often comes built into software to create modified versions of the software. This problem was also creating massive piracy concerns for software vendors due to increasing lost revenue.

Generally, security measures such as encryption and watermarks came integrated within software applications. However, attackers simply circumvented trying to defeat these measures and chose to reverse engineer the actual software code instead. In most cases, they attempted to disable the copy protection technology to access content and/or actually modify the software code to make the software perform differently than originally intended. Most software was vulnerable to these types of attacks given the majority of software was installed on open systems (off-the-shelf PCs). The recent shift to more web-based applications also facilitated these attacks.

Approaches

Encryption - Encryption is the process of changing information such that the substance of the information is hidden. The process of keeping information secure relies upon the use of mathematical functions that are used to both encrypt and decrypt the information.

Obfuscation **-** Obfuscation is a process that renders software unintelligible but still functional. In essence, the code is rearranged and reorganized in such a fashion that a hacker could not locate the pieces of code that he/she would wish to disable or modify.

Guarding – With guarding, a distributed network of guards protects the entire software code and repairs any code that has been tampered with. The guards are also linked and designed to check up on each other to ensure that none of the guards has been compromised.

Industry Players
Prior to Iron Gate, the two major application areas within the tamperproofing sector were Digital Rights Management ("DRM") and Electronic License Management ("ELM"). DRM is the process by which content providers control access to their content (e.g., music, software, video, text) and ELM is the process by which software developers distribute and manage both the software and the license for each user. In 2001, Macrovision, a public, leading developer and marketer of a broad array of rights management and copy protection technologies, was the most recognizable name and was regarded as the de facto market leader. Rainbow Technologies, a provider of security solutions for the Internet and eCommerce markets, was a less significant number two player. Many other smaller niche players offered different products with various features aimed at protecting different forms of media. Macrovision was currently earning over $20 million per year from its SafeDisc and SafeCast products. Another player in the sector was Cloakware, a Canadian company that marketed its TRS (tamper-resistant software) technology as the Cloakware "Encoder." Encoder used strong obfuscation techniques to "cloak" source code. Cloakware, was a well-funded start up, with Entrust, a publicly traded company in the encryption sector, as its primary investor.

In 2001, the tamperproofing market was a new and emerging area of the security market. Because it was new, it was difficult to estimate the potential size of the market.

Exhibit 7
Portcullis

Portcullis, an anti-tampering software solution, was Iron Gate's primary product. It functioned by automatically and randomly embedding agents or "guards" within binary code (base level software code). The guards were also linked and designed to check up on each other to ensure that none of the guards had been compromised. These guards could be instructed to detect, notify/report, and/or "self-heal" anomalies in software code at runtime. There was no limit to the number of guards that could be created; it was customizable according to the security requirements. The guard insertion process was fast; ranging from a couple of seconds to a couple of minutes depending on the number of guards embedded. As opposed to traditional encryption solutions, Portcullis was largely unobtrusive, with little impact on performance, file size, or memory. This resulted from the fact that the guards were inserted into existing "gaps" within code and consequently did not add to file size or hinder the proper execution of the program.

According to Iron Gate, breaking this system of guards was extremely difficult for even the best-equipped hackers because unlike all other security solutions, there is never a single point of attack. Tampering with the protected code would trigger guard actions that are customizable, ranging from a very mild response to the extreme of making the software unusable. Further, even if a hacker were able to manually remove all of the guards in a given program, a process that if possible, would take an extremely long time, that person would have to do the same thing the next time Portcullis was encountered, because the guards are assigned randomly. As an experiment, one of the inventors of the product tried to remove one guard and it took him two months.

In a typical attack, a hacker, either manually or with the assistance of tools, identified the encryption or guarding protection by looking for the binary code that stands out from the application itself. Portcullis helped prevent this identification process by disguising its guards and other identified parts of the code with its proprietary obfuscation techniques.

Technological Applications/Markets for Portcullis

While the marketing strategy for Portcullis had not yet been defined, management had identified the following uses for Portcullis:

Electronic License Management (ELM) – ELM is the management of licenses distributed to each user. These licenses ensure that only registered users can use an application. Without ELM security solutions, recipients of unprotected software could make an infinite number of copies. Some License Management systems addressed this problem by encrypting the program and making it accessible to authorized users through a software engine that enforced the copyright. The security challenge was to ensure that this could not be tampered with. This application offered a significant ROI to Portcullis users with high piracy rates.

Digital Rights Management (DRM) – In 2001, publishers were searching for new ways to electronically distribute content (music, software, video, text) while enforcing their copyrights. Unfortunately, recipients of unprotected digital content could make an infinite number of copies of the content. Like ELM, DRM faced challenges in ensuring that software engines that enforced copyright could not be tampered with. With Portcullis, publishers and other content providers could prevent (i) tampering attacks intended to change the behavior of the engine and (ii) code analysis attacks intended to reveal secret keys used to decrypt the content.

Biometric Authentication – Everyone possesses distinct identifying features called biometrics, such as our fingerprints, signatures or voiceprints. Their use can result in very reliable personal identification. Portcullis enabled biometric information and private keys to be securely stored on any computing device.

Wireless Security/Mobile Commerce – The security and privacy of personal and corporate information available through laptops, PDA's, and cell phones was considered vital. In particular, mobile e-commerce required the protection of all credentials and personal information. The most important personal information, such as passwords, personal identification, private signing keys, and credit card information were typically encrypted

and stored on the mobile device. Attacks were a very significant threat to mobile commerce because mobile devices were easily lost or stolen. Once in a hacker's hands, the software could be attacked at leisure. Portcullis could tamper-proof software deployed on mobile devices to protect this sensitive information.

Intrusion Detection (ID) – Intrusion detection technology could detect when confidential information on an IT system had been accessed, stop the intrusion, and aid in the investigation of who the intruder may have been.

Interactive Digital TV – The platforms that provided interactive digital TV services were increasingly using open operating systems, which made them much more susceptible to hacker attacks. Portcullis could protect the software and system integrity that operated these platforms.

Distributed Computing Environments – Highly distributed networks and mission-critical systems could not be protected just by using locked server rooms and access control security. Current protection solutions used software probes for each node to monitor the distributed network. These probes had to be made tamper-proof to ensure reliability in the event of a hacker attack.

Smart Cards – Smart cards had tamper-resistant packaging and countermeasures to protect their software and secret keys, but these were not attack proof. Portcullis provided a lower-cost alternative to physical packaging technologies to defend against these attacks. Further, it could protect against loss of information when a smart card was used in a compromised device.

Protection of Intellectual Property and Proprietary Algorithms – Many software publishers wanted to distribute and license software broadly, but were concerned about protecting their intellectual property and proprietary algorithms from reverse-engineering attacks. It also was becoming more common to distribute software in forms that retained much of the original source code information. Further, some intelligent debuggers could recreate source code rather well from standard machine code. Portcullis made even the recreated source code unintelligible, so software developers could better protect trade secrets embedded at key places in the software.

Competition

Given that Portcullis's market strategy was still being defined and it was the only product that utilized guard and obfuscation technology, it was difficult to identify exactly with which solutions Portcullis would be competing. For anti-tampering applications, the company would compete chiefly with Cloakware's "Encoder", which utilized obfuscation technology. Although Cloakware's technology provided a relatively high level of security, Cloakware's obfuscation was applied at the source code level, not the binary level. According to Iron Gate, lab tests had shown obfuscation at the source code level to consume significant memory and file size and affect performance. Moreover, Cloakware's product required on site consulting and therefore risked exposing potentially sensitive or confidential source code.

For DRM and ELM applications, the company would compete with Macrovision, Rainbow Technologies, and to a lesser extent other smaller niche players. However, none of these solutions offered a capability that operated at the binary code level or offered guarding or obfuscation. While many of these companies used some mechanism for making their policy enforcement tools tamper resistant (i.e., encryption), all had known occurrences of having previously been hacked. In fact, Iron Gate viewed many of these companies as potential channel partners and customers.

Revenue Model

A significant challenge defining the company's strategy for Portcullis was designing the revenue model. While the technology had the potential to satisfy real needs in the market, it was less clear how much customers would be willing to pay for it. Given the uniqueness and efficacy of the product, the expectation was that it would be a volume-based licensing scheme with a value-based pricing approach. The volume-based approach has already been proven effective in the digital rights management marketplace by companies such as Macrovision and Rainbow Technologies.

Exhibit 8
Barbican

Barbican was Iron Gate's second product.[9] Its technology was still in the early developmental stages. Iron Gate expected to focus on the development of this product once the next development phase of Portcullis was completed at the end of 2001.

Barbican was an encryption alternative that enabled secure communication between two parties. The important feature of this technology was that unlike traditional encryption, complex mathematical operations could be performed throughout the communication process and required significantly less memory to operate. The most interesting application for this product involved the outsourcing of proprietary complex mathematical calculations that could not be encrypted using traditional cryptographic methods.

Two major technological uses for Barbican had been identified:

Secure Multi-Party Computing: This function allowed multi-party computing where encryption was either impractical or inappropriate. Barbican essentially eliminated the need for a trusted 3rd party like Microsoft Passport.

Secure Outsourcing of Computations: This function allowed secure outsourcing of certain computations that may require highly expensive computer technology. Parties could utilize remote computer resources without revealing either the input data or the answer returned – both were secure.

Technological Applications for Barbican

While the marketing strategy for Barbican had not yet been defined, management had identified the following uses for Barbican:

Scientific Applications-Certain companies need to perform extensive mathematical/scientific computations as part of their businesses. Examples include companies in the oil exploration, financial services, and pharmaceuticals industries. Unfortunately, because traditional encryption technology damaged intensive mathematical computations, this type of work could generally not be outsourced. As a result, companies operating in these industries were often required to maintain expensive and complicated systems to perform these specific functions. With Barbican, companies would be able to securely outsource this type of work and eliminate the need for internal systems, thereby having a direct effect on ROI.

A small number of centers for outsourced computations do exist today (e.g., San Diego Supercomputing Center and Los Alamos). According to one consultant who has been associated with these centers, the "client base is extremely computationally greedy, but also very paranoid about competitive access to datasets. Ironically, the makeup and rarity of these facilities almost dictates that major competitors will share the same iron. Barbican could dramatically change the dynamics of this industry.

Biometric Authentication-One of the most significant concerns of individuals and organizations regarding biometric technology was the potential existence of large databases storing people's biometric information. With Barbican, biometric templates could be kept 100% disguised, even during the enrollment process. As such, there would be no opportunity for a copy of the "real" fingerprint to be stolen. Further, because the disguise is applied in a random fashion, if the database with the disguised fingerprints were stolen, individuals could simply re-enroll, thereby creating a new "disguised" fingerprint and rendering the stolen database useless.

Pattern Matching-Similar to collaborative development (see below), this application would allow one party to perform a search and match type of operation without revealing the nature of their search. The party being

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[9] A barbican is an exterior defense that protects the entrance of a castle. It confined an approaching enemy to a narrow front, often leaving the attackers in the open, and offered an easy target for the castle defenders.

searched would also not have to reveal the information against which the search is being conducted. An example of a potential application would involve performing a pattern match to identify a missing person or criminal. This application would be applicable to database shops. The consultant mentioned above believed this tool was really powerful for those facing more stringent privacy regulations, such as financial services companies, health care firms (HIPAA), and the government (National Clearinghouse for Criminal Records, Social Security, IRS, CDC).

Vulnerability Testing-An important element of network security included conducting regular vulnerability assessments (VA) to ensure that the frequent changes to an organization's network had not compromised its security. Many companies had this process outsourced to a provider with an extensive proprietary database of vulnerabilities against which the network was tested. However, this process required organizations to divulge sensitive information about their network architecture, which could be dangerous in the wrong hands. With Barbican, a vulnerability assessment (VA) could be conducted without either party disclosing any of their proprietary data.

Collaborative Product Development-This was a general application for the multi-party computing function of the Barbican technology. Essentially, collaborative product development would allow a party that was having difficulties developing a product to receive guidance without compromising the proprietary nature of his/her work. Similarly, the party providing the knowledge would not have to reveal the source of his/her information.

Competition

Barbican had no obvious competitors.

Exhibit 9: Dunrath Capital - Biographies

Richard P. Earley
Co-Founder, CEO of Dunrath Partners, General Partner of Dunrath Capital

Rich is recognized as a distinguished entrepreneur and investor with a proven track record of launching and building companies and leading them to success. Since founding Dunrath Partners, LLC (formerly Earley Ventures, LLC) in 1998, Rich has been actively involved in the launching and building of several businesses, fulfilling roles ranging from initial seed investor and board member to interim CEO to strategy consultant.

Prior to Dunrath, Rich served on the Board of Directors and acted as President/COO of Synergy Software Inc, an IT systems integrator, which he merged with Complete Business Solutions, Inc in 1997 and is currently publicly traded as Covansys Inc. (CVNS). He also held executive general management and sales and marketing positions for two other IT software companies.

Rich currently serves on several corporate boards and on the Advisory Board for the University of Notre Dame's Gigot Entrepreneurial Center and is a frequent featured presenter at media groups ranging from television's "Business Newsmakers" and "Stock Watch" to radio's "Companies to Watch" segments to print interviews in Solutions Integrator, Red Herring, and E-Commerce Business. He earned a BA from the University of Notre Dame and a MBA from Benedictine University.

Brian E. Gannon
Co-Founder, Director of Dunrath Partners, General Partner of Dunrath Capital

Brian is a proven private equity executive and investor with extensive expertise in venture capital, merchant banking and investment banking. He founded Dunrath in 2001 as a General Partner and currently leads the firm's investment committee. Brian is also currently a Partner at Lunn Partners, a Chicago based private and public equity asset management firm with over $1 billion under management. Prior to Dunrath, Brian held various investment executive positions for William Blair & Company and CS First Boston.

Prior to his investment career, Brian was an Infantry Platoon Commander and Infantry Company Executive Officer for the U.S. Marine Corps. He earned a BA in Finance from the University of Notre Dame and a MBA (FY Honors) from the Harvard Graduate School of Business.

Exhibit 10: Iron Gate Investment History and Cash Position

Investments To Date: CERIAS provided $100,000 of funding over two years for the development of Iron Gate's technology. In June 2001, Dunrath partners invested an additional $300,000.

Purdue University Ownership: Purdue University owns 5% of Iron Gate. This position has dilution protection up until the company receives $3 million in equity financing. The University also has a royalty on gross receipts according to the following schedule:

- 3% of gross receipts up to $5 million annually
- 2% of gross receipts for income greater than $5 million up to $30 million annually
- 1% of gross receipts for income in excess of $30 million annually

Iron Gate may buy-out the royalty provision at any time prior to December 31, 2003 for $2,000,000.

Cash on Hand: Currently, Iron Gate has about $250,000, which it expects to last 9-12 months (burning $20,000/month).

Exhibit 11: Management Biographies
Richard P. Earley, *CEO and Chairman*
See exhibit 9.

Mikhail Atallah, Ph.D., *Founder and Chief Scientist*
Mikhail Atallah received his Ph.D. form John's Hopkins University in 1982, and has been a member of Purdue University faculty since 1982. Mikhail's current research interests are information security algorithms.

Hoi Chang, *Founder and Chief Architect*
Hoi Chang received a B.S. degree in Computer Sciences and Mathematics from Slippery Rock University in 1996. He entered Purdue University in 1996, completed his M.S. degree in Computer Sciences in 1998, and is in the process of completing his Ph.D. in Computer Sciences at Purdue University. His research includes software tamper-proofing and obfuscation, network security, and operating systems.

John Rice, Ph.D., *Founder and Scientific Advisor*
John Rice received his Ph.D. in Mathematics from the California Institute of Technology in 1959, and currently serves as a Distinguished Professor in the Computer Science Department at Purdue University. John is the founder of the *ACM Transactions on Mathematical Software* and is on several other editorial boards. He is the past chair of the Computing Research Association, a fellow of the AAAs, of the ACM, and a member of the National Academy of Engineering.

John T. Korb, Ph.D., *Founder and Scientific Advisor*
John Korb earned his Ph.D. in Computer Science from the University of Arizona in 1979. John was a member of the renowned programming team at Xerox Corporation in the late 1970's and early 1980's.   Most recently, John directed the research facilities for Purdue University Computer Science Department.

Eugene Spafford, Ph.D., *Director, CERIAS*
Gene Spafford is a Professor of Computer Sciences at Purdue University, where he has been on the faculty since 1987. His current research interests are primarily in the areas of information security, computer crime investigation and information ethics. Gene is director of Purdue University CERIAS (Center for Education and Research in Information Assurance and Security). He is also the founder and de facto director of the UICERT (Purdue University Computer Emergency Response Team). As of the end August 2001, Gene will be on sabbatical from CERIAS to complete his latest book.

J. Eric Davis, *Acting COO, VP Business Development and IP Management*
Eric Davis earned his B.S. in Finance from the University of Dayton and his J.D. from Indiana University. He has served as a technology manager, commercializing information technologies and Internet-related inventions for Purdue University, and served as an advisor to start-up companies located in Purdue University Research Park. Prior to Purdue University, Eric managed a successful corporate and litigation law practice for Indiana firm Steven, Travis, Fortin, and Lukenbill, while also serving as General Counsel to Fortres Grand Corporation, a computer and network security company. Prior to Iron Gate, Eric founded and served as the President of Copient Technologies, a software and service provider to the loyalty marketing industry. He currently sits on the board of Copient.

Exhibit 12 A   *Iron Gate Technologies*

Income Statement ($)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Revenue					
Portcullis Royalties	$300,000	$1,870,527	$4,676,318	$9,352,637	$18,705,274
Barbiacan licensing	$12,000	$74,821	$374,105	$1,496,422	$7,482,110
Value added Services	$85,000	$374,105	$935,264	$1,870,527	$3,741,055
Barbican Royalties	$50,000	$1,176,136	$3,528,407	$8,821,017	$22,052,543
Total Revenue	$447,000	$3,495,590	$9,514,094	$21,540,603	$51,980,981
Operating Expenses					
Engineering	$962,233	$2,077,311	$3,079,972	$3,553,913	$4,201,475
% of Revenue	215%	59%	32%	16%	8%
Marketing/Sales	$416,245	$1,662,285	$2,897,752	$4,139,691	$6,399,316
% of Revenue	93%	48%	30%	19%	12%
Administration	$535,601	$1,011,964	$1,433,180	$1,941,826	$2,907,676
% of Revenue	120%	29%	15%	9%	6%
Total Operating Expenses	$1,914,079	$4,751,561	$7,410,904	$9,635,429	$13,508,467
% of Revenue	428%	136%	78%	45%	26%
Income Before Int & Taxes	($1,467,079)	($1,255,971)	$2,103,191	$11,905,174	$38,472,514
% of Revenue	-328%	-36%	22%	55%	74%
Interest Expense	$4,781	$10,292	$656	$223	$22
Interest Revenue	$0	$0	$0	$0	$0
Income Before Taxes	($1,471,860)	($1,266,263)	$2,102,534	$11,904,951	$38,472,492
Tax Exp	$0	$0	$0	$4,733,132	$16,158,447
Net Income	($1,471,860)	($1,266,263)	$2,102,534	$7,171,819	$22,314,045
% of Revenue	-329%	-36%	22%	33%	43%

#	Exhibit 12 B	*Iron Gate Technologies*			
		Balance Sheet ($)			
	FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**
ASSETS					
Current Assets					
Cash	($1,343,644)	($2,926,532)	($1,017,938)	$6,332,904	$28,990,719
Net Accounts Rec	$174,000	$569,225	$792,841	$1,795,050	$4,331,748
Total Current Assets	($1,169,644)	($2,357,308)	($225,097)	$8,127,954	$33,322,468
Gross Fixed Assets	$130,000	$230,800	$275,500	$318,700	$367,700
Less Accum Depreciation	$20,078	$73,497	$154,331	$216,931	$270,764
Net Fixed Assets	$109,922	$157,303	$121,169	$101,769	$96,936
TOTAL ASSETS	($1,059,722)	($2,200,005)	($103,928)	$8,229,724	$33,419,404
LIABILITIES					
Short Term Liabilities					
Accounts Payable (30 days)	$15,125	$31,275	$39,300	$46,158	$52,842
Salaries Payable (15 days)	$98,333	$168,000	$202,584	$239,243	$282,099
Taxes Payable (90 days)	$0	$0	$0	$1,183,283	$4,039,612
Line of Credit (0% of net A/R)	$0	$0	$0	$0	$0
Current Portion of Cap Equip Lease	$35,785	$49,173	$32,818	$11,162	$1,084
Current Portion of Long Term Debt	$0	$0	$0	$0	$0
Total Short Term Liabilities	$149,244	$248,448	$274,702	$1,479,846	$4,375,636
Long Term Liabilities					
Capital Equipment Lease (3 years)	$71,570	$98,346	$65,635	$22,324	$2,169
Long Term Debt (3 years)	$0	$0	$0	$0	$0
Total Long Term Liabilities	$71,570	$98,346	$65,635	$22,324	$2,169
TOTAL LIABILITIES	$220,814	$346,794	$340,337	$1,502,170	$4,377,805
Equity					
Preferred Stock	$200,000	$200,000	$200,000	$200,000	$200,000
Common Stock	$19,799	$19,799	$19,799	$19,799	$19,799
Retained Earnings	($1,500,335)	($2,766,598)	($664,064)	$6,507,755	$28,821,800
Total Equity	($1,280,536)	($2,546,799)	($444,265)	$6,727,554	$29,041,599
LIABILITIES & EQUITY	($1,059,722)	($2,200,005)	($103,928)	$8,229,724	$33,419,404

# **Exhibit 12 C**			*Iron Gate Technologies*		

Statement of Sources & Uses ($)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
BEGINNING CASH	$197,174	($1,343,644)	($2,926,532)	($1,017,938)	$6,332,904
Sources of Cash					
Net Income	($1,471,860)	($1,266,263)	$2,102,534	$7,171,819	$22,314,045
Add Depr/Amort	$20,078	$53,419	$80,833	$62,600	$53,833
Issuance of Preferred Stock	$0	$0	$0	$0	$0
Issuance of Common Stock	$0	$0	$0	$0	$0
Plus Changes In:					
Accounts Payable (30 days)	$13,025	$16,150	$8,025	$6,858	$6,683
Salaries Payable (15 days)	$94,583	$69,667	$34,584	$36,658	$42,856
Taxes Payable (90 days)	$0	$0	$0	$1,183,283	$2,856,329
Additions to Line of Credit	$0	$0	$0	$0	$0
Additions to Cap Equip Lease	$115,747	$55,622	$0	$0	$0
Additions to Long Term Debt	$0	$0	$0	$0	$0
Total Sources of Cash	($1,228,427)	($1,071,405)	$2,225,977	$8,461,218	$25,273,747
Uses of Cash					
Less Changes In:					
Net Accounts Rec	$174,000	$395,225	$223,617	$1,002,209	$2,536,698
Gross Fixed Assets	$130,000	$100,800	$44,700	$43,200	$49,000
Reductions to Line of Credit	$0	$0	$0	$0	$0
Reductions to Cap Equip Lease	$8,392	$15,458	$49,067	$64,967	$30,233
Reductions to Long Term Debt	$0	$0	$0	$0	$0
Total Uses	$312,392	$511,483	$317,383	$1,110,376	$2,615,931
CHANGES IN CASH	($1,540,818)	($1,582,888)	$1,908,594	$7,350,842	$22,657,815
ENDING CASH	($1,343,644)	($2,926,532)	($1,017,938)	$6,332,904	$28,990,719

Exhibit 13
Public IT Security Industry Comparables ($ millions)

Leading Public Companies

($ in millions, except per share data)

Company	Segment	Price (10/12/01)	Market Cap.	EPS Y01E	EPS Y02E	P/E 2001E	P/E 2002E	Sales LTM	Sales FY1	Market Cap./Sales LTM	Market Cap./Sales 2001E
ActivCard S.A.	Privacy/Encryption	$9.25	$369	($0.17)	($0.01)	n/a	n/a	27.0	33.5	13.7	11.0
Certicom Corp.	Wireless Encryption	$1.14	$36	($1.09)	-	n/a	-	24.0	10.9	1.5	3.3
Check Point Software	Firewalls	$30.95	$7,403	$1.25	$1.34	24.8	23.1	544.0	532.6	13.6	13.9
Computer Associates	Firewalls/ID/Enterprise Mgmt.	$28.96	$16,672	$2.04	$2.14	14.2	13.5	3774.0	5749.0	4.4	2.9
Cylink Corp.	Encryption	$1.07	$35	($0.45)	($0.34)	n/a	n/a	59.0	49.7	0.6	0.7
Entrust Technologies	Encryption	$3.65	$230	($0.70)	($0.01)	n/a	n/a	152.0	127.7	1.5	1.8
Gemplus S.A.	Smart Cards	$4.92	$3,142	($0.04)	$0.13	n/a	37.8	-	-	-	-
Hi/Fn	Encryption	$12.42	$124	($0.31)	-	n/a	-	51.0	42.8	2.4	2.9
Identix Corp	Biometrics	$8.80	$300	($0.53)	-	n/a	-	82.0	83.3	3.7	3.6
InterTrust Technologies	DRM/Encryption	$1.28	$120	($0.73)	($0.61)	n/a	n/a	9.6	10.1	12.5	11.9
Intrusion.com	Intrusion Detection	$1.00	$21	-	-	-	-	21.0	-	1.0	-
ISS Group	ID/VA	$19.01	$905	$0.17	$0.38	111.8	50.0	224.0	215.5	4.0	4.2
Macrovision	DRM/Encryption	$39.78	$1,993	$0.82	$1.02	48.5	39.0	94.0	107.2	21.2	18.6
McAfee.com	Privacy/Firewall/Other	$21.35	$956	$0.11	$0.22	194.1	97.0	56.0	60.9	17.1	15.7
Netegrity Inc.	Authentication	$15.21	$467	$0.12	$0.33	126.8	46.1	88.0	93.5	5.3	5.0
Network Associates	Anti-Virus/ID	$18.38	$2,512	($0.04)	$0.38	n/a	48.4	634.0	761.2	4.0	3.3
Rainbow Technologies	VPN/Encryption/Secure Servers	$4.31	$112	($0.26)	$0.01	n/a	431.0	165.0	140.1	0.7	0.8
RSA Security	Encryption	$10.75	$611	$0.25	$0.28	43.0	38.4	298.0	290.8	2.0	2.1
SafeNet	Encryption/VPN	$9.81	$69	($0.26)	$0.15	n/a	65.4	26.0	18.2	2.7	3.8
Secure Computing	Authentication	$14.36	$405	($0.34)	$0.14	n/a	102.6	47.0	55.5	8.6	7.3
SonicWALL	Firewalls/VPN/Anti-Virus	$16.65	$1,082	$0.32	$0.51	52.0	32.6	91.0	110.4	11.9	9.8
Symantec	Anti-Virus/ID/Firewalls	$48.13	$3,572	$2.10	$2.72	22.9	17.7	890.0	1020.6	4.0	3.5
TrendMicro	Anti-Virus	$20.25	$2,655	-	-	-	-	-	-	-	-
ValiCert	Encryption	$2.69	$61	($1.03)	($0.29)	n/a	n/a	19.0	25.4	3.2	2.4
Vasco Data Security	Authentication/Encryp./Single-sign-on	$1.55	$44	($0.12)	($0.13)	n/a	n/a	32.0	33.8	1.4	1.3
VeriSign	Encryption	$49.08	$9,840	$0.62	$1.08	79.2	45.4	815.0	664.9	12.1	14.8
WatchGuard Technologies	Firewall/VPN	$8.61	$230	($0.34)	$0.13	n/a	66.2	72.0	69.8	3.2	3.3
Zixit	Privacy/Encryption	$5.44	$93	-	-	-	-	-	-	-	-
Average						71.7	72.1			6.2	6.2
Adjusted Avg.*						40.7	44.3			5.8	5.8

Notes

Source: All EPS and long-term growth estimates are provided by First Call or JPMorgan. All other data, including pricing information, are provided by FactSet.

* Adjusted PE excludes P/E's over 100 as not meaningful. Adjusted Market Cap/Sales excludes highest and lowest multiple in data set.

Assumes companies have no debt, no excess cash.

Exhibit 14: Financial Market Data
(Week Ending October 12, 2001)

Interest Rates

1 Year Treasury Bill	2.15%
5 Year Treasury Bond	4.38%
10 Year Treasury Bond	4.88%
30 Year Treasury Bond	5.38%

Betas

Checkpoint	2.4
Macrovision	3.1
RSA	2.4
Sonicwll	1.9
Symantec	1.6
Verisign	3.2

IRON GATE TECHNOLOGIES, INC.

MEMORANDUM OF TERMS

      This Memorandum summarizes the principal proposed terms for the purchase of certain shares of Convertible Preferred Stock of Iron Gate Technologies, Inc., an Indiana corporation (the "Company"), by Trident Capital Management, L.L.C. and/or certain of its affiliates (collectively, "Trident") and certain other investors reasonably acceptable to Trident (collectively, the "Co-Investors", and with Trident, the "Investors") in a two tranche private placement.

I. OFFERING:

(1) Investment:	Subject to conditions described below, at an Initial Closing, Trident would invest $1,056,777, and the Co-Investors would invest $128,094, to purchase shares of the Company's newly-authorized Series A-1 Convertible Preferred Stock ("Series A-1") which are initially convertible into 1,850,000 shares of the Company's common stock ("Common Stock"). Also, subject to conditions described below, at a Subsequent Closing Trident would invest up to an additional $2.0 million to purchase shares of the Company's newly-authorized Series A-2 Convertible Preferred Stock ("Series A-2" and, together with the Series A-1, the "Convertible Preferred"). As of the Subsequent Closing, the shares of Convertible Preferred issued to the Investors would be convertible into an aggregate of 3,857,452 shares of Common Stock. At the Subsequent Closing, the conversion price of the Series A-1 would increase, so that the conversion price of Series A-1 and Series A-2 would be the same, and such series will otherwise have the same terms and rank pari passu.
(2) Capitalization:	The capitalization tables attached hereto in Exhibits 15b and 15c set forth the post-financing capitalization of the Company on a fully-diluted basis.
(3) Delaware Reincorporation:	Immediately prior to the Initial Closing, the Company will be reincorporated in Delaware.
(4) Use of Proceeds:	Working capital and general corporate purposes.

II. TERMS OF CONVERTIBLE PREFERRED:

(1) Dividends:	Dividends on each share of Convertible Preferred will be cumulative and will accrue at a rate of 8% per annum on the sum of such share's original cost plus the amount of dividends which accrued thereon in prior quarters and remain unpaid.

(2) Liquidation Preference: Shares of Convertible Preferred will have Liquidation Value of 3x original cost (i.e., an aggregate of $3,554,613 for the Series A-1 and $6.0 million for the Series A-2 issued to the Investors). Upon any liquidation, dissolution or winding up of the Company, the Convertible Preferred will be entitled to be paid, before any distribution or payment is made upon any other equity securities of the Company, an amount in cash (or, in the case of a stock-for-stock Change-of-Control transaction, securities of the acquiring entity) equal to the accrued and unpaid dividends thereon plus the greater of (i) the aggregate Liquidation Value thereof or (ii) the aggregate amount to be paid in respect of each share of Common Stock , assuming no payment of the Liquidation Value pursuant to clause (i) foregoing, multiplied by the number of shares of Common Stock then issuable upon conversion of the Convertible Preferred.

A merger, reorganization, sale of stock, acquisition or other transaction following which the current shareholders of the Company and the Investors collectively hold less than a majority of the voting power of the surviving entity, or any sale of all or substantially all of the assets of the Company (any of the foregoing, a "Change of Control"), shall be deemed to be a "liquidation," unless the holder(s) of a majority of the Convertible Preferred, voting on an as-converted basis (the "Majority Holders"), agree otherwise.

(3) Conversion: The Convertible Preferred will be convertible at any time and from time to time at the holder's option into shares of Common Stock. The initial conversion prices for the Convertible Preferred will be $.64 per share in the case of the Series A-1, but upon consummation of the Subsequent Closing will increase to $.826 per share, the conversion price of the Series A-2. The Series A-1 purchased by the Investors at the Initial Closing initially will be convertible into 1,850,000 shares of Common Stock representing 23.5% of the Company's fully diluted common equity at the Initial Closing. Upon consummation of the Subsequent Closing, the Series A-1 will be convertible into 1,850,000 shares of Common Stock and the Series A-2 will be convertible into 2,007,452 shares of Common Stock, together representing 40.0% of the Company's fully-diluted common equity at the Subsequent Closing. In addition, upon conversion of any Convertible Preferred the Company will pay in cash to the holders all accrued and unpaid dividends on the converted shares (though each holder may alternatively elect to receive such dividends in shares of Common Stock, based on the FMV (as defined below) of the Common Stock at the time of conversion).

The conversion rights of the Convertible Preferred will be calculated treating as already outstanding the maximum number of shares issuable under the Reserved Option Pool and the maximum number of shares issuable to the Purdue Research

Foundation pursuant to Section 3.01(b) of the License Agreement, as illustrated on the attached capitalization table. For purposes hereof, "Reserved Option Pool" means employee stock option plan(s) on terms satisfactory to Trident and providing for issuance of options to purchase not more than the number of shares of Common Stock which represents 8.0% of the Company's fully-diluted Common Stock as of the Subsequent Closing (giving effect to the issuance of Convertible Preferred and other transactions at such time).

(4) Optional Redemption:	As and to the extent requested by the Majority Holders, the Company will redeem, on each of the fifth and sixth anniversaries of the Initial Closing, up to an aggregate of one-third of the Series A-1 and one-third of the Series A-2 shares originally issued, and up to aggregate amount outstanding on the seventh anniversary of the Initial Closing. Upon any redemption, the Company will be obligated to pay in cash for each redeemed share of Convertible Preferred the aggregate Liquidation Value thereof plus accrued and unpaid dividends thereon.
(5) Automatic Conversion:	Upon the closing of a firmly underwritten public offering of the Company's Common Stock at a per share price (prior to underwriting discounts and expenses) equal to at least three times the price at which the Series A-2 is then convertible into Common Stock and with total gross offering proceeds to the Company in excess of $25 million (a "Qualified IPO"), all outstanding shares of Convertible Preferred will automatically convert.
(6) Anti-dilution	Upon any issuance or deemed issuance of Common Stock at a price less than the Convertible Preferred conversion price then in effect, the Convertible Preferred shall be subject to adjustment on a "full-ratchet" basis. However, after such time as (a) the Company has received an additional $6.0 million in cash proceeds from equity issuances to third parties other than the Investors and (b) the Company has achieved certain mutually-agreeable performance targets, the Convertible Preferred shall be subject to adjustment on a "weighted-average" basis upon any issuance or deemed issuance of Common Stock at a price less than the greater of the then current conversion price or FMV per share. No adjustment will be made upon grant or exercise of options under the Reserved Option Pool or any other options issued pursuant to any employee stock option plan approved by the Company's Board of Directors, the issuance of Common Stock upon exercise of currently outstanding Warrants in accordance with terms in effect at closing, the issuance of Common Stock to the Purdue Research Foundation pursuant to Section 3.01(b) of the License Agreement or any other issuance as to which the Majority Holders agree in writing to waive such anti-dilution rights.

(7) Voting Rights:	Except as provided herein or required by law, the Convertible Preferred will vote with the Common Stock as a single class on all matters, with each share of Convertible Preferred entitled to the number of votes equal to the number of shares of Common Stock then issuable upon conversion of such share of Convertible Preferred.
(8) Board Rights:	The Majority Holders, voting as a separate class, shall be entitled pursuant to the Company's charter to elect two (2) members of the Company's Board of Directors. Election of other directors is discussed in Section III.(2) below.
(9) Events of Noncompliance:	The following events will constitute "Events of Noncompliance": (i) any default by the Company in the performance of any Company obligation or covenant under the definitive agreements, charter or bylaws (unless the Company carries the burden of proving (a) the Event of Noncompliance was not intentional and is not material to financial condition, operating results, operations, assets or business prospects or to any holder's investment, and (b) cure by the Company is possible and the Company has used and continues to use best efforts to cure expeditiously), (ii) any representations and warranties in the definitive agreements are untrue in any material respect as of the Initial Closing or the Subsequent Closing (unless the Company carries the burden of proving the Event of Noncompliance was not intentional and is not material to financial condition, operating results, operations, assets or business prospects or to any holder's investment); or (iii) customary bankruptcy, significant judgment or similar events (each such event an "Event of Noncompliance"). Upon occurrence of any Event of Noncompliance, the Majority Holders will have the right to elect a majority of the Company's Board of Directors, until such time as the Event of Noncompliance has been cured, as determined by the Majority Holders in good faith. This remedy is not exclusive of any other remedy legally available.

III. OTHER INVESTOR RIGHTS:

(1) Pre-emptive Rights:	Each holder of Convertible Preferred or Common Stock issued upon conversion of Convertible Preferred ("Underlying Stock"), each existing stockholder and each holder of the Warrants currently outstanding ("Warrants") will have a preemptive right to purchase its pro rata share, based on fully-diluted common equity holdings, of any equity securities (or rights to acquire equity securities, such as warrants) offered or sold by the Company, except for options or Common Stock issued under the Reserved Option Pool, options or Common Stock issued pursuant to any employee stock option plan approved by the Company's Board of Directors, Common Stock issued upon

exercise of currently outstanding Warrants in accordance with the terms in effect at closing, Common Stock issued to the Purdue Research Foundation pursuant to Section 3.01(b) of the License Agreement, equity securities issued upon conversion or exchange of any Convertible Preferred or of any securities issued directly or indirectly conversion or exchange thereof, or as waived in writing by holders of a majority of the Underlying Stock measured on a fully-diluted basis. All such preemptive rights will terminate upon a Qualified IPO.

(2) Stockholders Agreement: The Company and all holders of Company stock or rights to acquire Company stock shall at all times be bound by an agreement with Trident with respect to customary matters, including to provide the following:

Co-Sale Rights: Each holder of Underlying Stock and each holder of stock or Warrants as of the closing will have the right to participate on a pro rata basis in any proposed transfers of shares by other holders of Common Stock, Warrants or Underlying Stock, other than (i) gifts to members of the immediate family or family trusts or transfers to affiliates, so long as the transferee agrees to be bound with respect to subsequent transfers, and (ii) Rule 144 sales (or sales under any similar rule then in force). This right will terminate upon a Qualified IPO.

Right of First Refusal: The Company (first), and the holders of Underlying Stock and holders of Common Stock and Warrants outstanding at the closing (second) will have a right of first refusal with respect to all proposed transfers of Company equity securities, at the price and on terms and conditions no less favorable than any offered to any proposed transferee.   This right will terminate upon a Qualified IPO.

Drag Along Rights: If the holders of at least a majority of the Underlying Stock (on a fully-diluted basis) and the Board of Directors approve a sale of the Company (whether by sale of stock, sale of assets, merger or otherwise), each holder of Common Stock, rights to acquire Common Stock and Underlying Stock will consent to and raise no objections to the proposed transaction and will take all other actions reasonably necessary or desirable to cause the consummation of such sale of the Company.

Board Matters: The Company's Board of Directors will be comprised of no more than five (5) directors. Two (2) directors shall be designated elected by the holders of a majority of the Underlying Stock (who shall be the two elected by the Convertible Preferred so long as any Convertible Preferred is outstanding) (the "Convertible Preferred Designees"). The holders of a majority of the outstanding Common Stock shall be entitled to designate two (2) members of the Company's Board of Directors, one of whom shall at all times be the Company's then-serving Chief

Executive Officer (the "Existing Stockholder Designees"). The remaining member shall be a qualified outside director mutually acceptable to the holders of a majority of the Underlying Stock and the holders of a majority of the then outstanding Common Stock.

The Company will provide customary indemnification and pay all reasonable costs and expenses incurred by directors in participating in Company activities. Each Board committee will be comprised of no more than three (3) directors, including one Convertible Preferred Designee, one Existing Stockholder Designee and the outside director (provided that no member of the Board who is also an employee of the Company shall serve on the Compensation Committee).

(3) Protective Provisions: Written consent of holders of a majority of Underlying Stock will be required in respect of material actions to be taken or refrained from by the Company, including (i) amending the bylaws or charter, (ii) effecting any Change of Control or other Liquidation, (ii) increasing the number of authorized shares, or altering or changing any of the rights, preferences or privileges, of any Convertible Preferred, (iii) authorizing any class or series of preferred stock having rights, preferences or privileges senior to or on parity with the Convertible Preferred; (iv) declaring or paying any dividend on, or purchasing, redeeming or otherwise acquiring any shares of the Company's capital stock, with certain exceptions for repurchases of stock from terminated employees pursuant to written agreements approved by the Board of Directors, (v) transactions with affiliated parties, (vi) transferring any interest in any intellectual property or other material assets, other than inventory sales in the ordinary course of business or transfers to a wholly-owned subsidiary of the Company, and (vii) mergers and acquisitions.

(4) Information Rights: The Company will deliver to Trident, so long as it holds 10% of the Underlying Stock purchased by Trident hereunder, and each other holder of Underlying Stock representing 5% or more of the fully-diluted Common Stock, audited annual and unaudited quarterly financial statements. In addition, the Company will furnish Trident, so long as it holds not less than 10% of such Underlying Stock, and each other holder of Underlying Stock representing 5% or more of the fully-diluted Common Stock, with monthly financial statements compared against plan and, at least 30 days prior to the beginning of each fiscal year, a copy of the Company's annual operating plan for such year. Trident, so long as it holds not less than 10% of such Underling Stock, and each other holder of Underlying Stock representing 10% or more of the fully diluted Common Stock, will also be entitled to standard inspection and visitation rights. These provisions will terminate following a Qualified IPO so long as the Company

continues to be a reporting company under the Securities Act of 1934.

(4) Purchase Agreement:

The Investors' investments in the Company will be made pursuant to definitive agreements reasonably acceptable to Trident and the Company. The definitive purchase agreement will contain, among other things, representations, warranties and covenants of the Company, provisions for indemnification for breach and conditions precedent to each of the Initial Closing and the Subsequent Closing, including delivery of an opinion of counsel for the Company.

(5) Closing Conditions:

The Investors' obligations at the Initial Closing would be subject to customary conditions, including the following: (i) completion of due diligence with results satisfactory to Trident; (ii) no material adverse change (to be defined); and (iii) completion and execution of definitive documentation satisfactory to Trident. Trident's obligations at the Subsequent Closing would also be subject to a mutually agreeable set of customary closing conditions, including the following: (i) no material adverse change though, for purposes of the Subsequent Closing, this condition will not include adverse effects on the Company resulting from competitive developments or changes in general economic conditions, and (ii) the Company's achievement, as mutually determined in good faith by the holders of a majority of the Underlying Stock and the holders of a majority of the then outstanding Common Stock, of "Commercially Viability." "Commercial Viability" shall mean (subject to further refinement by the parties) (i) successful completion of version 1.1 of AISA with the following features: (A) a tool for graphical user interface within Visual Studio 6.0, (B) new code obfuscation transformations, (C) additional guard types, (D) a reasonably flexible scripting language for specifying guarding relationships, (E) the ability to write customized guards in C and C^{++} and (F) increased guard installation flexibility; and (ii) successful completion of the "hacker" test the Company is currently undergoing.

IV. REGISTRATION RIGHTS:

(1) Demand Rights:

The holders of a majority of the outstanding Common Stock issued or issuable upon conversion of the Convertible Preferred (the "Registrable Securities") may demand that the Company register such stock at any time following the earlier of (i) the third anniversary of the Initial Closing and (ii) six months following the effective date of the Company's IPO; provided that, (a) in the case of "long form" registrations, holders of Registrable Securities request registration of at least 20% of the Registrable Securities or such lesser number as shall have an aggregate price to the public of at least $5 million, and (b) in the

case of registrations on Form S-3 or other "short-form" registrations (if available to the Company). such registered offerings shall have aggregate price of not less than $500,000. The Company will not be obligated to cause more than three (3) "long form" demand registrations to become effective (it being understood that no such registration will count for such purposes unless the holders sell at least 80% of the securities requested to be included therein), and will not be required to file more than two (2) registration statements on Forms S-3 (or other "short forms") in any twelve (12) month period. All "long-form" demand registrations shall be underwritten. The Company shall not be obligated effect a registration during the one hundred eighty (180) day period commencing with the date of the Company's initial public offering.

(2) Piggyback Registrations:

Holders of Registrable Securities shall be entitled to "piggy back" on all registrations subject to the right of the Company's underwriters to reduce the number of shares proposed to be registered in view of market conditions (but not below 25% of the total securities included in the registration, except in the case of the Company's IPO, and only if no securities other than those sold on behalf of the Company and Registrable Securities are included therein). The Company shall not grant piggyback registration rights without the consent of the holders of at least two-thirds of the Registrable Securities, unless such registration rights are subordinate to those of the Convertible Preferred.

(3) Expenses:

The Company shall bear all expenses (exclusive of underwriting discounts and commissions) of demand, piggyback, and S-3 (or other short form) registrations (including the fees and expenses of one special counsel to the holders of Registrable Securities).

(4) Other:

Other customary provisions to include cross-indemnification, selection of underwriters by holders of Registrable Securities in demand registrations, underwriting arrangements and the period of time in which a registration statement must be kept effective.

V. ARRANGEMENTS WITH STOCKHOLDERS AND MANAGEMENT:

(1) Vesting:

All Company equity interests currently held by employees will be subjected to vesting arrangements, with shares vesting in equal increments at the end of each month of service over a period of not less than three years commencing at the Initial Closing, except that (i) all shares of the Company's Old Preferred (as defined below) purchased by Rich Earley prior to the date hereof for cash, and all shares of Company capital stock issued in respect thereof, shall be deemed fully vested and not subject to repurchase, and (ii) 25% of the equity interests held by each of Rich Earley, Mikhail Attalah, Hoi Chang, Eric Davis, John Rice and Tim Korb, and their respective affiliates, will be deemed

vested as of the Initial Closing and the remaining 75% will vest in such manner over a three year period. In addition, if Rich Earley resigns as the Company's CEO at the request of Trident, (a) an additional 25% of the equity interests held by Rich Earley as of the Initial Closing (up to the amount of such shares remaining unvested) will then vest, and (b) if thereafter his employment with the Company is terminated without cause, then (x) an additional 25% of the equity interests held by Rich Earley as of the Initial Closing (up to the amount of such shares remaining unvested) will vest immediately if Trident and the Board fail to ask him to serve thereafter on the Company's Board of Directors and/or the Company's Advisory Board, and (b) if Trident and the Board request that he thereafter serve on either such board, his unvested shares will continue to vest, in the same manner as if he remained employed, so long as he continues to serve on those boards on which he is so requested to serve.

Subject to the foregoing, upon termination by the Company of any such employee's employment without cause, the Company may repurchase all of such employee's equity interests, with unvested interests subject to repurchase at the lesser of original cost paid in cash or fair market value, as determined by the Board in good faith ("FMV"), and vested interests subject to repurchase at FMV. Upon termination by the Company of any such employee's employment for cause or such employee's resignation, the Company may repurchase all of such employee's equity interests (whether or not vested) at the lesser of original cost paid in cash or fair market value. If the Company fails for any reason to exercise any repurchase option, it may be exercised by the holders of Underlying Stock and the existing stockholders, on an as-converted pro-rata basis.

All equity interests issued to employees of the Company after the Initial Closing will be subject to such vesting and other terms and restrictions as the Board of Directors shall determine in its sole discretion; provided that (i) such shares shall be subject to vesting on a straight-line basis over a period of not less than three years and (ii) such equity interests will be subject to the repurchase terms and restrictions set forth in the immediately preceding paragraph (with certain exceptions to be mutually negotiated prior to the Initial Closing).

(2) Noncompete Agreements:	Certain of the Company's existing stockholders (including Dunrath Partners) will enter into non-compete and non-solicitation agreements with the Company prior to the Initial Closing on terms reasonably satisfactory to Trident.
(3) Employment Agreements:	At Trident's request, the Company will enter into written employment agreements with each of Earley, Attalah and Chang and any other employee(s) of the Company if so requested by Trident.

(4) Existing Stock:	Certain shares of the Company's existing preferred stock ("Old Preferred"), which will now rank junior to the Convertible Preferred, that were originally purchased by Rich Earley for $200,000 in cash will be exchanged at the Initial Closing for a number of shares of Series A-1 which are initially convertible into 311,827 shares of Common Stock. Prior to the Initial Closing, the Company will obtain the consent of the holders of the Old Preferred to the transactions contemplated hereunder. The terms of the Old Preferred shall be amended in a manner reasonably satisfactory to Trident, including providing for automatic conversion upon conversion of the Convertible Preferred.
(5) Proprietary Information:	Each existing Company stockholder, officer, employee and consultant of the Company will enter into a proprietary information and inventions agreement satisfactory to Trident, which agreements will contain provisions with respect to confidentiality, corporate ownership of inventions and innovations during employment, and non-competition and non-solicitation terms during and after employment.
(6) Key Man Life Insurance:	The Company shall have obtained and maintain key man life insurance policies on individuals to be designated by Trident in the aggregate amount of not less than $6,000,000, with proceeds payable to the Company.
(7) Indemnification:	Trident and each director designated by it shall be entitled to indemnification from the Company for all liabilities to which such funds and persons may be subject by reason of their status (or alleged status) as controlling persons or affiliates of the Company.
(8) Chief Executive Officer:	Trident will have the right to designate a person to replace Earley as Chief Executive Officer, subject to the reasonable approval of the Board of Directors, which approval shall not be unreasonably withheld (it being understood that a director's consent shall be deemed to be unreasonably withheld unless such disapproval is based upon one or more "disqualifying reasons" (to be defined in the definitive agreements)). Breach of this covenant by the Company will be deemed to be incurable, intentional and material for purposes of the definition of Event of Noncompliance (provided that the Majority Holder's control of the Board will cease upon the election to the Board of Trident's designee to replace Earley as Chief Executive Officer).

Upon such designation by Trident at any time, Earley will cease to be the Company's CEO and will thereafter report to the new CEO. Earley will thereafter remain a member of the Company's Board only if designated by the stockholders in accordance with the above. |

(9) D&O Insurance:	The Company will obtain directors' and officers' liability insurance in such amounts and on such terms as are reasonably satisfactory to Trident.

VI. OTHER MATTERS:

(1) Finders Fees:	The Company and Trident will each indemnify the other for any broker's or finder's fees for which either is responsible.
(2) Legal Fees and Expenses:	The Company shall pay those fees and expenses of Trident that are reasonably incurred in connection with the preparation of this Memorandum and the transactions contemplated hereby (including, without limitation, all reasonable fees and expenses of legal counsel and other consultants) on terms reasonably acceptable to the Company.
(3) Exclusivity:	From the date of this Memorandum until the earlier of (i) December 31, 2001 and (ii) written agreement by Trident and the Company to terminate negotiations, the Company and each of its stockholders, directors, officers, employees or representatives, including without limitation the existing stockholders (collectively, its "Representatives"), shall not (and the Company shall ensure that none of its Representatives shall) (a) solicit or participate in negotiations or discussions with any person or entity other than Trident with respect to (1) any investment in, other financing of or purchase or sale of any interest in the Company, (2) a sale of any assets of the Company, other than inventory in the ordinary course of business or (3) any similar transaction or business combination involving the Company or its business or capital stock or assets, or (b) furnish any information with respect to or facilitate in any other manner any attempt or effort by any such person or entity to do any of the foregoing. The Company and each of its Representatives shall (and the Company will cause its Representatives to) terminate all discussions with third parties regarding any of the foregoing and, if any person or entity makes any proposal, offer, inquiry or contact with respect to any of the foregoing, will notify Trident of the details thereof immediately, and keep confidential the existence and contents of this Memorandum, the terms hereof and transactions contemplated hereby, the identity of the Investors and these discussions.
(4) Access to Information:	The Company will make available to Trident and its representatives during normal business hours all of its personnel and business records, as well as all other information necessary to complete to Trident's satisfaction a due diligence review of the Company and its affairs and operations.

(5) Binding Effect:	Except for Sections VI.(3) and VI.(4) above and this Section VI.(5), this Memorandum is not intended to be a binding agreement between the parties hereto and is only intended to be an expression of mutual understandings until definitive agreements are executed and delivered. Notwithstanding the foregoing, however, Sections VI.(3) and VI.(4) above and this Section VI.(5) are intended to be and will be binding on the parties hereto.
(6) Counterparts:	This document may be executed in two or more counterparts (including by facsimile), each of which shall be deemed an original but all of which together will constitute one and the same instrument.

Exhibit 15b: Capitalization Table for Initial investment.

$ 1,184,871

HOLDER	COMMON STOCK	PREF'D EXISTING	PREF'D A1	OPTIONS & WARRANTS	TOTAL	%
Trident Capital			1,650,000		**1,650,000**	23.5%
Additional Investors			200,000		**200,000**	2.8%
Rich Earley / Dunrath		1,469,999			1,469,999	20.9%
Dunrath Partners				648,529	648,529	9.2%
Founders	1,980,000				1,980,000	28.2%
Purdue Research Fund	227,554			125,000	352,554	5.0%
Option Plan				225,000	225,000	3.2%
Option Plan New				500,000	500,000	7.1%
TOTAL	2,207,554	1,469,999	1,850,000	1,498,529	7,026,082	100.0%

Exhibit 15c: Capitalization Table for Additional $2 Million

$ 3,184,871

HOLDER	COMMON STOCK	PREF'D EXISTING	PREF'D A1	PREF'D A1	OPTIONS & WARRANTS	TOTAL	%
Trident Capital			1,650,000	2,007,452		**3,657,452**	40.0%
Additional Investors			200,000			**200,000**	2.2%
Rich Earley / Dunrath		1,469,999				1,469,999	16.1%
Dunrath Partners					648,529	648,529	7.1%
Founders	1,980,000					1,980,000	21.7%
Purdue Research Fund	227,554				229,340	456,894	5.0%
Option Plan					225,000	225,000	2.5%
Option Plan New					500,000	500,000	5.5%
TOTAL	2,207,554	1,469,999	1,850,000		1,602,869	9,137,874	100.0%