

TELECOM: Ex-Mahi chief invests in Dilithium

Wireless gateway maker could point to future of Telecom Valley

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PETALUMA – Former Mahi Networks chief executive and Telecom Valley leader Chris Rust has become the first U.S. investor in Dilithium Networks, saying the fast-growing wireless startup will become the model for global telecommunications equipment companies in the North Bay.

“From my view, Dilithium represents the template of what a successful Telecom Valley company must become,” said Mr. Rust, whose U.S. Venture Partners invested in the company. “It has a hybrid corporate structure that employs California innovation while embracing the best of class in offshore sales and support, and focused right from the beginning on a global market.”

U.S. Venture Partners is one of the first Silicon Valley investment firms to bank money on what Mr. Rust calls a “significant transition” from wireline services to cellular and VoIP technologies. Investors now believe that a carrier without a wireless strategy and an Internet strategy will become third tier, he said.

“A number of VC people looked at and were impressed by the team at Dilithium, but we were all concerned about sales challenges: the difficulty of finding and selling to carriers on a global basis,” Mr. Rust said. “Dilithium has clearly met this challenge.”

Meanwhile, investors in Australia, New Zealand and Singapore have put about \$33 million into Dilithium. A recent Series C round was joined by Infocomm Investments Private Limited, a subsidiary of the Infocomm Development Authority of Singapore. U.S. Venture Partners also subscribed.

Last week, 45 members of Dilithium Network’s worldwide sales force pulled in from around the globe for a training session at headquarters, demonstrating that although the United States lags the world in cellular networks, Northern California can still be a worldwide center of excellence for wireless technology.

With 125 carrier and OEM customers in 50 countries, four-year-old Dilithium has never relied on the U.S. wireless market to adapt its third generation gateway products, although it has relied on local talent to develop much of the technology.

Nor has the investor-backed company looked to the U.S. venture market to fund it, although that market is now coming to Dilithium.

New product leads its niche

Although Dilithium president and CEO Paul Zuber declines to state revenues, the Dilithium gateway products are used by some of the largest carriers in Asia, Australia and Europe. The company recently announced that the integrator for the largest of the Korean carriers – SK Telecom, one of the most advanced users of 3G networks in the world – will integrate the Dilithium's wireless gateway into its product portfolio.

"Fifty million 3G phones will be sold this year. Next year it'll double," he added. Dilithium commands almost 50% of the wireless protocol stack market, which is the key to delivering video telephony from cell phones.

"You don't see it in the U.S. yet, but the abundance of affordable handsets and interesting video applications has led to a worldwide deployment of mobile multimedia. In Korea, people watch soap operas on 3G phones," said Mr. Zuber. In South Africa, video mail has been launched and is hugely popular, and video camera phones have become standard offerings. Another application, video call centers, is expected to be adapted worldwide.

Leading the market in 3G handsets is Nokia, followed closely by Samsung and then Motorola. Dilithium has captured two of the three as customers for a relatively new product, AnswerFast Plus, which reduces call setup time from five to eight seconds to close to an instant. The product already commands about 60% of the 3G phone market.

Poaching from the competition

Dilithium competes with Ericsson, but Mr. Zuber said his products are more advanced. "Ericsson produces a large number of infrastructure products; we concentrate on our family of wireless multimedia gateways and related products," he said. "We are definitely taking some of their business."

Dilithium is also taking some of Ericsson's former personnel. Mitch Lewis, a 30-year telecom veteran from Pacific Bell/SBC and Ericsson who most recently oversaw all of Ericsson's Indonesian operations, came on as vice president of marketing. Gerard Delaney, who was most recently general manager of BT Wholesale in the United Kingdom and oversaw Ericsson's wireline sales in Europe, the Middle East and Africa, will be Dilithium vice president and general manager of business in those parts of the world.

Soon Dilithium will announce another coup: Ed Kazel, a Cisco founder and currently on the boards of Yahoo, Reuters and Red Hat, will join the Dilithium board.

"The Dilithium team understands how to do business overseas," said Mr. Rust. "That's critical to aggressively seeking out growth markets. I'm a great believer in the talent and resourcefulness in Telecom Valley, but it doesn't have a monopoly on talent. For the local industry to survive, companies need to reinvent themselves and adapt to the faster pace of the global telecom industry."

"Dilithium is proving that large carriers overseas are willing to buy from small companies if they bring innovation to the table. Unlike the U.S. Bells, these carriers see emerging technologies as an opportunity, not a threat."

The days of the \$100 million startup are over, said Mr. Rust. "The future of Telecom Valley resides in the Dilithium model: Headquartered here, at home in the world."

For more information, call 707-792-3900 or visit www.dilithiumnetworks.com.