



Harvesting Bright Ideas

Venture firms try various approaches to sniff out the most promising university innovations and turn them into successful companies.

If a venture capitalist needs a good reason for hanging around university campuses, he can sum it up in one word: Google. The search engine giant, now worth \$87 billion on the stock market, is the biggest example to date of an idea that started on a college campus and turned into a major business. Founders Larry Page and Sergey Brin invented the search engine as graduate students at Stanford University. Silicon Graphics, Lycos, and Genentech also started with on-campus research.

Pulling innovation out of the ivory towers can be lucrative, but it isn't easy. It took seven years for Google to go from a clever idea to its spectacular April 2004 IPO. VCs don't usually have that kind of patience—and even when they do, there's no guarantee of success.

In trying to mine universities for hot technologies and bright talent, venture firms have funded competitions, built their own startup incubators, and hired entrepreneurs-in-residence. All have the same goal: get a first-hand look inside university labs.

One good strategy is to get involved in the lives of university students. Just ask Ken Gullicksen, a partner at Morgenthaler Ventures in Menlo Park, California. Mr. Gullicksen sat on the judging panel for the 2002 Stanford Business Plan Contest, an annual event with a \$25,000 prize that his firm helped underwrite.

No one else on the judging panel was wowed by the neat little trick for encrypting

email that Stanford computer science students Matt Pauker and Richi Kacker pitched. But Mr. Gullicksen, who had worked at Nortel with Entrust, an encryption and access-management company that was eventually spun off, saw serious potential for their encryption scheme.

He helped them hone their message and urged them to develop a platform for email encryption instead of marketing a digital sleight of hand. "There are lots of neat tricks in security that don't make good business sense," he says. Three years later, Voltage Security, based in Palo Alto, California, had raised \$30.6 million and scored a spot on the *Red Herring* Top 100.

Talent Magnets

The concept of the entrepreneur-in-residence has been around for years. VCs will ask an executive with a history of successful ventures to come into their offices and develop an idea for a new company. When the entrepreneur is ready to start the company, he or she will usually give the venture firm the right to be the first investor.

Venture-backed incubators such as The Foundry, based in Menlo Park, California, have a different method. The Foundry consists of a team of four executives who take ideas for medical devices and rapidly produce prototypes for testing. They build a company around the idea and act as its management team until it's ready to receive its first round of venture capital.

Allen Will of Split Rock Partners in

Minneapolis and Robin Bellas of Morgenthaler sit on The Foundry's board, and provide ideas as well as capital. "You can thumb through *Nature* and *Science* and if something piques your interest, you can usually pick up the phone and call the researcher directly," says Mr. Bellas.

That is what led The Foundry to start Cierra, a medical device company. In 2000, Mr. Bellas read a study in *The Lancet* about deep-sea divers who developed migraines because of holes in their hearts caused by extreme pressure changes. The research also noted that about half the people who suffer from migraine headaches had a similar heart defect.

Mr. Bellas saw the potential for tapping a huge market and got his team at The Foundry to jump on it. Within a matter of weeks they had 100 pig hearts on a table, sticking them with prototypes of a noninvasive tool. Cierra raised a Series A round of venture capital in June, netting \$21 million from four investors.

Nine companies have been spun off of The Foundry since 1998, although none have been acquired or gone public.

The Foundry may not yield something with the explosive growth of Google, but VCs still like the model. Morgenthaler, for example, is poised to put about \$5 million into a similar incubator for improving devices in ophthalmology. The hope: Morgenthaler has its eye on a big win from ongoing research.

