SOURCEFIRE INC
Form S-1
October 25, 2006

As filed with the Securities and Exchange Commission on October 25, 2006

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

SOURCEFIRE, INC.
(Exact name of registrant as specified in its charter)

Delaware	**7375**	**52-2289365**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification No.)*

9770 Patuxent Woods Drive
Columbia, Maryland 21046
(410) 290-1616

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

E. Wayne Jackson, III
Chief Executive Officer
Sourcefire, Inc.
9770 Patuxent Woods Drive
Columbia, Maryland 21046
(410) 290-1616

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o __

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o __

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o __

CALCULATION OF REGISTRATION FEE

Title of each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price[a][b]	Amount of Registration Fee
Common stock, $0.001 par value	$75,000,000	$8,025.00

(a) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) promulgated under the Securities Act of 1933.

(b) Including shares of common stock which may be purchased by the underwriters to cover over-allotments, if any.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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> The information contained in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
Issued October 25, 2006

Shares

COMMON STOCK

Sourcefire, Inc. is offering   shares of its common stock and the selling stockholders are offering   shares. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market exists for our shares. We anticipate that the initial public offering price will be between $ and $ per share.

We have applied to list our common stock for quotation on the Nasdaq Global Market under the symbol   FIRE.

Investing in our common stock involves risks. See   Risk Factors   beginning on page 9.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Sourcefire	Proceeds to Selling Stockholders
Per share	$	$	$	$
Total	$	$	$	$

We and the selling stockholders have granted the underwriters the right to purchase up to an additional   shares of common stock to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Morgan Stanley & Co. Incorporated expects to deliver the shares of common stock to purchasers on   , 2007.

MORGAN STANLEY   *LEHMAN BROTHERS*

UBS INVESTMENT BANK   *JEFFERIES & COMPANY*

              , 2007

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of common stock.

Until and including   , 2007, 25 days after the commencement of this offering, all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States. Neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. You are required to inform yourselves about, and to observe any restrictions relating to, this offering and the distribution of this prospectus.

We operate in an industry in which it is difficult to obtain precise industry and market information. Although we have obtained some industry data from outside sources that we believe to be reliable, in certain cases we have based certain statements contained in this prospectus regarding our industry and our position in the industry on our estimates concerning, among other things, our customers and competitors. These estimates are based on our experience in the industry, conversations with our principal suppliers and customers and our own investigations of market conditions. Unless otherwise noted, the statistical data contained in this prospectus regarding the network security software industry are based on data we obtained from Datamonitor, a business information company specializing in industry analysis, or International Data Corporation, or IDC, a provider of market intelligence for the information technology, telecommunications and consumer technology markets.

SOURCEFIRE®, SNORT®, the Sourcefire logo, the Snort and Pig logo, SECURITY FOR THE REAL WORLD™, SOURCEFIRE DEFENSE CENTER™, SOURCEFIRE 3D™, RNA™ and certain other trademarks and logos are trademarks or registered trademarks of Sourcefire, Inc. in the United States and other countries. This prospectus also refers to the products or services of other companies by the trademarks and trade names used and owned by those companies.

PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. You should read the following summary together with all of the more detailed information regarding us and our common stock being sold in the offering, including our financial statements and the related notes, appearing elsewhere in this prospectus. Unless we state otherwise,   Sourcefire, the Company,   we,   us, and   our   refer to Sourcefire, Inc., a Delaware corporation, and its subsidiaries, as a whole.

SOURCEFIRE, INC.

Overview

We are a leading provider of intelligence driven, open source network security solutions that enable our customers to protect their computer networks in an effective, efficient and highly automated manner. We sell our security solutions to a diverse customer base that includes more than 25 of the Fortune 100 companies and over half of the 30 largest U.S. government agencies. We also manage one of the security industry s leading open source initiatives, Snort.

Our family of network security products forms a comprehensive Discover, Determine and Defend, or 3D, approach to network security. Using this approach, our technology can automatically:

Discover potential threats and points of vulnerability;

Determine the potential impact of those observations to the network; and

Defend the network through proactive enforcement of security policy.

Our Sourcefire 3D approach is comprised of three key components:

RNA. At the heart of the Sourcefire 3D security solution is Real-time Network Awareness, or RNA, our network intelligence product that provides persistent visibility into the composition, behavior, topology (the relationship of network components) and risk profile of the network. This information provides a platform for the Defense Center s automated decision-making and network policy compliance enforcement. The ability to continuously discover characteristics and vulnerabilities of network assets, or endpoint intelligence, enables our Intrusion Prevention products to more precisely identify and block threatening traffic and to more efficiently classify threatening and/or suspicious behavior than products lacking network intelligence.

Intrusion Sensors. The Intrusion Sensors utilize open source Snort® and our proprietary technology to monitor network traffic. These sensors compare observed traffic to a set of   Rules , or a set of anomolous network traffic characteristics, which can be indicative of malicious activity. Once the Intrusion Sensors match a Rule to the observed traffic, they block malicious traffic and/or send an alert to the Defense Center for further analysis, prioritization and possible action.

Defense Center. The Defense Center aggregates, correlates and prioritizes network security events from RNA Sensors and Intrusion Sensors to synthesize multipoint event correlation and policy compliance analysis. The Defense Center s policy and response subsystems are designed to leverage existing IT infrastructure such as firewalls, routers, trouble ticketing and patch management systems for virtually any task, including alerting, blocking and initiating

corrective measures.

The traffic inspection engine used in our intrusion prevention products is the open source technology called Snort. Martin Roesch, our founder and Chief Technology Officer, created Snort in 1998. Our employees, including Mr. Roesch, have authored all major components of Snort, and we maintain control over the Snort project, including the principal Snort community forum, Snort.org. Snort, which has become a de facto industry standard, has been downloaded over 3 million times. We believe that a majority of the Fortune 100 companies and all of the 30 largest U.S. government agencies use Snort technology to monitor network traffic and that Snort is the most widely deployed intrusion prevention technology worldwide. The ubiquitous nature of the Snort user community

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represents a significant opportunity to sell our proprietary products to customers that require a complete enterprise solution.

For the year ended December 31, 2005, we generated approximately 83% of our revenue from customers in North America and 17% from international customers. We increased our revenue from $16.7 million in 2004 to $32.9 million in 2005, representing a growth rate of 97%. For the nine months ended September 30, 2006, our revenue was $28.9 million, compared to $21.2 million for the nine months ended September 30, 2005, representing a growth rate of 36%.

Our Industry

According to International Data Corporation, or IDC, the network security industry is estimated to be a $18.4 billion market in 2006 and is projected to grow to $26.9 billion in 2009, representing a compound annual growth rate of over 13%. Our addressable markets include intrusion prevention, vulnerability management and unified threat management, which are collectively projected to total $2.9 billion in 2006 and are expected to grow at a compound annual growth rate in excess of 21% to $5.2 billion in 2009, according to IDC. We expect that this growth should continue as organizations seek solutions to various growing and evolving security challenges, including:

Greater Sophistication, Severity and Frequency of Network Attacks. The growing use of the Internet as a business tool has required organizations to increase the number of access points to their networks, which has made vast amounts of critical information more vulnerable to attack. Theft of sensitive information for financial gain motivates network attackers, who derive profit through identity theft, credit card fraud, money laundering, extortion, intellectual property theft and other illegal means. These profit-motivated attackers, in contrast to the hobbyist hackers of the past, are employing much more sophisticated tools and techniques to generate profits for themselves and their well-organized and well-financed sponsors.

Increasing Risks from Unknown Vulnerabilities. Unknown vulnerabilities in computer software that are discovered by network attackers before they are discovered by security and software vendors represent a tremendous risk. These uncorrected flaws can leave networks largely defenseless and open to exploitation. According to Computer Emergency Response Team Coordination Center, or CERT-CC, the trends in the rate of vulnerability disclosure are particularly alarming, with approximately 3,780 disclosed in 2004 and more than 5,990 disclosed in 2005, representing a growth rate of approximately 58%.

Potential Degradation of Network Performance. Many security products degrade network performance and are, therefore, disfavored by network administrators who generally prioritize network performance over incremental gains in network security. For example, the use of active scanners that probe networks for vulnerabilities often meets heavy resistance from administrators concerned about excessive network   noise,   clogged firewall logs and disruption of network assets that are critical to business operations.

Diverse Demands on Security Administrators. The proliferation of targeted security solutions such as firewalls, intrusion prevention systems, URL filters, spam filters and anti-spyware solutions, while critical to enhancing network security, create significant administrative burdens on personnel who must manage numerous disparate technologies that are seldom integrated and often difficult to use. Most network security products require manual, labor intensive incident response and investigation by security administrators, especially when   false positive   results are generated.

Heightened Government Regulation. Rapidly growing government regulation is forcing compliance with increased requirements for network security, which has escalated demand for security solutions that meet both compliance requirements and reduce the burdens of compliance, reporting and enforcement. Examples of these laws include The Health Insurance Portability and Accountability Act of 1996, or HIPAA, The Financial Services Modernization Act of

1999, commonly known as the Gramm-Leach-Bliley Act, The Sarbanes-Oxley Act of 2002 and The Federal Information Security Management Act.

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Our Competitive Strengths

We believe that our leading market position results from several key competitive strengths, including:

Real-Time Approach to Network Security. Our solution is designed to support a continuum of network security functions that span pre-attack hardening of assets, high fidelity attack identification and disruption and real-time compromise detection and incident response. In addition, our ability to confidently classify and prioritize threats in network traffic and determine the composition, behavior and relationships of network endpoints allows us to reliably automate what are otherwise manual, time-intensive processes.

Comprehensive Network Intelligence. Our innovative network security solution incorporates RNA, which provides persistent visibility into the composition, behavior, topology and risk profile of the network and serves as a platform for automated decision-making and network security policy enforcement. RNA performs passive, or non-disruptive, network discovery. This enables real-time compositional cataloging of network assets, including their configuration, thereby significantly increasing the network intelligence available to IT and security administrators. By integrating this contextual understanding of the network s components and situational awareness of network events, our solution is effective across a broad range of security domains, especially in the area of threat identification and impact assessment.

The Snort Community. The Snort user community, with over 100,000 registered users and over 3 million downloads to date, has enabled us to establish a market footprint unlike any other in the industry. We believe the Snort open source community provides us with significant benefits, including a broad threat awareness network, significant research and development leverage, and a large pool of security experts that are skilled in the use of our technology. We believe that Snort s broad acceptance makes us one of the most trusted sources of intrusion prevention and related security solutions.

Leading-Edge Performance. Our solutions have the ability to process multiple gigabits of traffic with latency as low as 100 microseconds. Our intrusion prevention technology incorporates advanced traffic processing functionality, including packet acquisition, protocol normalization and target-based traffic inspection, which yields increased inspection precision and efficiency and enables more granular inspection of network traffic. The Defense Center supports event loads as high as 1,300 events per second, which we believe meets or exceeds the requirements of the most demanding enterprise customers.

Significant Security Expertise. We have a highly knowledgeable management team with extensive network security industry experience gained from past service in leading enterprises and government organizations including Symantec, McAfee, the Department of Defense and the National Security Agency. Our founder and CTO, Martin Roesch, invented Snort and our core RNA technology and is widely regarded as a network security visionary. Our senior management team averages 16 years of experience in the networking and security industries. In addition, our Vulnerability Research Team, or VRT, is comprised of highly experienced security experts who research new vulnerabilities and create innovative methods for preventing attempts to exploit them.

Broad Industry Recognition. We have received numerous industry awards and certifications, including recognition by Gartner, Inc. as a leader in the network intrusion prevention systems market. RNA is one of only five network security products to receive the NSS Gold award, which is awarded by The NSS Group only to those products that are distinguished in terms of advanced or unique features, and which offer outstanding value. In addition, our technology has achieved Common Criteria Evaluation Assurance Level 2, or EAL2, which is an international evaluation standard for information technology security products sanctioned by, among others, the International Standards Organization, the National Security Agency and the National Institute for Standards and Technology.

Our Growth Strategy

We intend to become the preeminent provider of network security solutions on a global basis. The key elements of our growth strategy include:

Continue to Develop Innovative Network Security Technology. We will continue to invest significantly in internal development and product enhancements and to hire additional network security experts to broaden our

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proprietary knowledge base. We believe our platform is capable of expanding into new markets such as unified threat management, security management and compliance and network management.

Grow our Customer Base. With over 3 million downloads of Snort and over 100,000 registered users, we believe Snort is the most ubiquitous network intrusion detection and prevention technology. We seek to monetize the Snort installed base by targeting enterprises that implement Snort but have not yet purchased any of the components of our Sourcefire 3D security solution. We will continue to target large enterprises and government agencies that require advanced security technology and high levels of network availability and performance in sectors including finance, technology, healthcare, manufacturing and defense.

Further Penetrate our Existing Customer Base. As of September 30, 2006, over 1,200 customers have purchased our Intrusion Sensors and Defense Center products. We intend to sell additional Intrusion Sensors to existing customers and expand our footprint in the networks of our customers to include branch offices, remote locations and data centers. In addition, we believe we have a significant opportunity to up-sell our higher margin RNA product to existing customers because of the significant incremental benefit that increased network intelligence can bring to their security systems.

Expand our OEM Alliances and Distribution Relationships. As part of our ongoing effort to expand our OEM alliances, we recently entered into a relationship with Nokia whereby Nokia Enterprise Solutions will market to its enterprise customers network security solutions that utilize our proprietary software and technology. In addition, we seek to expand our strategic reseller agreements and increasingly use this channel to generate additional inbound customer prospects. We also intend to utilize our relationships with managed security service providers such as Verizon, VeriSign and Symantec, to derive incremental revenue. In 2005, we generated approximately 16% of our revenue from governmental organizations and, in the future, we believe we will generate an increasing amount of revenue from government suppliers such as Lockheed Martin, Northrop Grumman and Immix Technology.

Strengthen Our International Presence. We believe the network security needs of many enterprises located outside of the United States are not being adequately served and represent a significant potential market opportunity. In 2005, we generated only approximately 17% of our revenue from international customers. We are expanding our sales in international markets by adding distribution relationships and expanding our direct sales force, with plans in the next year to double the number of personnel in Europe and to hire a country manager for Japan.

Selectively Pursue Acquisitions of Complementary Businesses and Technologies. To accelerate our expected growth, enhance the capabilities of our existing products and broaden our product and service offerings, we intend to selectively pursue acquisitions of businesses, technologies and products that could complement our existing operations.

Certain Risk Factors

Investing in our common stock involves substantial risk. You should carefully consider all the information in this prospectus prior to investing in our common stock. These risks and uncertainties include, but are not limited to, the following:

As we have had operating losses since our inception and we expect operating expenses to increase in the foreseeable future, we may never reach or maintain profitability.

We face intense competition in our market, especially from larger, better-known companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

New competitors could emerge or our customers or distributors could internally develop alternatives to our products and either development could impair our sales.

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Our quarterly operating results are likely to vary significantly and be unpredictable, in part because of the purchasing and budget practices of our customers, which could cause the trading price of our stock to decline.

The market for network security products is rapidly evolving and the complex technology incorporated in our products makes them difficult to develop. If we do not accurately predict, prepare for and respond to technological and market developments and changing customer needs, our competitive position and prospects will be harmed.

Claims that our products infringe the proprietary rights of others could harm our business and cause us to incur significant costs.

Our Corporate Information

We were incorporated as a Delaware corporation in December 2001. Our principal executive office is located at 9770 Patuxent Woods Drive, Columbia, Maryland 21046. Our telephone number at that location is (410) 290-1616. Our website address is *www.sourcefire.com.* We also operate *www.snort.org.* These are textual references only. We do not incorporate the information on, or accessible through, any of our websites into this prospectus, and you should not consider any information on, or that can be accessed through, our websites as part of this prospectus.

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THE OFFERING

Common stock offered by Sourcefire	shares
Common stock offered by the selling stockholders	shares
Total	shares
Over-allotment option to be offered by Sourcefire	shares
Over-allotment option to be offered by the selling stockholders	shares
Total over-allotment option	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We intend to use the net proceeds from this offering for working capital and other general corporate purposes. We may also use a portion of the net proceeds to repay our equipment facility or acquire other businesses, products or technologies. However, we do not have agreements or commitments for any specific repayments or acquisitions at this time. We will not receive any proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds.
Proposed Nasdaq Global Market symbol	FIRE

The number of shares to be outstanding after this offering is based on 28,887,369 shares outstanding as of September 30, 2006, and excludes:

4,457,866 shares that may be issued upon the exercise of options outstanding as of September 30, 2006 under our stock option plan;

59,998 shares that may be issued upon the exercise of warrants outstanding as of September 30, 2006;

1,044,194 shares that are reserved for issuance pursuant to our stock option plan; and

45,000 shares which are subject to repurchase by us.

Unless we specifically state otherwise, all information in this prospectus assumes:

an initial public offering price of $;

the conversion of all outstanding shares of our preferred stock into shares of our common stock immediately prior to the completion of this offering; and

the underwriters   over-allotment option to purchase up to an additional   shares of common stock is not exercised.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The table below summarizes our consolidated financial information for the periods indicated. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Sourcefire considers necessary for a fair presentation of its financial position and the results of operations for these periods. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006 or for any other future period. You should read the following information together with the more detailed information contained in   Selected Consolidated Financial Data,   Management s Discussion and Analysis of Financial Condition and Results of Operations   and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
				(unaudited)	
	(in thousands, except share, per share and other operating data)				
Consolidated statement of operations data:					
Revenue:					
Products	$ 8,153	$ 12,738	$ 23,589	$ 14,889	$ 18,390
Services	1,328	3,955	9,290	6,335	10,544
Total revenue	9,481	16,693	32,879	21,224	28,934
Cost of revenue:					
Products	2,570	4,533	6,610	4,229	4,931
Services	436	872	1,453	981	2,016
Total cost of revenue	3,006	5,405	8,063	5,210	6,947
Gross profit	6,475	11,288	24,816	16,014	21,987
Operating expenses:					
Research and development	3,751	5,706	6,831	4,934	6,334
Sales and marketing	9,002	12,585	17,135	12,131	14,512
General and administrative	2,141	2,905	5,120	3,123	3,587
Depreciation and amortization	441	752	1,103	846	912
Total operating expenses	15,335	21,948	30,189	21,034	25,345
Income (loss) from operations	(8,860)	(10,660)	(5,373)	(5,020)	(3,358)
Other income (expense), net	16	164	(85)	(50)	442
Net loss	(8,844)	(10,496)	(5,458)	(5,070)	(2,916)
Accretion of preferred stock					