

## Application Security rides database activity monitoring to big wins, '09 profit

**Analyst: Paul Roberts**

Database security and monitoring firm **Application Security Inc** said that it saw a profit in 2009 on increased demand for both its AppDetectivePro database auditing tool and its DbProtect suite, comprising database vulnerability management, activity monitoring and compliance. The company said revenue in 2009 was in the neighborhood of \$20m, and that it expects continued strong top-line growth in 2010, driven by compliance demands, new data-privacy regulations, and a recovering banking and finance vertical.

### The 451 Take

We think the market is reaching an inflection point with application security and database activity monitoring. Both attacks and compliance are pushing enterprises to pay closer attention to user activity and to data movement to and from their applications and back-end databases as executives and auditors look for integrated intelligence that can correlate vulnerabilities and remediation efforts with both compliance mandates and a nuanced understanding of relative risk. AppSec scores well against those requirements. It was able to turn a profit in 2009, despite a brutal H1. Looking abroad for opportunities was part of that success – and a smart move. At home, some high-profile enterprise wins and a continued strong presence in the government vertical suggest AppSec is picking up steam. Add to that IBM's acquisition of AppSec competitor Guardium in December, which put mature database activity monitoring in the M&A crosshairs after some prior low-value asset sales by the likes of IPLocks (to Fortinet) and RippleTech (to NitroSecurity), and 2010 starts to look interesting for AppSec. Not that it doesn't have challenges. IBM's acquisition of Guardium creates a big, rich competitor with broad reach and big-time credibility in the large-enterprise space. Database activity monitoring is a crowded space where AppSec says it is seeing strong demand and traction, but with plenty of competition.

### Context

When we last wrote about Application Security, the company had just hired a new CEO and added a compliance module to its DbProtect product to tap into demand for governance, risk and compliance (GRC) services and products. A year and a half later, AppSec tells us that it enjoyed its first year of profitability in 2009, despite difficult macro economic conditions. The company claims that it realized double-digit-percentage growth across its two main product categories, with a 100% increase in revenue from its database activity

monitoring product line and 33% growth in revenue from sales of its DbProtect enterprise platform.

The firm, which now employs just over 100, said that 2009 revenue was around \$20m and that it was profitable for the year. AppSec said that it expected to see a substantial increase over that, driven by an increasing number of compliance-focused large-enterprise deals. These included, in Q409, a database monitoring deal covering 2,500 production databases for a large multinational energy firm. AppSec expects more large deals in 2010, with an increasing share of them from outside North America as it builds up its sales and channel operations in Europe, Middle East and Africa, where data-privacy laws in the UK and variations on the US Sarbanes Oxley legislation in Japan and Korea are driving demand.

AppSec says that its message of cross-platform support, integrated database-vulnerability scanning, database activity monitoring and compliance is winning adherents, especially against more focused competitors like **Imperva**, **Sentriigo** and **Guardium** (now **IBM**). Technology integration partnerships, like the recent one with **Oracle** to integrate AuditVault with DbProtect, are examples of AppSec benefitting from competition with some of the larger, but more narrowly focused, players in the database security space. The company says it is targeting 25% top-line growth in 2010, and is hiring into sales and marketing positions while leveraging outsourced development to supplement its core development team located in New York City. In the meantime, AppSec says it is building up a services organization to streamline deployments and open up another revenue stream.

## Products

AppSec's portfolio comprises two major product lines: AppDetectivePro, an agentless database vulnerability scanning and auditing tool, and DbProtect, a database security risk and compliance suite that includes database activity monitoring, configuration management with compliance-focused dashboards, and reporting. Both support most leading enterprise database platforms, including Oracle, **Microsoft SQL**, **Sybase**, IBM DB2 and **MySQL**. AppDetectivePro is a vulnerability-assessment offering, intended for internal and external auditors. The Windows-compatible software can be deployed on laptops and comprises database discovery, penetration testing, security auditing, vulnerability scanning across AppSec's knowledgebase of 2,000 vulnerabilities and configuration checks, as well as user-rights auditing.

DbProtect is an enterprise-focused database security, risk and compliance suite. It comprises asset discovery, vulnerability scanning, policy creation and management, user rights management, and compliance reporting and auditing. Recent enhancements include improvements to DbProtect's asset-discovery features and more flexible search capabilities, with the ability to search DbProtect for assets based on database type and vulnerability, or for assets subject to specific compliance rules.

## Strategy

Application Security began as a software tools vendor narrowly focused on sales of database auditing and vulnerability-analysis tools to internal audit teams and external consultants.

Today, the company offers a broader enterprise portfolio, comprising database auditing; configuration management; and database activity monitoring, security, and compliance. The ultimate goal is a comprehensive GRC platform that pulls together database auditing, security, risk monitoring and compliance, as well as policy and rights management.

As it stands, Application Security says it is seeing demand across the board, with the biggest jump in interest for database activity monitoring, where revenue increased more than 100% in 2009. Much of that is being driven by internal or external audit findings (either from the AppDetective platform or others) pursuant to PCI, Sarbanes Oxley, HIPAA, FISMA, and comparable regulations in Europe and Asia. Application Security has also expanded its partnerships in recent years across its portfolio. **KPMG** has standardized on AppDetectivePro for use by its auditors.

For its enterprise products, Application Security has forged partnerships and technology integrations with DBMS vendors, including Oracle, IBM, Microsoft and Sybase. Most recently, the company integrated DbProtect with Oracle's AuditVault, allowing customers with DbProtect to consume AuditVault data and enable common management of heterogeneous database infrastructures.

Going forward, Application Security says that it will continue tapping demand for integrated GRC, especially in the government and quickly recovering financial services verticals. The company is especially sanguine about large enterprise, where it feels it has an advantage in scalability and platform support. Recent marquis wins, including a Fortune 5 energy firm covering 2,500 databases, suggest that AppSec isn't just whistling Dixie. A recovering financial services vertical, as well as new data-privacy regulations both at home and abroad (JSOX in Japan, KSOX in Korea), all provide opportunities for expansion outside the core North American market, as does the expanding reach of new regulations beyond core databases to a wider range of assets internally.

## **Technology**

Application Security's core intellectual property is around methods for securing database content and monitoring the security of enterprise databases. The company has been granted one US Patent, #7,266,699, covering a method for encryption key management and data encryption and decryption. (That patent was the basis for AppSec's DbEncrypt product, which has been discontinued.) Two pending patents cover database monitoring. USPTO Application #20,050,203,921 covers a method for monitoring the security of SQL databases and detecting various forms of attack and intrusion against those databases, including malformed SQL statements, brute force attacks and so on. That technology forms the basis of AppSec's database activity monitoring solution. A third patent application, #20,070,022,480, covers a method of database change and configuration monitoring.

## **Competition**

On the auditing side, Application Security says that it is the market leader, competing mostly against internal or platform-specific tools by the major DBMS vendors. On the DbProtect side, it says it is unique in offering an enterprise-grade security, risk and compliance product

with cross-platform support. The company says that it competes against different niche vendors, depending on the technology in question. It sees IBM/Guardium as a leading competitor in the database auditing and threat management space. We would put **Lumigent**, with AppGRC, and Imperva, with the Scuba vulnerability scanner and SecureSphere appliances, in that lineup, too.

Sentrigo does database activity monitoring, vulnerability assessment and patching. **Rapid7** does vulnerability scanning and, with the acquisition of **Metasploit**, penetration testing. **Tizor Systems'** (recently acquired by **Netezza**) Mantra appliance does agentless database activity monitoring. **Fortinet** competes, after scooping up the assets of **IPLocks**. **Symantec's** Database Security is a 1U hardened-Linux appliance that monitors database transaction anomalies, about which we hear very little. **Secerno** looks for break-ins and theft of databases, as well.

### SWOT analysis

Strengths	Weaknesses
<p>Application Security is a recognized leader in database auditing with an established research team and a database activity monitoring business that is growing rapidly. The company has a strong large-enterprise presence and counts more than 250 government installations.</p>	<p>AppSec's AppDetective business is a revenue generator and gives the company credibility. But the AppDetective tool ultimately is a different audience and sale from DbProtect, with questionable upsell benefits between the two. The company must divide resources and capital to support both products – a challenge as the company looks to build on a profitable 2009.</p>
Opportunities	Threats
<p>IBM's acquisition of Guardium may well serve to freeze that product out for much of 2010 while the company works on roadmap and integration. What comes out of that process is another open question. This takes one major competitor off of Application Security's radar, at least in the short term.</p>	<p>AppSec's future clearly lies in the GRC space, where vendors such as IBM (now with Guardium), ArcSight and EMC/RSA (which acquired Archer) play. Despite a strong 2009, the company still faces long sales cycles, and will need to build up its professional services function quickly to streamline deployments and maximize revenue.</p>

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