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Critical Path raises another \$18M

Monday January 10, 5:00 am ET

By David Shabelman

Like dozens of other shooting stars that briefly shined during the technology boom, **Critical Path Inc.** should have flamed out long ago.

Since going public in 1999, the San Francisco-based messaging software provider has racked up \$2.3 billion in losses. After once trading at over \$450 per share (on a split-adjusted basis), Critical Path's stock hovers in the death zone at roughly \$1.50 per share. It has never turned a profit.

And that's why investors keep pouring in money. Since November 2003 Critical Path has raised \$94.5 million in private financing.

In its latest round the company on Thursday, Jan. 7, announced a total of \$18 million in new funding from venture capital firms **General Atlantic Partners LLC** of Greenwich, Conn., and **Richmond Financial LLC** of San Francisco and Cheung Kong Holdings Ltd., an affiliate of Hong Kong conglomerate **Hutchison Whampoa Ltd.**

James Clark, chief financial officer with Critical Path, said investors are more optimistic about the company's prospects since it installed a new management team early last year. Clark joined the company in February 2004; CEO Mark Ferrer came on board a month later, replacing William McGlashan, who remains chairman.

"The company did what it said it was going to do in the third quarter," Clark said. "That helped build some credibility with the investors."

Critical Path develops e-mail messaging software for telecommunications companies and Internet service providers. Among its customers are **Deutsche Telekom AG**-owned T-Mobile International, French wireless operator **Orange France** and U.K.-based ISP **Virgin.net**.

For the first nine months of 2004, Critical Path reported a net loss of \$45.2 million on revenue of \$51.6 million. The company did better on an Ebitda basis, however, cutting its loss from \$7.9 million in the second quarter of 2004 to \$4.9 million in the third quarter, and its guidance for the subsequent period is between breakeven and a loss of \$3.5 million.

"We look at this market opportunity with the notion that there are 1.5 billion consumer handsets out there, and those handsets are not being used for data applications as simple as e-mail," Clark said. "That represents an exciting opportunity for the company,"

General Atlantic Partners declined to comment. In a statement the company said it was pleased

with Critical Path's recent progress. Officials at Cheung Kong Holdings and Richmond Financial could not be reached for comment.

Company watchers said the latest funding shows investors still have faith in Critical Path.

"General Atlantic Partners is doing this for two reasons," said **Andre Peschong**, a partner with boutique investment bank **Bridgewater Capital** in Newport Beach, Calif. "One, they believe in the company. Two, they're trying to save their prior investment. It looks like they either throw money in or they write off the whole investment."

General Atlantic Partners invested \$10 million in Critical Path in November 2003, while Cheung Kong Group converted \$33 million in debt into stock. In January 2004 the company received a \$15 million investment from **Apex Capital LLC** and **Passport Capital LLC**, and two months later received another \$18.5 million from **Apex Capital**, **Criterion Capital Management**, **Crossline Capital** and Heights Capital Management.

General Atlantic Partners now has a 40% stake in Critical Path and is its largest shareholder. Cheung Kong Holdings is the next largest, with a 21% stake.

Larry Berlin, research analyst with Chicago-based **First Analysis Securities Corp.**, said Critical Path has good technology but its prior financial problems have scared off potential customers. The company is also struggling to erase the memory of a Securities and Exchange Commission suit against five former executives for inflating the company's revenues.

"General Atlantic may think they're on the cusp of something — we just don't know," he said.

Berlin said Critical Path could have trouble selling the company to a competitor, such as **Novell Inc.** or **VeriSign Inc.**

"If they agreed to sell it at a cheap enough price, they could sell it," he said. "But there are a lot of [investors] with a lot of different interests."