POWER PLAY

The inside story of Stream Energy, **(maybe) the fastest-growing startup company in the history of American business**—and how its startling success in its sixth month nearly killed it.

THEY HAVE BROUGHT THEIR CHILDREN and their dreams, 2,000 people, give or take, to a ballroom of Houston's Westin Galleria hotel, on this Saturday afternoon in November. One man wearing overalls and a camouflage gimme cap stands out. Most here are dressed smartly, business casual. They have driven from Dallas and Abilene and Gun Barrel City, and there aren't enough chairs for them all. A man takes the stage to point out empty seats, over there. The hotel staff brings still more chairs. New rows sprout up, all the way to the back wall of the ballroom.

The people have come for Power Surge, a tent revival-style sales meeting for a Dallas-based power concern called Stream Energy. The people work for Ignite, the multilevel marketing arm of Stream. They recruit customers for Stream—and

By **TIM ROGERS** *Photography by* **JAMES BLAND**

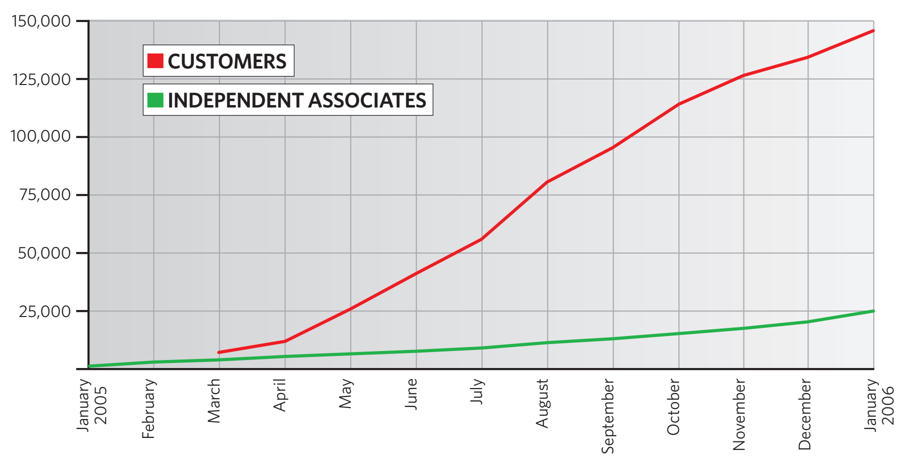
LIGHTNING IN A BOTTLE: Chairman Rob Snyder's inspiration was to do with energy what Mary Kay did with makeup: sell it through network marketing.

more salespeople for Ignite. Think Mary Kay, only replace the rouge and lipstick with kilowatt-hours. *Lots* of kilowatt-hours.

Stream began signing up customers in March 2005. In 10 months, according to the company's figures, it became the fifth-largest retail electricity provider in the state, with 135,000 customers and about $80 million in revenues. (These figures are impossible to verify independently, as the Public Utility Commission doesn't require companies to report customer numbers.) And that's still a small share of the overall market. TXU Energy, for instance, serves about 2 million residential customers. While racking up these sales in 2005, Stream incurred an operating loss of about $7 million.

But thanks to the explosive growth of Stream's sales force, the company expects to have 400,000 customers by the end of 2006 and to surpass $1 billion in annual sales in 2007. To put that in perspective, it took Wal-Mart 18 years to reach $1 billion in sales; eBay and Yahoo did it in seven; Google took six. Stream might do it in three.

FLAME ON



In March 2005, Stream started switching customers. By August, the company had signed up far more customers than it had forecasted—meaning Stream didn't have enough cash to buy the power its customers were consuming. Add to that two hurricanes and skyrocketing natural gas prices, which drove up the price of electricity. Stream was in danger of being swamped by its own success.

That means the people in the Westin ballroom are getting rich. A few of them are, anyway, the ones at the top, the ones who got in early and worked hard. But "early" is a relative term when you're talking about a company that hasn't yet seen its first anniversary. The veterans have been at it only a few months themselves. They paid $329 to become an Ignite independent associate, or IA. They earn a bounty for the IAs they recruit (and for the IAs *those* IAs recruit), plus residual income from the customers that they sign up and that all those IAs under them sign up. The veterans are here to get onstage and tell the newbies that they can get rich, too.

Lightning bolts shoot across two enormous video screens displaying the slogan "Get paid when you turn on the lights." The Black Eyed Peas' "Let's Get It Started" thunders over the sound system. The crowd sends up a cheer. Then a man named Presley Swagerty leaps onstage, and the room comes to its feet, save for three small children in back, all kneeling in front of their chairs, concentrating on coloring books.

Swagerty is a voluble former high school basketball coach who took his Garland Lakeview Centennial team to the playoffs three times during his four-year tenure. He is now Ignite's highest earner. Swagerty personally has only recruited 18 IAs, but those 18 have served him well, recruiting more IAs who recruited yet more IAs, until Swagerty wound up with more than 10,000 customers in his downline, each one contributing to his commission check. Swagerty is a celebrity in Ignite circles, posing for photographs with other IAs, sometimes while holding a door-size replica of one of those monthly commission checks. At Power Surge, he had one for $20,455.50.

Swagerty testifies to those in attendance that he grew up "dirt poor" in Pleasant Grove, and he thanks the Lord for the opportunity Ignite has given him. "It lets me dream again," he says in a drawl that makes it come out *agee-un*. He's able to send his daughter to Baylor and afford his mother's assisted-living facility. Presley says he's "standing in the gap" for his family, a Promise Keepers allusion that resonates with his audience. "I'm talking to myself, but I invite you to listen," he says. People chuckle. "The only thing that can stop you is this six inches right here," he says, pointing an index finger at each ear, pacing onstage as he talks. "I may be a nut. But I'll tell yew what," Swagerty says and thumps the podium. "I'm going to be a ree-ich nut." Wild applause.

It goes like this, one testimonial after the next. A former pharmaceutical saleswoman named Jennifer Moran tells the audience her upline is Jesus Christ. Bob Ledbetter, the legendary former Southlake Carroll football coach, says, "This is something so *legal* that it's scary to coaches." Susan Fisher, the principal of a midcities high school, says she has cut up eight credit cards and gotten herself out of debt. When she thanks the hardworking people in her downline, she begins to weep. She apologizes for letting her emotions get the best of her but says, "That's why they call it crying money."

The testimonials are punctuated by recognition "parades," wherein IAs at different levels of the organization queue up and file across the stage, high-fiving members of the management team. For many in the

Stream expects to surpass $1 billion in annual sales in 2007. To put that in perspective, it took Wal-Mart 18 years to reach $1 billion in sales; eBay and Yahoo did it in seven; Google took six. Stream might do it in three.

HORSEPOWER: Stream's operating team, on some of Snyder's bikes (left to right): Lisa Holliday (finance), Rob Snyder (chairman), Pierre Koshakji (administration), Chris Domhoff (marketing), Alex Rodriguez (operations).

room, this is the high point of Power Surge, their chance to dash across stage, into the lights, and hear the applause. The three children in back put aside their coloring books and stand on their chairs to wave at Daddy.

Finally, when everyone has finished testifying and high-fiving and—oh, yes—studying some fairly arcane stuff about Texas' deregulated electricity market, Chris Domhoff, co-founder and managing director of marketing for Stream and the operating head of Ignite, brings the proceedings to a close. "But first I want to thank someone," Domhoff says, shielding his eyes from the spotlight. "You see that guy standing back there by the door?"

Heads turn. Eyes settle on a man with a mane of blond hair, sunglasses perched on his head. He seems ill at ease in the suit he's wearing.

"None of this would have been possible if it weren't for him," Domhoff says. "Ladies and gentlemen, Rob Snyder, the founder and chairman of Stream!"

Not Swagerty-level applause, but a warm ovation nonetheless. Snyder bashfully looks at the carpet and raises his hand in appreciation.

As people file out, they stop to introduce themselves to Snyder. One woman hugs him. A man shakes his hand and says, "I'm Paul Smith from Abilene. I just wanted to say thanks for having the balls."

Indeed. Because what Paul Smith from Abilene doesn't know is this: only months ago, Stream Energy, the victim of its own phenomenal growth, almost folded.

I HAVE KNOWN ROB SNYDER FOR A NUMBER OF YEARS, OUR INTRODUCTION coming as the result of a shared alma mater, the University of Notre Dame—though I hasten to add that Snyder is 44 and preceded me by almost a decade. We are friends but not particularly close. I have eaten dinner at his Preston Hollow house exactly once. I remember he let his children play a full-on soccer match in the living room.

Snyder grew up in Dallas and played center forward for Jesuit. He was a three-year letterman, never played in a losing match, and took statewide honors (his older brother Rick also played with Snyder at Jesuit). Soccer brought him to Notre Dame, though he attended on an academic scholarship. He did fine with his class work, but his extracurricular studies got him in trouble his sophomore year when he was caught—for the second time—sneaking out of his girlfriend's dorm room window after hours. (Breaking parietals, to this day, is a serious offense at Notre Dame.) The administration essentially shipped Snyder off to the university's London program, where he continued to work out with an English club.

"It was fantastic," he says. "I played ball, trolled around Europe, chased girls, and drank to great excess. The Notre Dame soccer team policy on alcohol in those days was the precursor of the U.S. Army's 'don't ask, don't tell' stance. My only failing in this regard is that my behavior was so blatant that it eroded the logic of the policy."

He graduated with a degree in international relations and went on to UT Austin to get degrees in law and business. He coached the Longhorn men's team and played for the quaintly named Sockadillos, a semi-pro indoor team.

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After UT, Snyder took a job with a Manhattan firm, doing transactional law. He worked for some pretty high-flying clients, including music mogul David Geffen, Virgin's Richard Branson, and billionaire investor Kirk Kerkorian. From what I can gather, during his time in New York, he continued to test the outer limits of the "don't ask, don't tell" policy.

By the time I met him, all that had changed. His father, Dick Snyder, had asked him to return to Dallas in 1992 to oversee the sale of the family business, SnyderGeneral Corporation, a multinational air-quality-control products manufacturer. His first marriage had unraveled, in large part due to his drinking, and he'd joined Alcoholics Anonymous. He'd remarried, settling down with a former Turkish television personality named Ty Kilinc, and he'd recently shattered his ankle while playing in an off-season pickup game with some of the Dallas Sidekicks. He and his father had amassed a fortune somewhere north of $300 million, from the sale of SnyderGeneral and then through SnyderCapital Corporation, a private equity firm whose description in published reports invariably includes either the phrase "closely held" or "publicity shy." So Snyder was sober, hobbled, and semi-retired.

Then, in January 2004, a man named Pierre Koshakji approached him with an opportunity. Snyder had known Koshakji since the early '90s, when Koshakji was Lamar and Clark Hunt's startup man. Koshakji invited SnyderCapital to invest in an electricity aggregator, a company that planned to take advantage of the recently deregulated market. The 1999 Texas Electric Choice Act, which went into full effect in January 2002, changed the state's electricity industry. Prior to that, customers couldn't pick their provider. Now they could. And many of the new providers offered cheaper rates, because the state froze the rates of established providers to foster competition. Koshakji's aggregator would pool business customers and, with their higher combined load, negotiate lower rates. Snyder wasn't wild about the idea.

But Koshakji's proposition made him realize how little he knew about deregulation. Curious, he sat down one night at about 8 o'clock at his computer and started reading. He went to the Power To Choose web site and plugged in his ZIP Code.

"To my shock and horror," he says, "there were about 15 firms willing to sell me power in 75220. Most of them were about 10 percent cheaper than TXU Energy. It offended my sense of being in the know. I read four friggin' papers every morning. And I didn't know about deregulation? My annual electricity bill is probably about $12,000. So this is $1,200 to me. And I'm cheap! I'm cheap and I'm well-read. And yet I didn't know about this."

Snyder wasn't alone in his ignorance. Residential customers have been slow to switch providers. At the time, in areas the state had opened to competition, only 14 percent of customers had switched providers. Even today, only 26 percent of the residential customers in TXU's service area have switched to a new provider.

Thinking there had to be a catch, Snyder stayed at his computer late into the night, reading everything he could find about deregulation. At about 4 in the morning, he had another revelation. "I'd seen those Reliant Energy ads with the funny guy running around the state," Snyder says. "But he never asked for the order. That was obviously not driving droves of people to Reliant. The only way to do that was a person-to-person environment. It has to be a five-minute pitch on how deregulation works. I thought, 'My God. This is a network-marketing deal. Why has no one ever network-marketed this?'"

In essence, why had no one ever treated energy like Mary Kay does makeup?

In the following months, Snyder did his due diligence. His parents' electric bill at the time was about $3,500 per month, which Dick and Bobbi were paying to TXU. Snyder switched them to Gexa Energy, the cheapest provider he could find. "My dad got his first bill in March, and he had a $700 savings," Snyder says. "He started running around the house, going, 'Bobbi, we can eat this month!'"

So Snyder went to see his father and ask if SnyderCapital would fund a startup, a network-marketed retail electricity provider (or REP). The elder Snyder pointed out that his son wanted to launch a business that would run on thin margins (about 10 percent) and compete in cities with entrenched former monopolies. His father also asked one very trenchant question: "What the f--- do you know about power?" SnyderCapital took a pass.

SNYDER DECIDED TO PULL THE SEED MONEY OUT OF HIS OWN POCKET, committing $1.5 million in equity, with another $300,000 coming from friends. Koshakji signed on. So did a man named Alex Rodriguez, whom Snyder describes as a "big-ass, born-again, 31-year-old Mexican kid from Houston's Fifth Ward." Snyder met Rodriguez when he came to sell him a complex back-office computer system that would handle all of the customer switching and billing. He blew Snyder away with his knowledge of the esoteric REP sector—all of it self-taught. Rodriguez, it turned out, had never even graduated high school (though he did have a GED). Snyder made him a managing director, overseeing Stream's operations staff and information systems, and guiding the company's regulatory efforts.

Next, Snyder needed someone who understood network marketing. For that, he sought the advice of his friend Chris Dance, former general counsel for Kenny Troutt's Excel Communications, one of the biggest network-marketing firms in history. Dance said the guy Snyder wanted was Chris Domhoff, the global head of marketing for Excel—though Snyder probably couldn't get him. But Excel was foundering. Having merged with VarTec Telecom, it would file for bankruptcy in November 2004. Upshot: Domhoff was available.

(A note here about the term "network marketing." Others prefer the term "multilevel marketing." Scoffers might deem it a "pyramid scheme." The latter term doesn't apply. The dozen or so complaints received by the Texas attorney general's office resulted in no action. As one energy executive with a competing firm says, "A lot of those Ignite guys came from Excel, where they were investigated every which way. They know what's legal and what's illegal. I'm certain they are not breaking the law.")

By January 2005, after clearing a few hurdles with the state's Public Utilities Commission, Stream had its REP license. Things began to move quickly. Domhoff put out the word through his old Excel channels. Stream held its first meeting for prospective IAs in a room near its InfoMart offices. They expected perhaps a few hundred to show up. The room overflowed at 1,000. Two hundred and fifty more stood in the corridor outside, waiting to get in.

On March 7, they started switching customers, and management continued to do a miserable job of estimating response. They'd hoped to have 20,000 customers by June; instead, they had twice that many. By August, they'd planned to have about 5,000 IAs selling electricity, switching customers all over the state; instead, they had 13,000.

And remember, Stream's expectations were largely set by Domhoff, a man with a lot of experience in network marketing. This should have been charted waters for Stream. Instead, the company found itself sailing into the unknown—and in danger of being swamped by its own success.

"In July, I realized, 'Oh, we've got a problem,'" Snyder says. "Our capital requirements with respect to the energy we were going to be purchasing were going to be far beyond what we expected them to be."

In simpler terms, if the astonishing growth continued, the firm wouldn't have enough cash to buy the power its customers were using.

It works like this: say a customer signs up at the beginning of a month, August 1. He uses power from Stream through August 31. It takes a couple of days to get his meter read and the data processed. Stream bills him September 3. By Public Utilities Commission mandate, he has 16 days to pay that bill. If he's tardy, Stream sends him a nice note reminding him that lights are a privilege of those who pay bills in a timely manner. The PUC gives him another 10 days. Worst case (barring a customer that must be disconnected), Stream gets its money for August power by September 30. This is good news, as Stream sources its power from a wholesaler that expects to be paid for August consumption by September 30. The August 1 customer is copasetic.

But now imagine a customer who signs up August 15. Even if he uses just the 16 days allowed by the PUC to pay his bill, Stream won't get paid before *it* has to pay the wholesaler for the power that customer used in August. Essentially, Stream has to float the August 15 customer his first month's bill.

Stream had hundreds of August 15 customers—and August 16 customers and August 13 customers. The company expected to sign up 8,000 new customers that month; instead, it signed up 25,000. With an average bill coming to $200, in August alone, Stream's float exceeded its forecast by about $2 million. And the company had only been selling electricity for six months. At the near geometric rate it was adding customers, that float could quickly pull the company under.

It gets worse.

One of the most destructive hurricanes in U.S. history made landfall August 29. After Katrina came Rita. The one-two combination knocked out natural gas production facilities all along the Gulf Coast, and gas prices, already trending upward, went berserk. Electricity is generated through different methods—nuclear reactors, coal-fired plants, wind farms—but the market is particularly sensitive to fluctuations in natural gas prices. In Stream's first seven months of operation, those prices had more than doubled.

So Stream's cash crunch was a function of two forces: power-hungry new customers worked to *pull* the company under, while exploding wholesale electricity prices worked to *push* the company in the same dire direction. Even though business was booming, a projected $5 million profit for 2005 turned into a projected $5 million loss. Snyder figured he needed to find a $10 million bail.

"We had the August 15 customer problem that we had to figure out," Snyder says, "but Katrina and Rita were apocalyptic events of Jobian proportions."

It would seem fortuitous, then, that his family was in the private-equity business. But as Snyder was "staring into the chasm," in the words of one Stream insider, he refused to turn to SnyderCapital for help. "I was doing this outside of the family," Snyder says. "Going to my dad and asking for money was not something I was going to do." Maintaining his "publicity shy" posture, Dick Snyder declined to be interviewed for this story.

So rather than go to his father, Snyder went to a Houston firm called Kenmont Capital Partners to solve his cash problem. This was September. "We were about to sign this deal with Kenmont that, at best, would be a band-aid. And it was going to be an expensive band-aid," Snyder says.

But Dick and Bobbi had been following the progress of their son's company from a distance. They had, in fact, attended the first Power Surge conference in April. "They sat in what I would call a stunned silence, kind of disbelieving what we had created," Snyder says. And his parents knew their son needed money.

Two days before Snyder was to sign the final documents to fund the Kenmont deal, Dick called and asked to see the term sheet. "It was very expensive," Snyder says. "I was a little bit ashamed to show him what we were going to have to pay for our money."

The next day, Dick called again. This time, he put his son on speakerphone. "That's not like him," Snyder says. "Which means he has someone else in his office. It's my mom, so I know something is up. And he says, 'I can't believe you guys are going to be paying these closing fees, and the interest rate makes me want to throw up, and blah, blah, blah.' He just berated me for this term sheet that we were about to sign."

Finally Dick offered to loan his son the $10 million on more favorable terms. After a few hours of wrestling with, in his words, "false pride," Snyder took the money. He called Kenmont that night to tell them he wouldn't be in Houston the next day to sign the papers.

Stream has taken on other equity partners since, most notably the Irving-based private equity firm Natural Gas Partners, which put in for $10 million in January. "I didn't know it at the time, but had it not been for that $10 million from Dad," Snyder says, "we probably would have gone out of business."

By the end of the year, Stream aims to have 45,000 independent sales associates (right now it has just 84 full-time employees), and it expects to have 400,000 customers, or about 8 percent of the market. When the company launched, Snyder thought it might garner 10 percent of the market. He's revised that estimate. Now he thinks it could climb as high as 30 percent.

BACK IN HOUSTON AFTER POWER SURGE, NIGHT HAS FALLEN. SNYDER rides shotgun in a careening Jeep Grand Cherokee, his face illuminated by the glow of his BlackBerry. At the wheel is a minority Stream investor named John Littlejohn. In back sit Paul Thies, Stream's PR director, and Darryl Smith, director of field development. Both are former Excel guys. The Jeep is headed to Houston's Intercontinental Airport, where Snyder's twin-prop Cessna awaits. He'll fly it back to Dallas.

Littlejohn knows a shortcut to the airport, but first they need beer. Snyder insists: though he's a teetotaler, his men need beer for the flight. So Littlejohn swings into a convenience store in a dodgy part of town, and Snyder emerges in short order with the six-pack of Heineken.

Thies and Smith are still geeked about Power Surge and how well it went. Thies oversaw the AV component. Smith himself was onstage with the mic. They relive their favorite parts of the show.

Snyder turns around in his seat and fixes the pair with a serious look.

"You know what I like to say at times like this, in the afterglow?" Snyder asks. "We can still screw this up."

All it would take is one more hurricane, one unforeseen force. The price of natural gas could spike again. Stream is still a startup. The whole thing could fly apart. But, for now, even Snyder can't keep his guys from grinning. D