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## Network, telecom funding drops off

By [Cara Garretson](#)

*Network World*, 02/09/04

■ **BREAKING NEWS**

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With 2003 marking the lowest venture-capital investment levels for the network and telecom sectors in recent years, these categories could certainly benefit from an increase in corporate IT spending.

While large public companies such as [Cisco](#) and [Lucent](#) say they are starting to feel the positive effects of rebounding IT budgets, smaller private companies in networking and telecom haven't yet experienced a significant uptick in sales. In addition, investors are still somewhat leery of these sectors after having poured billions of dollars into network and telecom start-ups in 1999 and 2000 only to be burned by most of them.

Telecom companies received \$2 billion in 259 deals last year, making it the third-largest sector for investments, behind

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biotechnology and software, according to the most recent PricewaterhouseCoopers/Thomson Venture Economics/National Venture Capital Association MoneyTree Survey.

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The survey defines telecom companies as long-distance providers, local exchange carriers, wireless service providers, component makers, and satellite and microwave service and equipment providers. Network companies, defined as makers of switches, hubs, routers and network management products, followed in fourth place with 180 deals, totaling \$1.7 billion last year. While still significant, investments in these areas have fallen sharply from their historic highs of just a few years ago.

"I think we bottomed out" in 2003, says Tracy Lfteroff, global managing partner of PricewaterhouseCoopers' Venture Capital & Private Equity Practice, about the network and telecom sectors. "There's been a pickup in corporate IT spending, but it hasn't trickled down to the start-up level. [Large] networking companies haven't rebounded enough to make acquisitions, but we are starting to see movement."

In 2003, the majority of venture capital investments in these two categories went to improving existing portfolio companies that make VoIP, Wi-Fi and broadband products and services, Lfteroff adds.

While few predict, or even hope, that investments in telecom and network companies will reach the fevered pitch they saw in 2000, some say a rebound in investor interest is on the way as solid companies start to release innovative technology.

Networking and telecom "are probably the most attractive spaces right now," says Harry Weller, a partner at venture capital firm New Enterprise Associates, which has about 30% of its current fund invested in these types of companies. "There are low valuations and good opportunities that we haven't seen in a long time."

For the fourth quarter of 2003, network companies that make fiber-optic equipment continued to attract the attention of venture capitalists, including switch maker [Luminous Networks](#), which received a \$26 million injection. [CloudShield Technologies](#), which makes security devices for fiber-optic networks, and optical switch maker [Calient Networks](#) each received \$20 million in funding.

Telecom investments for the fourth quarter included [Grande Communications](#)' \$45 million and VoIP carrier [Vonage Holding Communications](#) ' \$35 million.

#### ■ EVENTS



**CLOUDSHIELD TECHNOLOGIES SECURES \$20 MILLION IN THIRD ROUND FUNDING; ADDS TWO NEW BOARD MEMBERS**

***Additional Capital and Leadership to Drive Business Expansion and New Products***

**SUNNYVALE, Calif. — March 30, 2004** — CloudShield Technologies, Inc., inventor of the open network services platform, today announced the completion of its third round of venture financing for \$20 million. The capital will be used to support the expansion of CloudShield's business and to develop the next generation of its award winning platform. CloudShield's partners are using the open network services platform to develop and deploy high performance network applications that previously could only be done with custom silicon fabrics.

Leading the round was first-time investor Foundation Capital. Paul Koontz of Foundation Capital will join CloudShield's Board of Directors. Paladin Capital Group was an additional first-time investor and Lee Buchanan from Paladin's Homeland Security Fund will join CloudShield's Board. Existing investors ComVentures and TPG Ventures also participated in the round.

"Some of the most advanced networking is being deployed within the Federal Government," said Lee Buchanan, member of Paladin's Homeland Security Fund Strategic Advisor Group. "CloudShield's platforms meet the demanding performance requirements of these projects and we at Paladin believe the platforms' flexibility and adaptability ensure they can be applied across a broad spectrum of additional government and commercial needs."

CloudShield's open network services platforms eliminate the reliance on fixed-function ASIC-based appliances for network application and services delivery. Using CloudShield's general purpose, open platform, network solution developers, systems integrators, and network operators can quickly port existing applications and develop new applications to secure, monitor, measure, and control network traffic and use.

"One seldom comes across products and technologies that have the power to change an industry," said Paul Koontz, Venture Partner at Foundation Capital. "We believe CloudShield's open network services systems will help create a new category of computing platforms – one focused on the network service and application industry. Foundation Capital is excited to be part of it."

"We are excited that Foundation Capital and Paladin Capital invested in this round in addition to the ongoing support of ComVentures and TPG Ventures. Paul Koontz and Lee Buchanan are experienced leaders who we are very glad to have on our board and who have already made terrific contributions in guiding our business," said Rusty Cumpston, CloudShield's President and Chief Executive Officer. "This financing enables us to expand our business and build the next generation of our network services platform enabling any software partner or system integrator to deliver high performance network applications that government, service provider and large enterprise customers require for their networks."

### **About CloudShield**

Founded in October 2000 and headquartered in Sunnyvale, California, CloudShield Technologies invented the world's first multi-gigabit open programmable network services platform. Solutions providers leverage the platform to reduce time-to-market for applications requiring complete traffic visibility and control that scale to line rates in today's high-speed network cores. End users benefit from CloudShield's platforms by reducing the proliferation of fixed-function application appliances while making their networks more profitable and more secure. CloudShield can be found on the Internet at [www.cloudshield.com](http://www.cloudshield.com).

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