

TECH MONDAY



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Section D

Long-distance and lattes fuel Austin-Israel startup

By Kirk Ladendorf

AMERICAN-STATESMAN STAFF

When Arie Brish is working from Austin, he often rises at 4 a.m. to call Israel, where the engineering operations of his company, Tehuti Networks Ltd., are located.

He can spend a few hours sorting through operational issues of the three-year-old semiconductor company before heading to the gym for a workout. Then it's on to a Starbucks to conduct the American side of the business, which involves more marketing, sales and money raising.

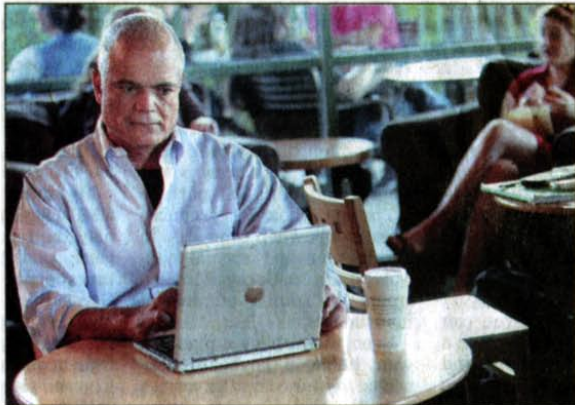
Tehuti, a startup in the fiercely competitive world of high-speed networking technology, is trying to raise \$8 million in a second round of

investment after raising \$5 million so far from a group led by Alice Ventures of Italy.

Brish, a plain-spoken 53-year-old chief executive, moves around the world trying to build the business. He travels from Austin to Silicon Valley, where some customers are located, and occasionally to Taiwan. For a week or two every month, he is in Herzlyah, Israel, a suburb of Tel Aviv, keeping tabs on the company's product development operations.

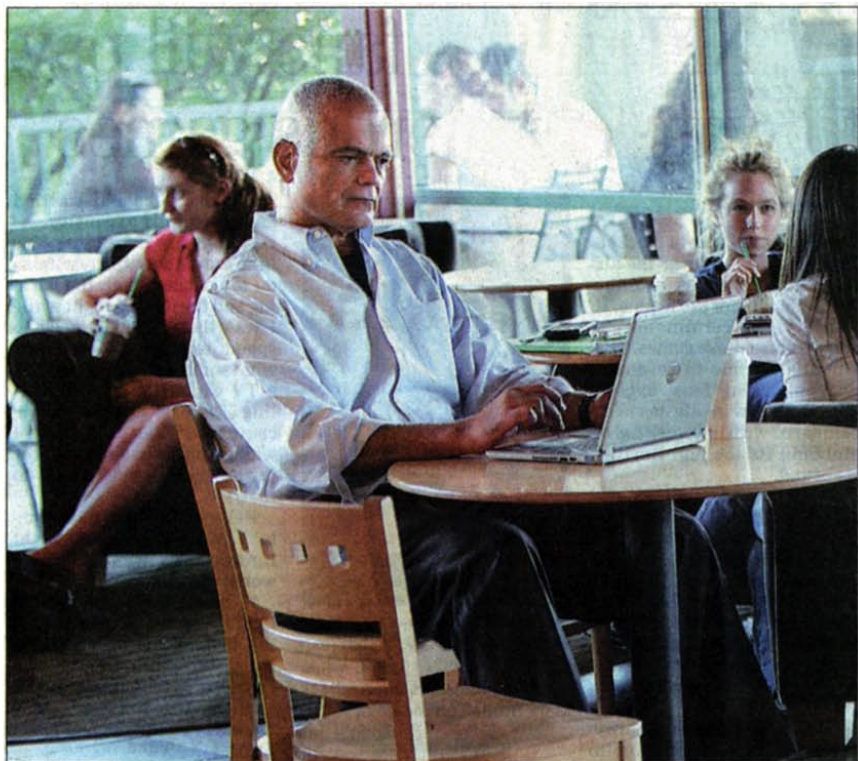
Brish's company touches on more than one country, and so does his career. A native of Israel, he joined Motorola Semiconductor in the early 1980s and helped start that company's

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Come into his office: Arie Brish, the CEO of chip startup Tehuti Networks, uses several local Starbucks, including this one in West Lake Hills, for his office. He travels most of the time, and all his engineers are in Israel anyway.

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Arie Brish says he expects his company to record its first meaningful sales next year.

CHIP: Startup seeks more funding

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engineering center in Israel. He went on to a lengthy career with Motorola's chip unit (now Freescale Semiconductor Inc.) in Austin, helping rapidly expand sales of some of its product lines.

These days, Brish is trying to build Austin's second chip startup that does most of its engineering work in Israel.

The role model is Wintegra Inc., a communications chip company founded by a group of former Motorola Semiconductor executives in 2000. Wintegra, which finished the first half of 2006 with sales of \$15.6 million and net income of \$2.8 million, almost went public in June but pulled its stock offering in the face of weak market conditions for technology stocks. Wintegra continues to expand its sales, launch products and watch for a new opportunity to go public.

Tehuti, with just 20 workers and one product on the market, lacks Wintegra's established credibility and profitability.

The company is one of about nine companies worldwide, most of them startups, that have staked claims in the emerging market for high-speed networking equipment that complies with the 10 Gigabit Ethernet. The market for 10GbE is new, and customers, who include server manufacturers, have just started to buy

their first chips.

By some optimistic forecasts, sales of 10GbE technology may top the \$1 billion mark by 2010. Many of the players in the market are targeting makers of high-performance servers that will need the new networking capability first.

Tehuti is targeting makers of mainstream servers that want a lower-cost product that uses less electrical power, which Brish says his company will deliver. Brish says the company expects to record its first meaningful sales next year.

In the meantime, the company is squeezing every dime, which is why Tehuti doesn't maintain an office in Austin, the company's official headquarters location.

Once Brish completes the second round of financing, the company will have the money to complete a more efficient version of its networking chip and to step up its sales effort. At some point, Tehuti expects to grow into real business offices in Texas, but for the time being, Starbucks will do.

"I am traveling 80 percent of the time," Brish says. "It would be a waste to keep an office that is empty 80 percent of the time. Starbucks allows you to pay (for an "office" location) as you use it."

By the end of each day, Brish estimates, he and the people he meets for business at Starbucks spend a combined \$20 to \$30 on

Internet connectivity and coffee.

"That is my rent," he says.

Analysts say it makes sense for Tehuti to establish a marketing beachhead in the United States.

"The Israeli companies tend to have technically brilliant engineers, but they don't listen very well to their customers, and they are slow to apply course corrections," said analyst Joe Skorupa with the Gartner Group, speaking generally.

American customers require more time, effort and support before they commit to a chip supplier, Skorupa said.

Brish says Tehuti realized early on that it would need a base of operations in the United States to build its marketing and sales operation. The company doesn't disclose its customers to the public, only to investors.

"You need to develop a relationship with customers," he says. "You don't make a sale by coming one time to see a customer."

"The fact that there are so many competitors is a little bit of an obstacle with investors," Brish says. "On the positive side, they are pretty impressed with the customer traction we've had. It tells investors we have a pretty good chance to survive and be one of the winners."

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