

Telecom Shows Sparkles Of Life

Wireless, Security Firms Lead Rebound

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Five years ago, Cable & Wireless USA Inc. promised to link businesses through ribbons of fiber-optic cable connecting every major point on the globe. E.spire Communications Inc. vowed to build its own network from scratch to bypass the local phone giants. Corvis Corp. pledged its equipment would widen the Internet into a massive data superhighway.

All were launched in the Washington area in the 1990s. All are gone today. Now, a new generation of companies -- smaller, with more modest goals -- is surfacing to take their place.

Frederick's Qovia Inc. is helping business clients install and manage voice-over-Internet phone systems. Bluefire Security Technologies of Baltimore designs software to protect wireless devices from hackers. Software from Fairfax-based Nexus Innovative Systems Co. audits companies' telecommunications bills.

After four years of painful decline, the area's telecommunications business is starting to come back. The newer telecom companies are largely focused on such growth areas as wireless communications and security software. Many are small. And most get by without the dollars that used to flow from venture capital funds or from going public.

Washington will continue to be a major center for telecommunications, analysts and investors say. The area is rich in technologists, lawyers, venture capitalists, skilled workers and the federal regulators of the telecommunications industry.

But the telecommunications industry won't be the local economic driver it was during the 1990s, analysts say. Local employment in the industry hit 50,200 in March 2001, and venture investments in local telecommunications topped \$1 billion in 2000. At last report, 33,700 people were working in the local telecommunications sector as of September, according to the Bureau of Labor Statistics. The area's venture investment in telecommunications dropped to \$81.7 million last year, according to data from the MoneyTree survey conducted by PricewaterhouseCoopers/Venture Economics/National Venture Capital Association.

"I see promising players, but if you're looking for the next Google, I don't know that we know what that is yet for this area," said Charlie Thomas, former chief executive of Net2000 Communications and founder of investment firm Claris Capital. But, he added, some companies clearly will be driving the next generation of work because they have developed strong expertise in niches that will be important in the communications industry. Thomas singled out Reston's Nextel Communications Inc., and the District's

XM Satellite Radio Holdings Inc. -- the latter not a communications company, but one with expertise in the use of satellites.

It was satellite technology that launched Washington's telecommunications sector back in the 1960s, when Comsat Corp. and Intelsat Ltd. were created. Comsat was chartered in 1962 as the government's representative on Intelsat, an international satellite partnership. For decades Intelsat was the only U.S. satellite link to the rest of the world, and the effort spawned a rich pool of telecommunications experts in Washington, who went off to start or staff other companies.

In 1972, William G. McGowan relocated his company, MCI Inc., to 17th Street NW in Washington, realizing a key part of MCI's success would be lobbying Congress and regulators to open long-distance calling to competition. In 1984, a court-ordered breakup of AT&T Corp.'s phone monopoly took effect, allowing MCI and others to compete head-on.

The area continued to draw scrappy competitors in the 1990s. Nextel set up shop in Reston. Ciena Corp. started its business in Linthicum. But the region's true telecom boom came after the federal Telecommunications Act of 1996, which allowed new companies to compete against the regional Bell phone companies in the local phone market. The rich talent pool and proximity to the FCC attracted companies at the same time investors were willing to pour money into telecom and technology companies.

"A couple of years ago, Washington D.C. was the major location nationwide, and just about every one of the competitive players were here," said Tom Koutsky, a Washington-based lawyer who has worked in the industry since 1994.

In the spring of 2000, the stock market collapsed under the weight of massive overbuilding and overspending. When the market reversed course, Washington's telecom sector fared badly. One by one, familiar local names like Net2000, Teligent Inc., PSINet Inc. and Winstar LLC, and smaller companies such as CityNet Telecommunications Inc. and Velocita Corp. shut down.

The losers even included such former stalwarts as MCI and XO Communications Inc. Both weathered a trip through bankruptcy court to emerge diminished.

The bankruptcies, sales and restructurings have left Washington's telecommunications industry much smaller. And if the Federal Communications Commission maintains its more hands-off approach to oversight and regulation, it may reduce the incentive of telecom companies to be based in the Washington area, said Jeff Kagan, an independent industry analyst based in Atlanta.

The local telecom companies that survived and those that have recently rebounded are focused -- like companies nationwide -- on the areas expected to be big sectors of growth in the coming years, including wireless technologies and phone service over the Internet.

The Washington region boasts few industry-leading players in these fields but rather has numerous smaller companies trying to develop business in niches that big companies have ignored.

In the wireless field, Nextel is the biggest local player, with more than 15 million customers. It is the smallest of the five national wireless carriers, but it is popular because of its "push-to-talk" walkie-talkie service. The company, with a network that was cobbled together from walkie-talkie licenses bought from taxi-cab dispatch operators, continues to develop new technologies and grow.

In addition, Nextel and other telecommunications companies, like MCI, have become a breeding ground for a new generation of local entrepreneurs.

"I think you've got multiple telecommunications companies in addition to Nextel, all of whom have spun off or graduated people who are able to address the shortcomings that big companies aren't nimble enough to address," said Michael Riemer, a former Nextel executive who left two years ago to work at Trust Digital in Tysons Corner.

Trust Digital, which recently received \$3.1 million in funding from Core Capital Partners LP, a Washington investment company, makes software to protect wireless phones from hackers and viruses. Bluefire Security is developing similar technology in Baltimore. It recently received an undisclosed amount of funding from Motorola Inc., Nextel's biggest supplier of phones.

Columbia's Sourcefire Inc. sells customized software that detects potential intruders trying to break into private corporate databases. LCC International Inc. of McLean builds and maintains wireless networks. And TeleCommunication Systems Inc. of Annapolis provides instant messaging service for wireless telephones. Inphonic Inc., a Washington company, is an online reseller of wireless phones.

In addition, a small cluster of WiFi companies, which offer wireless Internet connections, has appeared in the Washington area. District-based DC Access, Baltimore-based Oneder LLC, and Germantown-based RapidDSL & Wireless all offer some flavor of the service, which is aimed at giving small business or residential customers access to a high-speed wireless Internet connection without going through a traditional cable or phone company. Others cater to a narrower audience. Reston-based LinkSpot Networks Inc. offers wireless connections in RV parks around the country. Most of those are small companies that have yet to generate a profit but they say their subscriber base is growing.

Another area expected to experience rapid growth is phone service over the Internet. That field is now dominated by Vonage Holdings Corp., a New Jersey company. Many of the big phone companies, including MCI, Verizon Communications Inc., and AT&T, are also moving into the Internet phone business, as are cable giants like Cox Communications Inc. and Comcast Corp.

But some local companies are also making an aggressive play for this business. McLean-based Primus Telecommunications Group Inc. offers Internet phone service. Qovia sells products that monitor Internet phone systems. And Vienna's SunRocket Inc., started by former MCI executives, was recently launched to offer consumers Internet phone service.

Many other companies have been carving out smaller niches. For instance, Nexus Innovative Systems, Rivermine Software and Vibrant Solutions Inc., all based in Fairfax, sell software to help businesses audit and manage their telecommunications bills.

Others, like Reston-based XO Communications and Talk America Holdings Inc., sell local and long-distance service in competition with the large phone companies. MCI, even in its diminished state, continues to be a major player.

One of the biggest drivers of the local telecommunications industry today is the surge in federal dollars to telecommunications firms for writing communications software and designing networks. This money has gone, not only to giant defense contractors like Northrop Grumman Corp. and Lockheed Martin Corp., but also to hundreds of smaller companies, like Apogen Technologies in McLean.

"Around the [Capital] Beltway there are at least 500 companies that are doing some work with the government, doing telecom," said Thomas, of Claris Capital. That has helped cushion the blow caused by the telecom bust.

As some companies, such as MCI, continue to struggle with massive losses, others like LCCI, have started to make a comeback.

"If you asked me what happened to telecommunications in the area, I'd say that it's regrouping," said John Siegel, a partner at Alexandria-based Columbia Capital. "You have a lot of extremely talented people in this market. That's why I think there's an opportunity here."