

From the ashes of 9/11, Infoglide rebuilt How startups found a safety net in homeland security

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Sept. 11, 2001, put a dent in almost every U.S. business, accelerating an economic slowdown that already was hurting startups.

For Austin-based Infoglide Software Corp., it was a double-whammy: Its market, the insurance industry, was especially hard-hit.

If Infoglide was going to survive, it needed a new strategy -- fast. So it looked to homeland security.

"The first week of October 2001, I brought the team in and said, 'We can either close down and give our venture capital back to investors, or we can try to figure out how to build a business,' " CEO Mike Shultz said. "They wanted to keep going."

Infoglide had a big advantage over many technology companies struggling to regroup after the attacks: Its database-analysis software had national-security applications, and the federal government was readying to spend millions of dollars in that sector.

"We made a call and said, 'Hey, we have something that could help,' " Shultz said. "The government was so eager to find a solution we had an immediate response."

Today, Infoglide derives 75 percent of its revenue from government contracts. The privately held company expects to post \$9 million in revenue in 2004, up \$4.7 million in 2003, Shultz said. He predicts that the 50-person company will reach profitability next year.

Its software is used by the Department of Homeland Security to handle identity management and credentialing for the federal government. Operation Safe Commerce, a government program run by the U.S. Department of Transportation, is using Infoglide technology to design new security systems for container shipments.

Last year, the company won a \$6 million-plus contract from the Transportation Security Administration, which is developing a nationwide computer system aimed at screening airline passengers. It will check such things as credit reports and consumer transactions and compare passenger names with those on government watch lists.

Infoglide's software, called Bladeworks, searches multiple, remote and disparate databases for exact and near matches. It searches across hundreds of attributes in real time to find similarities between seemingly different identities to uncover identity fraud. It also detects aliases, identifies risk and automates decision making, features of its original product that adapted readily to homeland security.

Other companies also have found opportunities in homeland security, including Austin's ClearCube Technology Inc., which sells PCs that can be managed from a central point such as a corporate data center or a military trailer near a battlefield. In 2003, ClearCube got a cash infusion from Paladin Capital Group, which had raised a \$65 million fund specifically to invest in homeland security opportunities.

Homeland security offered a safe harbor until corporate spending resumed, but it's not a final destination.

"You don't want to have all your eggs in the federal basket," said Gene Lowenthal, an Infoglide board member and vice president of Houston-based investment firm Growth Capital Partners. "People survived the downturn through their homeland security strategies, but now the private sector is recovering, and it's time to go back there."

ClearCube is again focusing on private-sector customers, including Morgan Stanley, Lillian Vernon and Starwood Hotels & Resorts. The challenge for Infoglide is to do the same.

Dodging the bubble

That Infoglide has made it this far is remarkable. Founded in 1996, Infoglide first targeted the insurance industry to help detect fraud. But during the Internet boom, it shifted its focus to dot-com companies. Although it landed deals with customers including eBay, Infoglide nearly folded when the bubble burst and most of its business vaporized.

Shultz arrived in 2001 after the previous CEO resigned.

His job was to rebuild the company, which had spent \$21 million in venture capital and had \$7 million remaining. His team rebuilt software that originally ran on a PC-based system and sold for \$50,000 into a large-scale system for big corporations starting at \$1.5 million. Its searching capability improved from one to two transactions a minute to 300 transactions a second. The overhaul came just in time for 9/11.

Infoglide quickly bid for homeland security work, beating out dozens of far bigger rivals for contracts, including IBM Corp., Lockheed Martin and Fair Isaac Corp.

"What it came down to was, Infoglide had the better technology," said Christian Airth, a senior analyst at Allen Bonde Group, a Boston-based technology consulting firm. "The potential to grow this market is huge. They're talking to other foreign governments and getting a lot of interest."

Crossing the pond

Infoglide expects to announce its first government contract outside the United States this quarter, Shultz said.

Infoglide is opening an office in the United Kingdom to pursue the European financial services industry, which is undergoing regulatory changes and in need of new technology. The company is also looking again at the U.S. insurance industry and financial services, which are beginning to rebound.

"Shultz is my hero because he really did turn the company around in a big way against all odds," Lowenthal says.

"He got lucky in some respects, such as timing, but he made the most of the luck. He hired the right people and he figured out how to sell to the government."

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