Early stage funds with emphasis on telecom, software, and Internet investments. These are all potentially high growth areas, but businesses are very fragile and benefit from a lot of intervention from VC.

“Believing in the business” is vital, otherwise the fund will neither invest initially or in subsequent rounds. Believing depends upon having a business plan that focuses on an important niche in the filed, one that is necessary for the development of the industry but which is also not over-invested. E.g. Likes the “last mile” (bringing the fiber or wireless capability to the PC) and does not like “dark fiber” areas (wiring buildings for Internet service). What he believes in or not is a function of industry developments and changes. Believing also entails having a management team in place that is capable of executing the business plan, with all its difficulty. If he doesn’t believe in the team, he can change that through the control power that he retains within the VC investor group “wolfpack.” When you do believe in a company, however, you have to keep investing through subsequent rounds to maintain your position of influence.

Intervention is a common event – 4 out of 5 senior managers of invested companies “turn over” before the IPO. Changing the CEO, even if a founder of the company, happens regularly.

Main Job of VCs. To select Presidents of companies, and to support them or change them once they are selected. VC’s are “headhunters with their own checkbooks.”

Control. There are at least three ways in which VCs control the early stage companies they invest in:

1. A first option on subsequent financing. The initial financing is given out only in small amounts, so the companies must come back for more as they make progress, and the first option insures that they come back to LTP.
2. Initial terms require that VCs consent to all-important actions taken by the company (borrowing, other financing, mergers, etc.)
3. At each new round, the VCs try to bring in one or more other VCs, who can help provided the funds needed, enable LTP to limit the total money invested, and provide a fresh pair of eyes in determining the valuation of the company at the time. In aggregate, over time, these VCs become owners of more than 50% of the stock, and agree to act
through a “shareholder’s agreement” to vote with the lead investor in ordinary circumstances.

**Operations Emphasis** There “are a lot of good business plans, we look for good management teams which are much rarer. To find them, work with them usefully and to evaluate them, LTP relies upon its own staff which has considerable operating experience, 4 of its top people have been CEOs of small, technology companies, and many of the staff have had operating experience in companies.

**Valuation** The process seems to begin at the first round with a decision as to “how much of the stock to let the founder/management team have.” Credible teams get more. Subsequently, the emphasis is on how much financing, when, and preserving control features than on valuation – “if everyone invests each time, the price doesn’t matter.” Of course the founders don’t invest, and new VCs are brought in –partly to access the value –so valuation does matter. But there are a lot of financings before the exits begin, and how well the company performs is more important than moderate differences in price per share, an inexact science at best.

**Coaching** VCs need to be near by (“an hour or so by plane”) so they can maintain frequent contact with the companies, trying to identify problems and their solutions early.