

SSP SOLUTIONS INC
Form 425
May 17, 2004

FILED BY SAFLINK CORPORATION PURSUANT TO RULE 425

UNDER THE SECURITIES ACT OF 1933 AND DEEMED

FILED PURSUANT TO RULE 14a-12

OF THE SECURITIES EXCHANGE ACT OF 1934

SUBJECT CORPORATION: SSP SOLUTIONS, INC.

COMMISSION FILE NO.: 000-26227

This filing relates to a proposed business combination between SAFLINK Corporation (SAFLINK) and SSP Solutions, Inc., dba SSP-Litronic (SSP-Litronic), pursuant to the terms of an Agreement and Plan of Merger and Reorganization, dated as of March 22, 2004, by and among SAFLINK, SSP-Litronic, and Spartan Acquisition Corporation, a wholly-owned subsidiary of SAFLINK.

FOR IMMEDIATE RELEASE

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SAFLINK[®] REPORTS FIRST QUARTER FINANCIAL RESULTS

Revenue for the Quarter Up 64% Sequentially and 34% Year-Over-Year

BELLEVUE, WA (May 13, 2004) SAFLINK[®] Corporation (NASDAQ: SFLK), a leading developer, marketer, and integrator of biometric security solutions, today reported its financial results for the first quarter of 2004.

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Revenue for the first quarter of 2004 was \$802,000, up 64% when compared to the \$488,000 reported in the fourth quarter of 2003, and up 34% when compared to the \$597,000 reported in the first quarter of 2003. The Company reported a net loss of \$2.0 million, or \$0.07 per share, in the first quarter of 2004, compared to a net loss reported in the fourth quarter of 2003 of \$2.9 million, or \$0.11 per share, and a net loss of \$2.0 million, or \$0.09 per share, in the first quarter of 2003. The first quarter 2004 net loss included a gain of approximately \$1.0 million related to the change in fair value of outstanding warrants issued in connection with our February 2004 PIPE financing. Each reporting period, the Company is required to reassess the fair value of these outstanding warrants, which are classified as liabilities.

Glenn Argenbright, President and CEO of SAFLINK commented, I was pleased to see that we were able to hit the ground running with our new physical access biometric technology acquired from Biometric Solutions Group (BSG) and Information Systems Support (ISS) at the end of 2003. The acquisition of this technology allowed us to win some key contracts in the first quarter, including previously announced contracts with the Department of Defense and the Environmental Protection Agency, and contributed to just over one third of our revenue during the period. It also brought us into some very large opportunities in both the commercial and government sectors, which we simply could not pursue prior to the acquisition.

Argenbright continued. We also made an even more significant strategic move when we signed a definitive merger agreement with SSP-Litronic, a company that we believe offers the most comprehensive and secure operating system for smart cards on the market. We believe this step, along with our acquisition of the physical access technology from BSG and ISS, will allow us to provide one of the most comprehensive security solution suites on the market encompassing logical and physical biometrics, smart cards and PKI. We believe that this has positioned us to pursue an even greater portion of the largest smart card plus biometric initiatives in both the government and commercial sectors, such as the Transportation Security Administration's TWIC and Registered Traveler programs and the Homeland Security's US VISIT program all three of which are expected to announce awards in the next couple months.

The Company will hold a conference call to discuss financial results today at 5:00 PM EDT. The Company may provide forward-looking information on this call. To listen to the conference, please call 1-888-335-6540. A recording of the call will be available on the Investors page of the Company's web site for ten business days after the call.

About SAFLINK

SAFLINK Corporation offers software solutions that protect intellectual property, secure information assets, and eliminate passwords. SAFLINK's software provides *Identity Assurance Management* allowing administrators to verify the identity of users and control their access to: computer networks; physical facilities; applications; manufacturing process control systems; and time and attendance systems. For more information, please see www.saflink.com or call 800-762-9595.

NOTE: SAFLINK, SAFsolution, and The Power of Biometric Authentication are registered trademarks of SAFLINK Corporation. Protecting your enterprise through secure authentication is a trademark of SAFLINK Corporation.

This release contains information about management's view of the company's future expectations, plans and prospects that constitute forward-looking statements for purposes of the safe harbor provisions under The Private Securities Litigation Reform Act of 1995. Actual results may differ materially from historical results or those indicated by these forward-looking statements as a result of a variety of factors including, but not limited to, risks and uncertainties associated with the company's financial condition, its ability to complete new sales contracts entered into this quarter, its ability to convert any backlog or potential sales opportunities into definitive agreements and revenue-producing relationships, the possibility that the announced merger with SSP-Litronic may not close, the failure of the combined company to retain key employees, the failure of the combined company to manage the cost of integrating the businesses and assets of SSP-Litronic, the combined company's ability to sufficiently anticipate market needs and develop products and product enhancements that achieve market acceptance, SAFLINK's ability to sell its products, its ability to compete with competitors and the growth of the biometrics market as well as other factors that are discussed in the company's 424(b)(3) Prospectus filed with the SEC August 16, 2002 as amended and supplemented, and in its Annual Report on Form 10-K, as well as other documents periodically filed with the Securities and Exchange Commission.

- Continued on Next Page -

SAFLINK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three months ended March 31,	
	2004	2003
Revenue:		
Product	\$ 464	\$ 270
Service	338	327
Total revenue	802	597
Cost of revenue:		
Product	342	55
Service	173	84
Amortization of intangibles	47	
Total cost of revenue	562	139
Gross profit	240	458
Operating expenses:		
Product development	855	481
Sales and marketing	1,397	1,003
General and administrative	1,010	996
Total operating expenses	3,262	2,480
Operating loss	(3,022)	(2,022)
Interest expense	(1)	
Other income, net	15	10
Change in fair value of outstanding warrants	1,034	
Loss before income taxes	(1,974)	(2,012)
Income tax provision	13	
Net loss	\$ (1,987)	\$ (2,012)
Basic and diluted net loss per common share:	\$ (0.07)	\$ (0.09)
Weighted average number of common shares outstanding	29,370	21,874

SAFLINK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands)

	March 31, 2004	December 31, 2003
	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,400	\$ 7,099
Accounts receivable, net	778	610
Inventory	256	295
Other current assets	691	454
	<u>14,125</u>	<u>8,458</u>
Total current assets	14,125	8,458
Furniture and equipment, net	616	622
Other long-term assets	884	
Intangible assets, net	1,549	1,610
Goodwill	2,158	2,158
	<u>\$ 19,332</u>	<u>\$ 12,848</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 473	\$ 547
Accrued expenses	1,851	1,087
Deferred revenue	221	113
	<u>2,545</u>	<u>1,747</u>
Total current liabilities	2,545	1,747
Long-term liability - warrants	3,035	
Deferred tax liability	13	
Stockholders' equity:		
Preferred stock		
Common stock	313	281
Deferred stock-based compensation	(27)	
Additional paid-in capital	111,425	106,805
Accumulated deficit	(97,972)	(95,985)
	<u>13,739</u>	<u>11,101</u>
Total stockholders' equity	13,739	11,101
	<u>\$ 19,332</u>	<u>\$ 12,848</u>

Additional Information

In connection with the proposed transaction, SAFLINK and SSP-Litronic will file a joint proxy statement/prospectus with the Securities and Exchange Commission. Investors and security holders are advised to read the joint proxy statement/prospectus because it will contain important information about the proposed merger. Investors and security holders may obtain a free copy of the joint proxy statement/prospectus (when available) and other documents filed by SAFLINK and SSP-Litronic with the SEC at the SEC's web site at www.sec.gov. Copies of the joint proxy statement/prospectus (when available) and other documents filed by SAFLINK with the SEC may also be obtained free of charge from SAFLINK by directing a request to SAFLINK Corporation, Attention: Jon Engman, Chief Financial Officer, (425) 278-1100. Copies of the joint proxy statement/prospectus (when available) and other documents filed by SSP-Litronic with the SEC may also be obtained free of charge from SSP-Litronic by directing a request to SSP Solutions, Inc., Attention: Tom Schiff, Chief Financial Officer, (949) 851-8679.

SAFLINK and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the stockholders of SAFLINK and SSP-Litronic in favor of the transaction. Information regarding such officers and directors is included in SAFLINK's annual report on Form 10-K filed with the SEC on March 30, 2004, and amended on Form 10-K/A filed with the SEC on April 29, 2004. This document is available free of charge at the SEC's website at www.sec.gov and from SAFLINK. Investors and security holders may obtain additional information regarding the interests of SAFLINK's executive officers and directors in the transaction by reading the joint proxy statement/prospectus when it becomes available.

SSP-Litronic and its executive officers and directors may be deemed to be participants in the solicitation of proxies from the stockholders of SAFLINK and SSP-Litronic in favor of the transaction. Information regarding such officers and directors is included in SSP-Litronic's annual report on Form 10KSB filed on March 30, 2004, and amended on Form 10KSB/A filed with the SEC on April 2, 2004. This document is available free of charge at the SEC's website at www.sec.gov and from SSP-Litronic. Investors and security holders may obtain additional information regarding the interests of SSP-Litronic's executive officers and directors in the transaction by reading the joint proxy statement/prospectus when it becomes available.