

NetEffect Musters \$8M To Battle Broadcom

By VentureWire Staff Reporters

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Austin, Texas -- NetEffect Inc., a maker of 10-gigabit Ethernet channel adapters, has secured \$8 million to bump up its sales efforts, just as an established competitor, Broadcom Corp., released a similar product.

The Series C funding came from all of the company's existing investors - Austin Ventures, Infinity Capital, Granite Ventures, TI Venture Capital Program, the venture capital arm of Texas Instruments, TL Ventures, Duchossois Technology Partners and JatoTech Ventures. All investors participated in the company's Series A and B rounds, according to Rick Maule, the company's chief executive.

The round is still open and has a target of \$12 million, but could be more or less depending on who shows up to invest and how much they want to invest, Maule said. The company is hoping for a well-known strategic investor whose presence could help validate its products, he said.

NetEffect's Ethernet cards are based on the iWARP standard and used in large data centers or for clustering.

The funds that have been raised so far will be used to focus more of the company's efforts on sales following the general release of its second generation product earlier this quarter, Maule said.

It may be just in time. Less than two weeks ago, Broadcom, a major provider of 1-gigabit Ethernet channel adapters, announced that it is releasing its own 10-gigabit product for early testing, with wide scale release expected in the fourth quarter.

"The question for me is what will Broadcom have and when will they have it," said Clark Jernigan, a principal at Austin Ventures and member of the company's board. "The timing of their announcement [coming before a product is available] basically indicates that this market is starting to happen."

Broadcom said the company's focus is on "single chip solutions for mainstream adoption" rather than catering to the clustering and low-latency segment of the market like NetEffect. "I really don't see those guys as being in direct competition with us. They're more of ... a niche player," said Greg Young, vice president and general manager of Broadcom's high-speed controller business unit.

NetEffect's strategy for competing with the established Broadcom will be to line up partnerships with first and second tier original equipment manufacturers and to find some knowledgeable and highly-visible end users in the company's target verticals - financial services, oil and gas, and pharmaceuticals - that will use the product and go public with an endorsement, Maule said.

NetEffect also faces competition from Chelsio Communications Inc., whose backers include Sequoia Capital and New Enterprise Associates.

The company was previously called Banderacom, which raised \$44 million in two rounds in 2000 and 2001. In 2004 the company recapitalized, changed its name, moved from making InfiniBand to Ethernet-based products and raised a "true Series A" round worth \$22 million. The Series A was followed by a \$25 million Series B last year, Maule said.

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