

WhiteHat Security, reporting significant growth, doubles headcount

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Sector: Enterprise Software

Event summary

- WhiteHat has more than doubled its headcount since June 2006, when it closed a \$3.5m series C investment. Most of the additions have been in development and operations. It also claims significant year-over-year customer and deal-size growth.
- As its average deal size increases, WhiteHat is looking to expand to other geographical markets through building out its technology platform and training operators.
- It reports a major retail customer win. Normally, we don't report on such things, but this customer is known to us to be exacting, large scale and intolerant of anything but perfection. We view its deployment of WhiteHat as significant.

The 451 take

We've taken a wait-and-see attitude toward WhiteHat, not because of its approach – which we thought sound – but primarily because we've been waiting to see how operations scaled out. With its latest customer announcement (we've spoken with the customer), we can say that any remaining doubts we had about WhiteHat's ability to scale (its strategy is a technology platform and human decision making) have been erased. This customer has a complex environment with hundreds if not thousands of forward-facing applications, and it is deploying WhiteHat across the board as well as in subsidiary lines of business. This speaks volumes to us. For its part, WhiteHat reports significantly increased deal sizes and more deals.

Details

As enterprises of all sizes roll out public Internet-facing applications far faster than they expected, security testing has rapidly become a chief concern to several areas of business, including information security, risk, compliance and operations. **WhiteHat Security** seems well suited to compete here, especially with continued silence from **Qualys** in the area and the acquisition of the two main competitors in the tool world, **SPI Dynamics** by **HP** and **Watchfire** by **IBM**.

In June 2006, WhiteHat closed a \$3.5m series C funding round led by **Altos Ventures**. **Startup Capital Ventures** and existing investors **Garage Technology Ventures**, John C. Dean (who had invested as **Tuputele Ventures**), **Authosis Ventures** and **ZAP Ventures** participated. The round

brought WhiteHat's total funding to \$6.2m. Prior rounds included a September 2002 series A round worth \$300,000, a \$700,000 series B in July 2003 and a \$1.7m series B-1 in January 2005.

It had said it would mainly spend the series C money on R&D and development of marketing and sales channels. It has now grown from 17 employees to 40, mainly in development and operations. WhiteHat now claims more than 110 total customers and says 80 are ongoing subscribers. It says its largest deal is north of \$300,000. When we spoke in March 2006, it was targeting deals in the \$25,000-150,000 range. It now says that deals at the low end of that range are rare.

Competitive landscape

The biggest competitor is not one yet: Qualys, which dominates the network vulnerability testing-as-a-service market, has yet to roll out any comprehensive Web application-testing service. **NCircle** and **Outpost24** comprise the other two software-as-a-service vendors considered kosher by **Visa** for PCI, and neither has launched anything. Outpost24's CEO tells us that it will soon. **Cenzic**, the last of the larger free-standing testing software packages, also has a service offering. It's telling us that it is about to launch an innovative API-level integration with a virtualization vendor. That news is interesting because it shows Cenzic's operational chops are finely tuned and its creative juices are flowing. But we note that the API-level integration will be easy for any of the other vendors to duplicate.

We believe that HP's acquisition of SPI Dynamics was the better of the two major purchases this year by large vendors (the other was IBM's of Watchfire), but the future of those products as stand-alone is in question. We hope to speak with IBM and HP about this soon. Both companies have said that they will integrate the purchases into their development environments. Other Web application-testing software comes from **Protegrity**, **Acunetix**, **Forum Systems** and **Mayflower GmbH**. Static code analyzers from **Klocwork** and **Fortify Software** have begun limited dynamic testing, too.

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