HARVARD | BUSINESS | SCHOOL

9-805-019
REV: DECEMBER 1, 2004

MICHAEL J. ROBERTS
LAUREN BARLEY

How Venture Capitalists Evaluate Potential Venture Opportunities

We interviewed four venture capitalists from leading Silicon Valley firms to learn about the frameworks they use in evaluating potential venture opportunities. (See **Exhibit 1** for background information on these venture capital firms.) All four were interviewed individually and were asked similar questions, such as "How do you evaluate potential venture opportunities?" "How do you evaluate the venture's prospective business model?" "What due diligence do you conduct?" "What is the process through which funding decisions are made?" "What financial analyses do you perform?" "What role does risk play in your evaluation?" and "How do you think about a potential exit route?" The following are excerpts from these interviews.

Russell Siegelman: Partner, Kleiner Perkins Caufield & Byers (KPCB)

Russ Siegelman joined KPCB in 1996 after seven years with Microsoft Corporation, where he helped found and launch Microsoft Network (MSN). Before working at Microsoft, he wrote artificial intelligence software. Siegelman invests in software, electronic commerce, Web services, telecommunications, and media and sits on the boards of Vertical Networks, Lilliputian Systems, Mobilygen, Quorum Systems, Digital Chocolate, and Vividence. He is one of the managing partners of the KPCB XI Fund, which closed in February 2004. Siegelman earned his B.S. from the Massachusetts Institute of Technology in physics in 1984 and an MBA from Harvard Business School in 1989.

How Do You Evaluate Potential Venture Opportunities?

"We have a generally understood set of things we look for when we evaluate an investment opportunity. The most important requirement is a large market opportunity in a fast-growing sector. Explosive growth makes it difficult for somebody to catch up or incumbents to respond. We like a company to have a $100 million to $300 million revenue stream within five years. This means that the market potential has to be at least $500 million—or more, eventually—and the company needs to achieve at least a 25% market share.

Senior Lecturer Michael J. Roberts and Lauren Barley, Senior Researcher at the HBS California Research Center, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

"The second factor involves a competitive edge that is long lasting. It could be a network effect like eBay or an operating system lock-in like Microsoft, but those are few and far between. It is usually an engineering challenge that is tough enough to build an edge, resulting in several years lead or longer, if we're lucky. We look for a tough problem that hasn't been solved before. The solution can't be so straightforward that someone can look at the blackboard and say, 'I know how to do it.' We tend to avoid 'scientific breakthroughs'—we're not great at evaluating or managing science projects. We know how to take technology, commercialize it, and turn it into a viable business.

"We are a little schizophrenic on patents. Personally, I don't care much about patents; they are a nice-to-have but not a requirement. Only a couple of our companies hold patents that are worth much. Once a technology is patented, it's out there and people figure out a way to get around it. However, we do conduct patent searches to make sure no one is blocking us. We have several companies that would rather keep their intellectual property a trade secret. Not everyone agrees with that here; we have some partners who are fond of big patent portfolios.

"The third thing is team. There are lots of aspects to the team. We look for a strong technical founder—if it is a tough, technical problem—and a sales-oriented entrepreneur. The founder is the anchor, more than just an idea person, who understands the whole thrust behind the technology and the industry dynamic around it. The entrepreneur drives the other parts of the business and sells the vision to investors and to other early-stage participants such as full-time employees, partners, and potential customers. We look for engineering vision and execution, sales, and entrepreneurship in a team. Typically, it's at least two people; sometimes it's three.

"In the early stages, I tend to invest behind an entrepreneur, not behind a professional manager as the CEO. Often, the person who can professionally manage as a CEO in the later stages of a company is not as effective in the earlier stages. It requires a different skill set. Entrepreneurs have to have a clear sense of the opportunity and how to build the business. That is why we're willing to bet on them and what we're paying them for. But, the best ones are willing to reexamine their assumptions and are willing to veer left or right or pivot all the way around when the data suggests they're headed in the wrong direction. They amble around until they find something good. The bad ones typically get overcommitted or wed to a particular idea. By the way, professional managers, who join the company later on, are the reverse. Once they're in and there's a proven business model, we want them to be committed and not to be exploring other business models.

"So overall it's a funny mix. When we review an investment opportunity, entrepreneurs have to have a pretty good story to tell about what they want to do. I think it helps to be cocky, there's no doubt about it. You can be too cocky, sometimes we're a little bit mindful of that . . . but if you're not cocky enough, you're not going to be successful in selling your idea."

How Do You Evaluate the Venture's Prospective Business Model?

"To oversimplify, I'd say there are two broad kinds of investment opportunities. In the first bucket, the market or product is somewhat understood. The company is doing a better execution or a better version of an existing product or service—with a twist—in a proven market. We are investing behind a business model that we are fairly sure we understand. We expect the business plan to reflect the anticipated business model and that it's credible—it meets the 'smell test.'

"Then, there are completely new markets or business models where we *think* we may know the bets we're making, but in truth we have no clue. Friendster's a good, recent example: explosive growth, potential network effects, and an unclear business model. We invested in it over six months ago. The business model is either advertising based or pay-for-contact, but we haven't tried either

yet. We identified the business model as a big risk when we invested. However, we thought Friendster had enough growth potential, and there were enough 'game-changing' aspects to it that we were willing to make the bet. When we invested in Amazon, it was clearly new. However, there was an early proof point because it was already selling books worth a few million dollars per quarter on the Internet. It was too early to tell if it could maintain significant margins or build a billion-dollar revenue company. But we knew something good was happening.

"Here's a case that didn't work. We invested in a company that conducted a barter-type swap meet, online. It seemed like an interesting idea, a twist on eBay with potentially a different approach to the market. It didn't work. To this day, I'm not sure if it was bad execution or a wrongheaded plan. We certainly have invested behind new ideas that didn't work.

"Timing is critical to successful venture capital investing, but it is not well understood. The timing of the investment and the rate the money goes in make the difference in the financial return. There are some companies where we invested too early. A later investor—perhaps one who entered after the first or second investment round—made the high returns. We've also invested too late: companies that were good companies, but they missed the window and competitors beat them to the punch. Our money was not as efficient as the money that was invested earlier in the sector. But it's hard to fine-tune; it's a gut thing."

What Due Diligence Do You Conduct?

"Technical due diligence is a big part of the data we consider when engineering innovation is involved. One of our companies is trying to solve a really difficult engineering problem, one of the hardest engineering problems I've seen in my eight years here. We did a lot of technical due diligence on this opportunity. We had probably six meetings where professors from Berkeley and consultants we hired pored over every aspect of the technology. We invested partly because the smart guys said it couldn't be done; it was really too hard to do. But after they looked at it, they said, 'These guys have made good progress; they're asking all the right questions; they have a reasonable, potential solution; and, if they can do it, it's the only way because all the other avenues we know about are dead ends.'

"Another part of due diligence involves customers. With most of the opportunities we seriously pursue, the market data is unclear because the company has no customers and revenue. Frequently, we brief potential customers about the product concept, but often they haven't met the company. Sometimes, they've met the company, but there's no product. Sometimes, they've met the company but not under nondisclosure agreement, so they don't have the full story. We have to filter all that. We have to ferret out what the customers' real needs are and their willingness to pay. But it's all sketchy and really hard to do. Occasionally, the companies have customers and revenue, so it's easier to evaluate. Then the question becomes do we want to pay up for that in the valuation. It's typically not in our sweet zone if the venture already has customers and a lot of revenue. But sometimes we do these 'speed ups'—like Amazon—and sometimes they are very successful.

"Then there's a third kind of due diligence, the industry due diligence. There, we probe industry experts about the idea, the team, the market, and the market need. They are not the customers per se but either technical or business experts in our network or people we think might have an opinion on a proposed investment.

"The fourth kind of due diligence is on the entrepreneur and team. We call their references and blind references. We spend a lot of time with them. We try to triangulate on how they've executed, are they honest, and are they people we want to work with.

"Some projects speak to a lot of due diligence—like the company with the difficult engineering challenge. With Friendster, what due diligence did we have to do? It was all about the business angle, the model, and the momentum. There was no new engineering problem being solved. The big due diligence we did for Friendster was to identify the competitors with the most momentum and look at usage and membership statistics. There was some concern that Friendster might be too easy to copy. In the end, we had to decide if we wanted to get behind the model, the entrepreneur, and the team. Usually there is not a ton of data. I go with my gut on whether it is a good bet or not. The due diligence will only take you so far, and then you have to use judgment based on experience."

What Is the Process through Which Funding Decisions Are Made?

"We have particular investment hypotheses we lay out in the investment proposal. We typically list three or four key risks we want to mitigate with the money going in. Sometimes, we stage the investment. We've done this with some medical device companies. They had to build the device and show it could be used in an animal study. In one case, it was only a $3 million investment. We put in one million up front, another million to build the prototype, and the third million for the animal study. The whole idea was to mitigate risk. But often that doesn't make sense. In some cases, there are no meaningful milestones that the team can achieve with a million dollars, so you have to invest more money initially. Or sometimes, there is so much competition coming that you don't have the luxury of the 'test and go slow approach.'

"Our smallest investment is $500,000 for an angel, seed, or incubation type of investment. Typically, our first round is $3 million to $5 million with the assumption that over the course of the company our investment will be about $10 million. We have a couple of companies where we've invested $40 million or $50 million over the course of the company's life, but that is the exception.

"The average plan takes six weeks from initial meeting until we invest in it, sometimes even longer. I invested in a chip company in San Diego that took a long time. We first met the team in October and closed in the second week in March. But during the bubble years, deals got done in an hour. Even now, hot opportunities like Friendster don't take more than two to three weeks. We met Jonathan Abrams—Friendster's founder—over a weekend. That next Monday he was at Kleiner. John Doerr and I went to the company on Tuesday and spent more time on it during the week. The following Monday, Jonathan came in for a partner meeting. We closed the following Sunday. That opportunity was going to get taken away by someone; we couldn't wait."

What Financial Analyses Do You Perform?

"We don't focus on value chain or margin analysis typically. If it's a new market or a twist on an existing product, it's not always clear how much competition there will be or how much customers are willing to pay. In some cases, I think we have some well-understood guideposts. Software should be high gross margin, but the question becomes the cost to distribute or sell. If it is an enterprise product, the company needs to sell it for $200,000 at a minimum, or it can't afford a direct sales force. The margin analysis is implicit in that logic. If the price is lower, then the issue is around channel strategy. Usually we won't invest in an opportunity with a lower-price point product unless there's already some proven low-price channel that can efficiently distribute the product. That is not a very sophisticated margin analysis, but that's how we think about it on the software side.

"On the hardware side, we are focused on the BOM [bill of materials] and the selling price. If the BOM looks like we can get a 50% gross margin at reasonable volumes, then it's a gross margin that's reasonable. We look to see if there are well-established channels to sell that product. If it's a consumer

retail product, we need to understand how much inventory to build to calculate carrying costs. I would say we do some analysis, but it's not terribly deep; we basically use rules of thumb.

"Some venture capitalists put a lot of faith in the financials that are projected; I usually put very little. Most of the plan doesn't materialize the way the entrepreneur expects. The financials are usually not even close. Sometimes they're way better; sometimes they're way worse. I look at the financials because they are a credibility test for the entrepreneur. Are they reasonable and consistent with the operational needs of the business? If the person is telling a story about low-cost distribution or premium pricing, I want to see that built into the numbers at a fine level of detail.

"Sometimes I'll think an idea is interesting initially, and then I'll get to the financial section. I'll realize the person had a couple of good ideas but no clue about how to build a business because the financials are so disconnected from the reality of the strategy or operations. I wouldn't necessarily reject the person because it could be a fabulous technical entrepreneur with no business experience. But usually, it is a warning sign that I don't have a complete entrepreneur. A good entrepreneur understands both the technical and business opportunities and how to flesh out the numbers behind it."

What Role Does Risk Play in Your Evaluation?

"I think that a risk-to-reward ratio is a good way to think about the rationale for investing in an opportunity. We are doing that calibration in the back of our minds, but no one goes to the blackboard and says this specific upside is worth this risk. It is too hard to quantify.

"I would say close to 100% of the time the original plan does not come to reality, sometimes in a good way and sometimes in a bad way. The founders didn't realize they had something completely wrong and had to overcome it. Or the opposite, we overlooked some great attribute in the original plan. So the point is, we have to view an opportunity as a multichapter novel. The business plan is the prologue or the book jacket summary because there is no real business yet. We write the contents of the book together, and that is how it works.

"We have these off-sites once a year. Three out of four years, we'll look at companies we were sorry we didn't invest in. I'm not sure how constructive it is other than to confirm that we're seeing a large percentage of the good opportunities here in the Valley. On the ones we saw but didn't invest in that were successful, we say, 'Hey, we screwed that one up.'"

How Do You Think about a Potential Exit Route?

"We want to invest in an opportunity if it is big enough to turn into a successful, sustainable, IPO-able company. Companies that are built to be sold in an acquisition do not typically excite us. That is the culture of the firm. I think it's because we have a limited number of investing partners, and our business model is to build substantial IPO-able companies.

"We may overdo it. I've had the view here that it is great to swing for the fences, but it is also okay to get a ground rule double occasionally if it's got lower risk. Or something that looks like a home run but at a minimum turns into a double is not a bad thing. But, fundamentally, the firm's appetite is for very high return and very high-risk projects. One can't argue with that approach too much since it has worked so well in the past."

Sonja Hoel: Managing Director, Menlo Ventures

Sonja Hoel joined Menlo Ventures in 1994 after working for Symantec Corporation in business development and as an analyst for TA Associates. Her focus is early-stage software, communications, and Internet investments. Hoel's recent investments and board seats are Acme Packet, iS3, MailFrontier, nCircle Network Security, and Q1 Labs. Her prior investments and board seats were AssureNet Pathways, Eloquent, F5 Networks, Priority Call, Recourse Technologies, and Vermeer Technologies. She received her B.S. in commerce from the University of Virginia and an MBA from Harvard Business School in 1993.

How Do You Evaluate Potential Venture Opportunities?

"It is all about the market. I always look at the market first. 'Market' is not how to sell a can of Coke or a car on TV. It is more strategic than that: It includes evaluating market growth, market size, competition, and customer adoption rates. If a company has a great market, it doesn't need to have a complete management team or positioning story or sizzle or PR or whatever. The corporate details can be filled in later. Some venture capitalists say they only want to invest in the very best people; they look at the team first. We funded a deal once because we really liked the CEO; he's a really great CEO. Unfortunately, the company wasn't a great company because it didn't have a large enough market.

"My favorite company is the kind of company that is doing well despite itself. It is a lot of work because we have to find the management team; we have to build. I invested in a company that has technology that looks at corporate networks to determine security system holes and vulnerabilities. The company had an interim CEO and a very good VP of engineering and CFO. But, if you asked the company or customers what the company's product did, you would get a different answer every time. However, the company had seven Fortune 100 customers willing to spend over $100,000 each on the product. We brought in a new CEO, VP of sales, and VP of marketing. We worked with the management team to position the product and develop a new user interface. We have this great company now; we've got amazing customers and a great team. We basically defined a new market space. It's a story of a company that is doing incredibly well despite some early missteps because there was a large, untapped, and growing market for its product.

"Sometimes we don't know if the market is big or small, especially in these emerging spaces. I was involved in a company called F5 Networks that did load balancing for Web sites. We invested when it had very little in cumulative sales. We thought it was going to be hot because the number of Web sites was exploding, and performance mattered to consumers. The company took off like a rocket: revenues went from $200,000 to $27 million to over $100 million. The rest is history, and it's still public. But it was an emerging market; there wasn't a market for this product the year before. This also speaks to hitting a market at the right time. We don't want to miss a market window because it takes a long time for a market to develop.

"We have a process here called 'SEMS,' or systematic emerging market selection. We do a SEMS project for every investment we make. Twice a year at our planning meeting, we talk about new markets or problems that need to be solved. We've been looking at e-mail through this process because there are a lot of unsolved problems, like spam. Every single person and every single enterprise in the world has a problem with spam, and they don't have to be educated about it. We spent a year researching every antispam company out there before we invested in one.

"When we look at markets, we ask, 'Is the Fortune 1000 the target for this company?' For the network security company, it absolutely is. Fortune 1000 companies are willing to pay hundreds of

thousands of dollars to solve their network security problems, so we get a pretty big market that way. We look for markets to be $500 million to $1 billion in size. When we analyze our past performance, we find that when we miss, we miss on market size. We thought the market was going to be big, but it wasn't.

"Vertical markets can be difficult. We had a company with a product to detect fraud, but it was only sold to the insurance market. Fraud in insurance is a problem, but it just wasn't a big enough market. On the other hand, we had a company called HNC Software that looked for fraud in credit cards. Fraud in the credit card market is huge, and that company went public and is still selling its product today.

"We track four things and relate them to the success of our investments: market size, the team, unique technology, and whether the product is developed at the time we invest. We found proprietary technology is important but doesn't make much of a difference as a unique differentiator for huge returns. Market size and a developed product matter most. We have much better luck if the product is in beta or shipping, although we do invest in start-ups without a developed product. Often someone comes in and says they have a great new technology, but they haven't looked at the market the technology is going to serve. Security is famous for this: we have better encryption, but who cares? It's all about solving a problem.

"In order to create a barrier, the technology has got to be hard to execute. Some companies have patents; some don't. We encourage them to have patents because it's a more litigious environment than it was 10 years ago. Regardless, the company can't have a product that is easily commoditized and that can be knocked off in a week. Enterprise software applications require man-years of building to develop the user interface and back-end connections.

"We also look at the management team. If we've got a founder who's in it for the lifestyle or unwilling to upgrade the team if necessary, we have a conversation about their willingness to hire new team members. Usually they say yes, and we need that flexibility.

"We also look at location. It is very easy to hire good people in Silicon Valley and in the Boston area. In other places, it's a lot more difficult. I invested in a company in North Carolina early in my career. It was acquired, which was a reasonable outcome for the management team, but it was difficult to get noticed because there wasn't a big technology pool there."

How Do You Evaluate the Venture's Prospective Business Model?

"You need to have a strategy for what your business model is. I get really tough on business models. If a company is selling an enterprise product, we can figure out the margins and distribution before we start. For example, if a company has a $15,000 product that is expected to be sold through a direct sales force, it's not going to work because a direct sales force is going to cost a lot more than the revenue it'll bring in. We don't focus too much on the SOHO [small office, home office] market because we think it requires a direct sale, but the price point is too low. Most of our companies either use direct sales or telesales to sell their product or service. If you can sell your product over the phone, that is fantastic. Over time, many of our companies sell through third-party channels as well."

What Due Diligence Do You Conduct?

"Customers are the most important reference. The conversation goes like this: 'If there were a product that would do this, would you buy it? What problem would it solve for you, and how important is that problem? How much would you pay for this product?' That's the big mistake a lot

of entrepreneurs make. They don't talk to customers first. Maybe they have a unique technology, but it doesn't count for much if no one will buy it.

"We do the due diligence in-house, but we also use our entrepreneurs from previous investments. We have been investing in information technology for years. If we've got an opportunity that is related to a previous investment, we'll show it to the VP of engineering or CEO. Those checks are very helpful."

What Is the Process through Which Funding Decisions Are Made?

"A deal takes anywhere from a month to many months to get done. Usually from start to finish is a two- to three-month period. We're looking at a company now that was a seed deal a year and a half ago, but we wanted to wait until they had a few more customers or a few beta sites. Now they're back, and they've made a lot of progress, which is good. We can work fast if it's something that is really hot. We find the more analysis we do trying to figure out something, the weaker the deal is. If it's not clear to us, there is probably a good reason.

"We want to have $20 million to $25 million in each company. We will probably have 60 to 75 investments in Menlo IX, which is a $1.5 billion fund, so that is about right. We invest over the life of the company. With a little company, we might start off with $5 million to $8 million and put in more over time. What we've found is that if we think it's a good deal, we should invest as much money as possible."

What Financial Analyses Do You Perform?

"I look at the financials to see if they make sense. I actually look at them more for mistakes. If someone thinks they will have a 40% after-tax margin after five years, they clearly do not understand the costs of running a business. We do some forecasts and projections for our investment summaries in a really brief way. Detailed projections are usually not accurate and not that meaningful. We can guess all we want, but if we have a big, growing market and some people who can implement well, we should have significant revenues over time.

"Every August, we do this analysis about deals we turned down either because of market, management, technology, or the product wasn't developed. We almost always get it right if we turned down a deal because there wasn't a market. Where we don't always get it right is valuation. If we turn it down because of valuation, we had a 10% error rate. Of all the decisions we made because of valuation, 90% were good but 10% were bad. With market as a reason, 99% were good and only 1% were bad decisions."

What Role Does Risk Play in Your Evaluation?

"We try to reduce our risk by investing in companies that are the market share leader or are going to be the market share leader in their space. We talk to analysts, customers, or other experts in the space to identify and evaluate those companies. Companies that are market leaders typically have greater margin and a larger cushion to make mistakes, and they are usually the first ones to go public. They can also hire the best people. We've looked at thousands and thousands of companies and have evaluated what they've done right and wrong; we've developed a nose for which companies are going to be number one. Our investment processes also help us reduce risk. We've talked about our SEMS process. When we do our valuation analysis, we do comparables, and if the

opportunity looks like it will return less than five times our investment, we won't do it. Our returns have to be seven to 10 times because venture capital investments are high risk."

How Do You Think about a Potential Exit Route?

"We have to think IPO [initial public offering] all the time; this company could go public. However, it has become harder for small companies to go public because of new regulations that make an acquisition a more attractive outcome. We've had a couple of liquidity events recently. Big companies didn't do their R&D [research and development] in the last four or five years because of profit pressures. I think there will be a lot of acquisitions coming because there are holes in product lines, and existing companies have access to distribution so they can take a product, insert it in their product line, and sell it."

Fred Wang: General Partner, Trinity Ventures

Fred Wang joined Trinity Ventures as a general partner in 1999 from Spectrum Equity Investors. Wang has spent over 15 years in the communications industry, working at The Boston Consulting Group with clients such as AT&T, Lucent, and Siemens as well as in operating positions in the new technologies groups at Pacific Bell and Intuit. Wang's focus at Trinity is on communications and networked systems, services, and semiconductors. He sits on seven boards of Trinity's portfolio companies. Wang received his B.S. in electrical engineering and M.S. in industrial engineering from Stanford University and an MBA from Harvard Business School in 1992.

How Do You Evaluate Potential Venture Opportunities?

"There is not a formal template, per se. There are some pretty obvious things—in no particular order for us, they are team, market opportunity, and the product/value proposition for the solution. Technology differentiation or business model differentiation is also important to sustain a competitive advantage.

"One potential point of differentiation between us and some other firms relates to how we think about the CEO. A couple of years ago, we analyzed our successful companies across multiple dimensions. The one trait of all our successful companies was that the CEO we backed at funding was still the CEO at the sale of the company or IPO. We'll switch out CEOs; we've done that and had decent outcomes, but our best outcomes are the ones where the CEO takes it to glory. Historically, we have not been as good at bringing in a CEO when a company goes sideways.

"I think our focus on the CEO has helped us eliminate one set of mistakes we might have been making. During the bubble years, we funded companies when we knew that the CEO was the wrong CEO or there wasn't a true CEO in place. We thought we'd find the right CEO down the road. We'd have the conversation with the company about getting a new CEO in place, but it was never the right time. So now, to fund a company, we need to believe that the existing CEO could bring the company to a successful outcome.

"As a result, we spend a lot of time focused on the CEO and the members of the management team: the quality of people they attract, their biases, their strong points, and their overall depth. Part of that is more experiential, and much of it's in the due diligence. We spend a lot of time in a room with the management team going through problems. What's the channel? What happens if the customer comes back and says this? What happens in product development? Hearing how they think

and react is very helpful. We pick up a lot of insight on how they would operate the business day to day.

"We've also done some analysis that suggests another big determinant of success is the sector; it's a sector bet. If we're investing in the right sector, even if the team is more mediocre, or the execution isn't as good, the rising market lifted all the companies in the sector. Some did better than the others, but overall everyone made money.

"We are very thesis driven here. We see a ton of deals from our network, through referrals, or that come in over the transom. However, once a quarter we do a strategic off-site where we'll say, 'Let's pick out some interesting subsectors.' We come up with a thesis that says these are specific pain points; this is how we address them. We outline what we think is the right answer and look for a company in that market. More than half our deals, three or four a year, come out of this process.

"Let's say we were hearing more frequently about managing applications at a data center—that this is a really big problem. We'd have a couple of partners investigate it. They'd call CIOs, go to conferences, and have junior people on our team dig up companies in the market and have them come in. We'd either conclude the market is not interesting or it is interesting, but let's revisit it because it's too early. Or it's interesting, and we've found the right company. Occasionally, we'll conclude it's interesting, but let's go start our own company because we can't find the right investment.

"Our rule of thumb is we'd like the company to get to $100 million in revenue. Realistically, if we can see the company get to $50 million in revenue and the valuation is right, it could still be a good venture deal. In a decent IT market, a $50 million revenue company should be worth at least a $100 million to $200 million outcome. At that point, we're making a good venture multiple, potentially a five to 10 times type of return.

"In today's corporate IT environment, CIOs or VPs of IT have two or three priorities. They're usually willing to pay millions of dollars for those, but beyond that, a $20,000 piece of software might not hit their radar. So, how much a customer is willing to dish out for the solution is a combination of willingness to pay and how high up the pain ladder it is.

"It's a little harder to say what the rule of thumb is on total market size. We've funded some companies that have gone after a $500 million market. But it's a sleepy enough market that we're confident the company can take a big market share. If it's a large entrenched market, we want to see a $1 billion to $2 billion market size so that we can see an opportunity to carve out a slice with a differentiated strategy. There's no easy answer because it gets driven a lot by what the competitive dynamic is. There isn't a table that says if there are 10 competitors, the market size has got to be this much. We're often funding companies in unproven markets, and we just don't know how large the market will be. Frankly, we don't put a lot of weight in market size projections. Usually when someone shows us one, it's 'next slide.' Because everything looks like it's going to be a multibillion-dollar market.

"We don't put much emphasis on legal or patent protection even though we do encourage our companies to try to protect themselves. If a big company comes to steal our company's idea, it might not have the resources to protect itself anyway, so from a market standpoint it may be toast. In the e-commerce days, size and branding were protection from competition. That was unnatural for us and still is unnatural. We think a technology secret sauce is important; it's a bet that people aren't going to solve the problem in a cheap and easy way.

"Again, we go back to the personal aspects of it. Often, the technology isn't there yet, so we're betting that this team can develop it and deliver on it. Coming back to the team issue, we want to

make sure they're capable. To the extent there is something to kick the tires on, it's a pretty broad swath. We'll look at the architecture, algorithms, or any kind of secret sauce related to how they approach a particular problem. We'll look at internal processes for development, tools they use, code review, and the philosophy around software development or hardware development because there are different schools out there.

"Here's one that we typically won't do: It looks like a great technology, really groundbreaking, could be a huge market, but it's a technologist—sometimes a wild-eyed technologist—who's driving it. The businessperson is either weak or not there at all. We don't historically play in that situation. We've missed some good things because of it. The hit rate and the time it takes to constantly arm wrestle with the technologist are issues we try to avoid."

How Do You Evaluate the Venture's Prospective Business Model?

"In evaluating a business model, we almost always start on the revenue side to understand the price point and the customer acquisition strategy. As we can see in enterprise software today—and has almost always been the case with systems—a direct sales force is too difficult and expensive to maintain. The days of paying the sales guy a couple hundred thousand bucks a year to go sell a million bucks worth of software are over. Many companies we look at are selling software somewhere between $50,000 to $250,000 a shot. So, it is important to understand whether it is a $20,000 or a $200,000 piece of software.

"How does the company increase the value it gets from a customer? Is it additional modules or more users, and how does that affect pricing? This is really important because that drives the go-to-market strategy—what the sales force and channels look like, and whether the company goes after a small or broad set of customers, and who it sells to in the customer department. These revolve around the pricing strategy. So that's one set of issues.

"The other revolves around the technology side of the business model. What's it going to cost to build this thing—the number of engineers the company needs after it breaks down its various development efforts—and how long will it take to get the product out the door?

"We don't spend too much time initially on the marketing. From a financial standpoint, we look to see if it is a technical sale and how much the ROI [return on investment] calculation comes into play. If it's a hardware business, we need a clear understanding of what working capital looks like. Working capital, especially if the company's doing well, can really be a cash drain.

"We weave this into higher-level issues about how much time we are buying and how much money needs to be raised. We're looking at a company that follows the Salesforce.com model. It is a subscription, hosted software model that looks like it's going to take $7 million to $8 million to get to a decent level of revenue. Right now, it's three guys and a business plan. So the math goes: We'll put in $8 million, probably $10 million to be on the safe side, behind this management team that hasn't really proven much so it's hard to ascribe a value to it. This deal doesn't work financially because we give these guys $3 million to $4 million pre-money value, their ownership would be so small, and they'd have to raise more money down the road and get diluted. That business model is just not fundable. They're trying to recraft it.

"We have always been cautious, and even more so recently, about business models that require a lot of capital to be successful. There are these 'big bang' opportunities where the company is going to build the next server to put Sun out of business. Usually that takes $40 million to $50 million of capital before the investors really know if the company is successful. But the outcome could really be

gigantic, right? We typically like the other model of going after a slightly smaller opportunity, a more bite-sized and tactical one. But we'll know early on after $5 million to $7 million of investment if we're on the right track. Then, we hope to get into adjacent markets and grow the company from there."

What Due Diligence Do You Conduct?

"From a due-diligence standpoint, we always have at least two general partners who are sponsors of the company. We also try to have a devil's advocate who is somewhat skeptical to raise objective questions and ensure we've gone through the process. A good example is a company we funded called Clarus up in San Francisco. It's a company that had been around a couple of years before we funded it, and Keith Giarman became CEO. Keith is a classmate from HBS. Clarus is building a software solution to help companies put VoIP [voice-over-Internet protocol] into their businesses. Today, you buy one of Cisco's VoIP phones because they promise savings, but there are problems around voice quality and performance if you change out your switch for your data network.

"We met the founder a couple of times when he was trying to raise his first round of capital. He got some angel funding but wasn't able to raise a venture round. He had a very scrappy team that hadn't made a salary in virtually two years, and the technology was good. The team had moved the product along with some first customers, but the company wasn't fundable in its current state. This is a situation where the founder thought he was going to be the CEO. Two years earlier when we talked, he said he was going to be the CEO. It was apparent after not being able to raise money that he wasn't going to be the CEO.

"The founder came to me six months ago—before we introduced him to Keith—and said he was looking for a CEO, which opened the door. We had an open discussion around Keith as a potential CEO and someone who could help him raise money. Keith had just left a start-up in a related space. I asked him to look at Clarus to see if he was interested. Keith spent four or five weeks at the company digging in and looking at it. He got his arms around it and revamped the story. At that point, we got excited about it and kicked off the formal due-diligence process.

"The product wasn't thrown together, but it wasn't a full enterprise-class-ready product because they didn't have the resources. Specifically, we did a technology drill-down with the team to look at the architecture and the processes. I introduced the Clarus team to the person who runs the telecom network at JP Morgan Chase; he's implementing VoIP there. I also asked him to take a look at the product and give me feedback about big holes, etc.

"Keith had to clean up the management team. We did all our reference calls on the management team, background checks, and criminal tests. That is one thing we never want to get burned on. Funding a felon is a bad bet. Even though we knew Keith, we did make a few more calls. From a legal standpoint, Clarus had signed up a small law firm in the city that did them all kinds of disservice around setting up some poor agreements. So, we had to clean that up as well.

"We also spent a lot of time on the financial model. The key question was how much money should they raise, especially given a new CEO who didn't own the financial plan. Also, it was a situation where it had been a very scrappy team that hadn't been taking full salaries. So all kinds of things could have emerged—oh, this person loaned the company $100,000, or we didn't pay these bills. We find liabilities crop up in situations where the company has been living hand-to-mouth. We spend a lot of time flushing that out.

"From a market standpoint, there were some customer things, but it was more of a bet that this problem was going to continue to emerge. We didn't spend a ton of time talking to Cisco to get its view; we had a pretty good handle on that. I had one of our analysts look for other start-ups. We identified two: one that was a component technology and the second a competitor that some other VCs had funded. There were some bigger guys that had product offerings, but customers and resellers didn't seem to think their products were there yet. We went through the whole process and funded the company with Keith.

"We're trying to find more deals like this where we create the situation ourselves. We know the CEO; we don't have to reference that person. We have also spent time with the technology and the product, and so we put them all together. We have ball control of the deal rather than it being a jump ball with 10 other VCs going after it. The last deal we closed, a video deal, was the same thing.

"In situations where we're betting on momentum, we'll spend a lot of time with the sales team. We'll do account reviews. We'll ask them about the status of their top 20 accounts: where are you, what have you talked about, who are the other guys? We go through the pipeline like we are the VP of sales."

What Is the Process through Which Funding Decisions Are Made?

"I would position Trinity as a moderately sized firm that is fairly traditional in how it approaches the business. We're investing Trinity VIII, a $300 million fund. We call ourselves multistage, but it's all within the realm of early stage. We will do seed investing. Our sweet spot tends to be Series A, the first venture round. But we'll also do follow-on rounds if we think there is a venture multiple involved.

"We try not to do tranched investments, although we have. The danger with tranches is it's very hard not to do that next tranche of capital. There are always reasons something didn't work. We find ourselves in board meetings saying you're right, you're right, okay; let's throw in the next tranche. If we don't fund the tranche then there could be legal repercussions, so we try to avoid it.

"We do try to make each round of financing have enough cushion for the company to hit a major milestone or set of milestones. We don't overfund the first round, and we don't underfund because in this environment it takes between three to six months to fund-raise. We rarely fund a company for less than a year because they're out fund-raising again in six months, perhaps without much to show for it. We're usually looking for an 18-month window."

What Financial Analyses Do You Perform?

"The financial model discussion is more often a good insight into how smart a team is. We don't worry as much about whether their first quarter of revenue is $2 million or $4 million; it's the thinking behind it. When a company says this other company spent X% on sales and marketing so we're going to project that, we don't get a lot of confidence that they know what they're doing. The flip side is when management can give it to us at the line-item level. The team can say, 'When we did our last start-up, we spent $20,000 on this trade show that was worthwhile. We hired these three salespeople, and we paid them this much.' They've got this bottom-up model with every piece falling into place, so we have a lot of confidence they know what they're doing.

"We also try to build a bottom-up projection using empirical data about an analogous problem and solution and what the customer was willing to pay. We estimate how many customers there are to determine how big an opportunity it might be. Since we invest in a relatively focused area of IT,

we know that if it's a $200,000 or $300,000 enterprise software solution and a broad enough problem, it's a big enough market. If it's a vertical, then we've got to believe the company's selling a $1 million-plus type solution. So, there are some rules of thumb we adhere to."

What Role Does Risk Play in Your Evaluation?

"There's got to be a clear strategy of managing risk. When we fund a plan, we try to get an internal agreement around the positive thesis and key risks. We outline the action plan to review risk as we go through it. Actually, we also try to make sure the management team is on board because they will execute against it. And that is very explicit. After we've funded, we track our milestones around product, first beta customer, first revenue customer.

"There is a concept of a particular financial return, but it differs from stage to stage. If we look at the three Series As we did last year, the valuations were all in the same ballpark. I don't think we thought this one is a little more risky, this one is a little less risky, and therefore the valuations should reflect it. Within a certain stage of an investment, I think the valuations get driven much more by competitive dynamics than anything else. Ideally, we could be more systematic about the analysis, but in reality, it doesn't play out.

"Last year we did two investments that were second rounds of financing. In both cases, they were companies that were in revenue and starting to ramp. We're willing to pay a higher value for that. They should be lower risk: the dogs were starting to eat the dog food. It was a question of how quickly they'd eat and how well the company would scale from an execution standpoint. In those cases, if we made five times our money we'd probably be happy, but we'd also expect the success rate to be much higher."

How Do You Think about a Potential Exit Route?

"The bulk of companies get acquired, so I think we're pretty realistic about that. On several occasions, we've funded companies we knew were going to be acquired. The odds of going public were pretty slim, but at least they had large, addressable markets so they could get big enough. We need to believe the company is sustainable on its own, rather than timing it so someone acquires it before the company needs more cash.

"An IPO is always the best outcome. It means the company's going to be much bigger. But some of these acquisitions are pretty darn large. We look at what valuation we invest in, and a big part of the equation is how much capital the company needs. I've got a company where the investors invested $110 million, and thus with a $150 million outcome, that's not much of a return. Then we've got other companies where we put in $3 million and own half the company, and if it gets bought at $150 million—that's a huge outcome.

"Part of the reason we have a more moderately sized fund is that our outcomes can have an impact on the fund size. If we had a $1 billion fund, finding an outcome that could have an impact would be really hard; it is still hard with a $300 million fund."

Robert Simon: Director, Alta Partners

Robert Simon joined Alta Partners as a director in 2000 from Sierra Ventures, where he was a venture partner. Simon has 17 years of experience in the software development and Internet sectors

including starting three companies: DotBank.com, Navitel Communications, and Virgil Corporation. Simon's focus is on information technology, primarily enterprise software. He received a B.S. and M.S. in industrial engineering from Stanford University in 1982 and 1983, respectively.

How Do You Evaluate Potential Venture Opportunities?

"There are two schools of thought. In the first, the venture capitalist says, 'I invest in people first and foremost. Smart people will find great opportunities, and I will never know the sectors or technologies as well as smart people. I back people.' In the other, the venture capitalist says, 'I don't care about people; I care about markets. I look for big opportunities, big painful problems that customers have. If management doesn't work out, I can always fix management.' The truth is obviously somewhere in between, but I'm leaning more on the market side. I think markets trump people and trump technology. We can build something. If no one wants it, we've got a big problem. I've seen that on the entrepreneur side, and now I've seen it on the venture side.

"Under the heading of market, we have customer pain. How much pain does the customer feel, and how much will the customer pay to solve it? We get to market size by estimating how many customers feel the pain. We met with a company here in San Francisco that was developing software for analyzing large log files. Pretty tough stuff, pretty complicated. We asked them about their potential customers. Their solution was best suited to companies that generate a gigabyte a day in log files. How many are there out there? There are two: Yahoo! and eBay. That's a problem.

"On the market side, there are two ways to look at it. The replacement for an existing product is one market: the better, cheaper, faster model. The other is the brave-new-world model where we're introducing a new piece of functionality and don't really know where the markets are. Those tend to fall more on the consumer side. Everybody has an opinion on them because we can relate to them; that's both good and bad. The brave-new-world model certainly has a greater market risk but not necessarily more technical risk. Historically, the venture community has avoided consumer-facing deals for several reasons. The gross margins have typically been pretty slim, the marketing costs are high, and it's a 'hit-driven' business, and we're not good at predicting consumer behavior. Now, on the plus side, we can find consumer-facing deals that are capital efficient. Those are the Internet deals, and some of them have worked out well.

"Everyone wants the $1 billion market. If we're honest, we don't know what and where the $1 billion markets are until we get there. We have to see our way to a $200 million market with the right attributes and a lot of growth potential. We don't target market share for our companies; we target revenue. We expect north of $60 million to $80 million in revenue in three to five years.

"We also look at the technology to see how proprietary and difficult the solution to the problem is. We gauge if we can build defensible barriers. If it's an easy problem that everyone can solve, it's less attractive. The ideal case is four Ph.D.s trying to solve a problem they've been working on for a year or two, and somehow they've struck upon the magic solution. And, it's two orders of magnitude better than whatever else is out there.

"We invested in a company called Aegis that makes an optical component, a tunable filter. The current cost of competitive components is between $2,000 and $5,000. Aegis has developed an almost plug-compatible replacement using a silicon process that puts their cost between $50 and $100. It's a perfect example. The only problem there is the telecom market has fallen off the cliff, so now they have to find new markets.

"Then we look at the people. We want to keep the existing team if possible. They're the ones with the passion and some understanding of the problem. We get a little concerned when the entrepreneur comes in and says, 'I'm in this to flip it in a year.' It rarely works out that way. So if we get the impression they're not in it for the tough times, then it's definitely a problem.

"We have this conversation right up front on their personal motivations, their definition of success, and whether they're wedded to a particular role in the company. We like to avoid a situation where the guy says, 'It's very important for me to be the CEO. It's going to be a big company, and you're either with me or not. You're going to pull me kicking and screaming out of the chair.' So, we say, 'Okay, maybe not a good fit.' Sixty percent of the time or more we're facing a change in management. We want it to be a positive as opposed to a divisive situation for the company.

"Getting back to market versus people and technology, we can have a market where the only issue is the timing. We have an investment in a semiconductor company that's doing a 40-gig network processor. Networking starts out at one megabit, goes to two megabit, 10 megabit, 100 megabit. So all laptops, servers, and switches have 100 megabit connections. The next progression is one gigabit, two gigabit, and we can see our way to 40. Great; we fund it. The only issue is timing: If we're too early, there's no market demand, and we have to survive until the demand reaches us. In that period of time, we have two problems: we have to keep the doors open and feed everybody, and we may be susceptible to being leapfrogged by technology. So we don't want to be too early, but we don't want to be too late."

How Do You Evaluate the Venture's Prospective Business Model?

"I think more of the deals now have clearer business models than the ones from the 1999, 2000, and 2001 period. I think of Hotmail. I know the investors there; they were investors in my previous company. Hotmail never made money; it was acquired for its subscribers rather than its business potential. Microsoft acquired it for $350 million or $450 million; it was one of the first big acquisitions. If you look at that from a classic valuation standpoint, you wouldn't have made the investment. In fact, I had the opportunity and didn't make the investment. Nonetheless, it was a great outcome for the investors. I don't think we want to play that game today because acquisitions are being made for fundamental business reasons rather than other asset reasons. Companies in the Internet space don't feel the need to make those customer acquisition purchases anymore.

"There's a company called Skype that just raised $20 million from Draper Fisher, Tim Draper specifically. I can say this because he's an old college mate. Skype provides the ability to do phone calls over the Net. If both parties have an Internet connection and Skype, they can talk anywhere in the world for the cost of the Internet connection. It's potentially disruptive for international calling, so it potentially has a big market. How Skype makes money is not clear because they don't make money on the calls. Tim Draper is bolder than we are. He's betting that 10 million, at least north of 5 million, people can't be wrong because they're using it, and the company will find a way to monetize that."

What Due Diligence Do You Conduct?

"If I look at a company and like it, I'll do some preliminary due diligence. I'll speak with the entrepreneur by telephone or have them come in. We'll research the company by talking to customers or potential customers to corroborate the customer pain or product utility. We'll ask whether they have experience with the product or service, have they deployed it, and how they would feel if we took it away. If they say they wouldn't care or no way, we can't take it away, that would give us an indication.

"We don't require the company to have paying customers. They can have a pilot or a couple of betas, but we want them to have engaged the customer. We also might introduce them to a portfolio company with the same requirement or CIOs in our network or other potential customers. They'll serve as an off-sheet reference, and we see two things: does the customer confirm and/or have the pain, and how effective is the team at delivering its message.

"We'll also talk to folks who have worked with this particular team and do reference checks on the people. If I really like the company, I'll get another partner engaged. Then, I'll talk up the deal a little bit here and bring it in to the IT partners, which are a smaller set. Finally, as we get more serious, the company will give a presentation to the full partnership in one of our regular Monday meetings. If there are any open issues from that, I'll run them down and bring it back for a decision."

What Is the Process through Which Funding Decisions Are Made?

"Brave-new-world companies are a smaller percentage of our portfolio, although not necessarily a smaller percentage of the deals we see. It's probably worthwhile to put one or two brave-new-world opportunities in a portfolio to see how they end up. The bet can be on the marketing or the technology side. In the brave-new-world case, we start out with a seed investment to see if the company gets any traction. If they can get it deployed, we layer in additional investment once we get some idea about adoption. So we'll seed them with $500,000 or so to get them through product launch, then they'll have to raise money again. Next time, we might go in with $2 million to $4 million.

"There is no set parameter on the amount of capital we invest. Some of it varies by industry. We have to remind ourselves we don't need to invest a ton of money for a software company. I think someone told me PeopleSoft took only $12 million of investment. Adobe only needed $1 million. Adobe got a $1 million advance royalty payment from Apple, but all the equity it needed was $1 million. So I think it's pretty reasonable to do a software company for $15 million to $20 million or less. Telecom systems take more. We may be learning again that they may not be good investments for venture folks because we need 100 to 200 people for 18 to 24 months. That adds up to $200 million and not a happy story—we had one of those.

"We go through a bit of the math with entrepreneurs to show what opportunities are good venture opportunities and what ones are not necessarily good venture opportunities but may still be very good businesses. We can have entrepreneurs who have a $10 million a year business where they own 90%. If it's growing 40% a year, they don't need much capital. So why would they give up half or more of their company to an outside investor? They would have to work at least twice as hard to realize the same personal outcome. Once they take outside investment, they get on this treadmill. Unless they're making progress up that hill, it just becomes a grumpy situation for everybody.

"Across the board, investors are taking anywhere between a month to even six months to make decisions. I had lunch with a guy today who finally did the deal after looking at it for a year. It is more common now to have some time to see the progress a team makes on its own. We meet with the company, and time will pass as we do our research on the opportunity, technology, and customers. Then, we can compare what they actually did with the milestones they set, like signing up a new customer or meeting their quarterly revenue targets."

What Financial Analyses Do You Perform?

"The business presentations usually have both the revenue model and expense model. We first look at the expense model. How much money does the opportunity take to get to cash flow break-even? We construct our own model on revenues because usually they're wildly optimistic: first year $1 million, second year $20 million, third year $100 million—it's a little unrealistic. Often they've also taken a top-down approach on market share. Well, that's all fine and dandy and gives us some idea of market size, but that's really not going to be the revenue ramp. We do a bottom-up analysis for the revenue ramp, and we end up with a fraction of what the top-down is."

What Role Does Risk Play in Your Evaluation?

"Before a decision is made to fund a company, we do a two- to five-page investment memo. There is a section on what we believe the risks are: technical risks, competitive risks, market risks. The financials are not that detailed. They might include revenue over the next four or five years, expenses, etc."

How Do You Think about a Potential Exit Route?

"We'll look at a market size north of $200 million and a company revenue rate north of $60 million to $80 million. We think that will yield a large enough market for an exit. If we can't see the company growing to that size in revenue, then it's probably not an appealing venture investment. And before we go into an investment, we'll definitely have a conversation about who would be likely acquirers, who would be good partners.

"Timing an exit is a bit of a dicey thing. Building lasting companies that continue to grow consistently over time is a more reliable way to make money than getting out just in time."

Exhibit 1 Venture Capital Firm Background Information

Kleiner Perkins Caufield & Byers (KPCB)—Founded in 1972, KPCB has helped entrepreneurs build over 400 companies including America Online, Sun Microsystems, Amazon, Juniper, and Genentech. It closed its $400 million Kleiner Perkins Caufield & Byers XI fund in February 2004. The partners expect to fund emerging growth companies in information technology, life sciences, and other fast-growing industries over a three-year period. KPCB's current portfolio includes companies in the following sectors: broadband equipment and services, consumer devices and services, enterprise software and services, financial services, Internet infrastructure software and services, medical devices, heath-care services, and biotech. In its office on Sand Hill Road in Menlo Park, KPCB has six partners emeritus and 17 investment professionals: 12 partners, one principal, and four associate partners.

Menlo Ventures—Menlo Ventures has seven funds with $2.7 billion under management invested in over 270 companies. Founded in 1976, Menlo Ventures invests in communications, Internet infrastructure, software, semiconductor, data storage, and computer hardware companies. Menlo Ventures typically invests $5 million to $10 million at the start-up phase of a company and $10 million to $25 million at later stages. It is willing to invest in all stages of a U.S.-headquartered private company's growth. Portfolio successes include LSI Logic, UUNET Technologies, Hotmail Corporation, and Clarify. Located on Sand Hill Road in Menlo Park, California, Menlo Ventures has 14 investment professionals: seven managing directors, four associates, and three investment analysts.

Trinity Ventures—Founded in 1986, Trinity Ventures primarily invests in early-stage and emerging growth technology companies. Trinity Fund VIII has approximately $300 million of committed capital to fund opportunities in the following sectors: software, services, communications and networked systems, and semiconductors. Portfolio company successes include Blue Nile (IPO), Crescendo (acquired by Cisco), Network Alchemy (acquired by Nokia), P.F. Chang's (IPO), Starbucks (IPO), and Wall Data (IPO). Located on Sand Hill Road in Menlo Park, California, Trinity's team consists of six general partners, one venture partner, one principal, and one analyst.

Alta Partners—Since its inception in 1996, Alta Partners has funded approximately 120 early- and later-stage life sciences and early-stage information technology companies. Alta manages seven venture funds approximating $1.5 billion in committed capital including $475 million in two life sciences funds that closed in March 2004. Alta's geographic focus is U.S. companies, although it has made selective investments in Europe. Alta's IPOs in 2004 include Corgentech, Eyetech Pharmaceuticals, and Renovis. Prior investments in the information technology sector include Be, Inc. (acquired by Palm Computing), Coloma Wireless (acquired by AT&T), and Fibex Systems (acquired by Cisco Systems). Located in San Francisco, Alta Partners has 10 professionals devoted to life sciences (eight directors and two principals) and four directors in information technology.

Source: Adapted from venture capital firm bios at www.kpcb.com, www.menloventures.com, www.trinityventures.com, www.altapartners.com.