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VC & STARTUPS

June 29, 2000

Covalent convalesces in Bay Area

By [Matthew A. DeBellis](#)*Redherring.com, December 21, 1999*

A small Lincoln, Nebraska, consulting group, specializing in a wildly popular and free computer program, is moving west with dreams of hitting the big time.

[Covalent Technologies](#) is taking its \$5 million first-round venture funding and setting up headquarters in San Francisco. It hopes to cultivate a services business for an open-source Web server application called Apache. The free software is being developed by a loose confederacy of programmers, in a similar fashion as Linux. [H&Q Venture Associates](#) led the funding round. The venture arms of graphic design software vendor [Adobe Systems](#) (Nasdaq: [ADBE](#)) and semiconductor maker [Texas Instruments](#) (NYSE: [TXN](#)), Adobe Ventures and Texas Instruments Ventures, also participated in the funding round.

Large organizations need a support organization to call when working with Apache, says Randy Terbush, Covalent's founder, president, CEO, and chief technical officer. Apache, which is compatible with dozens of server operating systems, delivers Web content when users enter Internet addresses into PCs using Internet browsers. Mr. Terbush says Covalent is the only company that provides support services totally focused on Apache, which it's been doing since October.

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Linux distributor [Red Hat](#) (Nasdaq: [RHAT](#)) and Linux system maker [VA Linux Systems](#) (Nasdaq: [LINUX](#)) also provide support for Apache. Mr. Terbush says he considers these companies potential partners and that he's already begun talks with them about possible alliances.

SERVICE TO PLEASE

The overwhelming majority of Covalent's revenue still comes from proprietary software add-ons for Apache. Mr. Terbush wants services to comprise 50 percent of the company's revenue within a year. So far, six service accounts make up approximately 5 percent of Covalent's revenue, including contracts with [Enterprise Rent-A-Car](#) and [Corio](#), an application service provider startup. Though Covalent offers Apache support to mom-and-pop businesses, financial success will come from 24-hour service provided to corporate accounts, each of which can generate up to \$60,000 a year.

Apache runs on 55 percent of Web servers, according to a November survey based on 8.8 million sites tested by [Netcraft](#), a British technology research firm. Available support services may increase that number because companies that have historically refused to use it would be reassured, says Mr. Terbush.

There's a "tremendous" need for support services for Apache, says Brian Behlendorf, president of the [Apache Software Foundation](#), a worldwide group dedicated to Apache software projects. The group often refers Apache users to independent consultants knowledgeable in the application. Mr. Behlendorf also is founder and CTO of [Collab.net](#), a startup that's developing an online exchange to match requests for open-source projects with qualified developers.

TIMES ARE A-CHANGIN'

Unix engineers worldwide formed the Apache Software Foundation in 1995. The program initially ran on just a few operating systems, including Linux, [Sun Microsystems](#)'s (Nasdaq:

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[SUNW](#)) Solaris and [Hewlett-Packard's](#) (NYSE: [HWP](#)) UX. Today, Apache runs on more than 50 operating systems, including [Microsoft's](#) (Nasdaq: [MSFT](#)) Windows NT, [Silicon Graphics's](#) (NYSE: [SGI](#)) Irix, and [IBM's](#) (NYSE: [IBM](#)) AIX, says Mr. Terbush.

Covalent was profitable when Mr. Terbush started the company in 1994 as an Internet service provider and Apache consulting firm. About a year and a half ago, the shop began selling proprietary security software patches for Apache, a business which took off. Now the company is changing its focus again.

Covalent's \$5 million in funding will go towards developing new Apache enhancements, including credit card authentication and virus scanning software. It plans to hire 60 open-source programmers for its San Francisco office. Additional staff will be hired in Lincoln. Mr. Terbush plans eventually to step down and make room for a CEO who can take the company to "the next level," he says.



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