

Raising Capital: Smart Plumbing

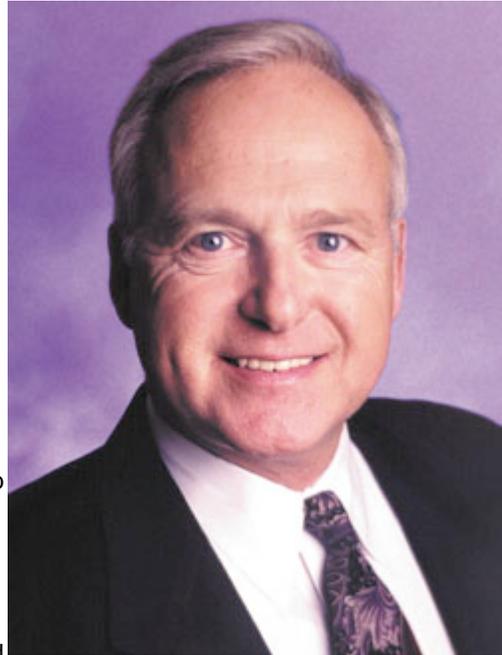
A Redwood City company is using its technology to provide much-needed IT relief for corporate networking, and it has been getting some capital in the process.

By Becky Bergman

The first option meant paying Qwest \$15,000 annually for a T-1 line, \$70,000 to hire a mid-level network engineer, and another \$40,000 for a low-level tech to manage the network. The spending didn't end there. Native American also would have to shell out \$120,000 for a senior network manager to run its own virtual private network and another \$10,000 to connect to the Internet.

The quarter-million-dollar annual price tag was too steep for the Colorado-based company. Instead, Native American's CTO opted to outsource the job to SmartPipes. For \$13,000-plus a year, Native American supplied the network, and would only have to hire a low-level techie to operate it.

That's the kind of testimonial SmartPipes is hoping to hear more of as it continues to rake in the investments. Formed in October 1999, SmartPipes sells software to telecommunications carriers, allowing them to offer a variety of network management services such as remote access and managed security solutions. The Redwood City-based company counts WorldCom, XO Communications, and Fiberlink as customers. By helping companies run their own virtual networks with less effort and cost, SmartPipes' software is offering IT relief for its clients who otherwise would have to encrypt data, manage firewalls, and establish access codes - all by hand.



CEO Hank Nothhaft, who was recruited for his 35 years of industry experience, has been wooing investors since he joined SmartPipes in April 2001. SmartPipes recently fetched \$51 million from investors such as Microsoft, Intel Capital, and Juniper Networks. And Kleiner Perkins Caulfield & Byers led the latest round, the fourth for the private company.

So far, SmartPipes has raised \$116 million since Raymond Bell and Internet heavyweight Jim Clark launched the company two years ago. Nothhaft says he believes the company will reach positive cash flow during the first half of 2003.

"I was brought in here to help reorganize and raise money the company needed," Nothhaft says. "Startups are very hard to build, and this was no different. But there is a market for this technology and it's growing phenomenally month to month."

Nothhaft has plenty of know-how when it comes to building companies rapidly and successfully. Formerly the chairman, president, and CEO for Concentric Network Corp. - which also was backed by Kleiner Perkins - Nothhaft was responsible for raising \$380 million in equity financing, creating \$2 billion in shareholder value, and cementing financial relationships with Microsoft, Telecom Italia, and Nortel. Kleiner Perkins hopes Nothhaft can work the same magic at SmartPipes that he had at Concentric, which he led through an IPO and finally a merger with Nextlink.

"I believe the growth rate at SmartPipes will be better than it was at Concentric," he says.

Before Concentric, Nothhaft held various positions with DSC Communications Corp., a startup that grew to \$650 million in sales and was sold to Alcatel for \$4 billion.

Although he wouldn't disclose revenue figures for SmartPipes, Nothhaft says the company, which employs 175, "is doing well" thanks in large measure to what it offers.

SmartPipes' software allows a company to create a virtual network so it can organize its Internet addresses and employee access rights into a manageable, tree-like directory. For instance, a company exec could log on and add new offices, users, and applications with just a few clicks, saving a high-priced engineer from having to type in 100 lines of commands for every personnel change.

Virtual networks once were touted as cheap, flexible, and easy to set up in comparison to dedicated high-speed links that connect companies and their operations.

However, sales for virtual networks have lagged, accounting for only \$900 million last year, while U.S. corporations spent an estimated \$20 billion on frame relays and leased lines.

In 1998, analysts predicted the market could soar to \$4 billion by the end of 2000. Now, the nearly \$1 billion market is expected to reach \$10 billion by the middle of the decade.

In reality, execs don't care how business is transmitted. They just want their information to get to its destination in a timely manner and at an affordable price, says Nothhaft.

"This has been a promising market for years," he says.

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