Momenta Corporation (A)

It had seemed an excellent idea last week—a meeting to determine Momenta Corporation's corporate culture. Now Kamran had misgivings: What was to be discussed? Did corporate culture really merit a meeting in the second month of the company's formal existence?

Momenta was 35-year-old Kamran Elahian's third venture. Founded in September 1989 to develop and market a pen-based "anywhere, anytime" personal computer, Momenta aspired to be "a company for the next decade." Kamran had already raised $5 million from U.S. and Far Eastern venture capitalists, who were expected to participate in further rounds of investments totaling $25 million, and had recruited an experienced team. The right corporate culture, Kamran believed, would enable Momenta to leverage its money and talent. But what was the right culture for Momenta, and how could it be put in place?

Kamran's Background

Kamran had been a cofounder of C.A.E. systems and Cirrus Logic before founding Momenta.

C.A.E. Systems

Kamran recalled how he had come to launch C.A.E.:

I was born in Iran and I came to the United States in 1972, after graduating from high school. I was in a rush to finish, so I went through college very fast. I was about 20 when I got two bachelor degrees, one in computer science and one in math and then I was 22 when I got my master's degree in computer science at the University of Utah. Zipping through school was pretty easy, but I did not necessarily learn an awful lot.

I always felt the United States was very flexible and had the type of system that would allow you to do anything you wanted. For example, when my counselor asked me, "What do you want to major in?" I was quite surprised. I said, "Do you mean it is my choice?" In Iran you did not have this kind of unstructured educational system.

I worked at university after graduate school, and then, in 1978, I came to California to work for Hewlett-Packard. I was selected for the H-P Honors Program, which paid for my tuition to take classes part time at Stanford. There was a new methodology coming along, encouraging systems people to design chips. I designed a chip for a course, but the chip never worked. I was told, "You are a bad engineer." This was obviously not a very satisfactory answer.

I said why don't we make a computer system that helps engineers design chips that work. I talked to people at Hewlett-Packard about supporting me, and they said, "No, you are too young and too inexperienced to be a manager of a project of that size."

I was about 27, and my boss would say, "I was at H-P so many years before I got a project of this type." I would talk to his boss who said, "I was at HP three times as long before I got such and such responsibility." I thought, at this rate, the president of HP must be two thousand years old, and looking at a corporate brochure there were many people who looked like they *were* two thousand years old!

But there was one senior VP who looked young and I decided to find out his secret. I kept calling him, but the secretaries would say, "Who are you, why do you want to bother this Senior Vice President?" I finally said, that "I don't believe in HP's Open Way. The open door policy is not working." Five minutes later, he called me and said, "Let's have a meeting." The H-P way has to work!

He gave me a real honest opinion and he said, "You should just go and try this thing yourself. You don't belong to H-P anymore." I left, with a few of the engineers who worked with me. These guys were all naive enough to think we could start a new company together.

We used to have meetings to decide whether we should let venture capitalists into our company. After lots of investigation and discussions we said, "Yeah, maybe we should open the door and let them in." We opened the door and nobody was waiting outside, so we had to look. But we did not know anybody. We opened the yellow pages and checked under V. We were totally disappointed that there were no listings.

We didn't know how to write a business plan—I did not have the slightest idea what it was. I had never seen "financials"; I had never read a finance book. In 9 months we rewrote our business plan 19 times. Typically, we would revise it after we had been kicked out of three VC offices. Nearly 50 venture capital groups had the pleasure of kicking my butt out of their offices.

Finally, we got our money, but that was the beginning of our problems. It was very tough, and we kept working hard, and we made every mistake that was there to be made. We didn't know how to hire very good people and how to get projects done on time. About three years later, the company was sold to Tektronix for $75 million. The investors owned over 90% of the company, but we all made enough money to help us with things and get the egos satisfied.

Cirrus Logic

After C.A.E., Kamran got involved with another start-up, Cirrus Logic:

I started to look into something different. A professor that I knew at the University of Utah, by the name of Dr. Suhas Patil, had developed a wonderful technology, which would really enable a system designer to design chips. With a few of his select students, Dr. Patil had taken this research out of the university and done some additional work at Salt Lake City. Then they ran into financial problems, left Salt Lake City, and moved to California. I was very impressed by these guys who did not have much sense of marketing or business, but were so dedicated. And Dr. Patil, who was known as this incredible genius at Utah, had always liked me—most of the other professors did not pay much attention to me, because they thought I was not very scholastic and I didn't know much. So when they asked me to be president of the company and help get this thing going, I agreed.

By this time, I had enough credibility so that investors gave us money quickly to start the business. But when we started to develop a business plan, we decided that we should make a semiconductor company. Now a lot of our backers said, "You were lucky in the previous business, but you do not know anything about semiconductors. It is very, very tough. You are asking for a lot of money, and you just don't have enough credibility." So I tried to get an experienced semi-conductor person to run the company.

I tried to line up Mike Hackworth, who was a senior vice president at Signetics Corporation. He was running a $300 million business in MOS integrated circuits.

It was a long process to get him interested to join us. I asked for his help in writing the business plan. He had mercy on me. He spent weekends and after-hours time. In the early months, he said, "You need to change this in your business plan, or change that." As he got more and more involved, a couple of months later, it was, "Our business plan is getting quite good." In the fifth month, he said "Kamran, *my* business plan is quite good." Then I knew I had emotionally won the guy. And sure enough, he agreed to become the president of Cirrus Logic.

I thought my mission was complete and it was time to leave, but Mike said, "Why don't you stick around? You might know a little bit about technology and a little bit about management, but you do not know much about sales, marketing, manufacturing, or finance. Why don't you hang around and learn something?" Mike said he would be a mentor to me and said, quite humbly, that maybe there were a few things he could learn from me.

It was quite an unusual situation—a small company with three successive presidents in very good working relationships with each other. Dr. Patil was chairman, Mike was president of the company, and I was executive vice president. I was involved in a little bit of everything. Believe it or not, for the first two years, I even had the title of CFO!

It was a very, very exciting period for the next four years. I got a chance to help set up strategic relationships with suppliers in Southeast Asia and establish subsidiaries in Japan, Taiwan, and Germany.

In June of 1989, Cirrus went public at a valuation of over $150 million. Cirrus's valuation is now [in 1991] over $300 million. It has been named the world's fastest-growing semiconductor company.

"A Gut-Wrenching Decision"

As Cirrus was preparing to go public, Kamran began exploring opportunities to build pen-based personal computers:

First, there was a voice inside me which said, "This is becoming too simple, too boring, too convenient. You need to go start something different." Second, it was apparent that we could not make Cirrus a billion-dollar company in a short period. Semiconductor companies that have gone over a billion dollars have always done it with systems business or other diversification. Third, I felt there was this phenomenal need for a new type of computer. The world needed a pen-based machine. Even though I was a touch typist and I had a couple of computer science degrees, I was not using personal computers. They were not useful to me. I was not alone. Just as in my first company, where I wasn't the only one who couldn't design chips properly, I thought I wasn't the only executive or manager who thought PCs weren't providing the right tools. So I decided I would put together a team to design a new computer.

It was rather gut-wrenching, and my going-away party was quite emotional. I knew there would be a lot of excitement, a roller-coaster ride of living on the edge, and a lot of fun, which I am absolutely addicted to. I really need that. The negatives were the anxiety of whether I would be successful again. Had I just been lucky the last two times? If you look at the track record of many entrepreneurs who have tried to do it more than once, you see that the chances of success are not very good. Bill Poduska had great success at Prime and Apollo computers, but as soon as his third company, Stellar Computers, started to slip, people began saying, "Maybe Bill has lost his touch." Gene Amdahl had two great successes at IBM and Amdahl, but Trilogy was not a success. People have short memories, and the public is not very forgiving.

From my side, I have always admired people like Gene Amdahl and Bill Poduska, regardless of their success. They have had the guts to go and try it again.

Launching Momenta

Promoting the Venture

Kamran's first step was to promote Momenta through a press tour:

Both at Cirrus and C.A.E., we had said, "Let us go and build substance first, and then we will go and promote it." Here it sounded like first we had to go and promote it and then put the substance behind it.

Unlike my previous companies, where we were selling the products to an industrial base, Momenta is a company that is selling a product to the mass market. And, if you are trying to get the masses to do something, you want to win their hearts. A lot of decisions are based on emotions, not necessarily on logic. In an

industrial sale, an engineer checks the specifications very, very carefully; in the mass market, and the personal computer business, a lot of times, you hear people say, "I bought Macintosh, because it is cute."

So the first thing I did was write out a check for about $20,000, to have a press tour. I made great claims. I said I am so and so, and I'm going to start another company and I am looking for the best engineers, the best staff, and the best investors. I'm going to have global operations, and I would do these on an aggressive timetable. A lot of people within the media disregarded that, but there were those who were really intrigued, especially the ones who had known me from the past. Some of them wrote very nice articles, and they said, "Kamran, now you are in the limelight, and you better go and perform."

This had amazing results. In starting any venture, the more believers, enthusiasts, and people who share your vision, the easier it becomes. These people keep saying, "This is great, this is fantastic." It makes your job easier because you are leveraged. All these people set the stage for raising money, for putting the team together. The perception becomes the reality. If you create the right perception, and enough people believe in that, and perceive the opportunity to be great and are willing to put their lives behind it, very soon it becomes the reality.

Kamran then turned his attention to recruiting and fund-raising:

I wanted a team that could allow us to realize our dream, which was to build an immortal corporation in a thousand days, a period of roughly three years. Our mission is to build a corporation that has significant revenues—in the range of a couple of hundred million—positive cash flow, and employees with a lot of passion in their hearts, and to develop a totally new market with a totally new and unique product. How could a corporation grow that fast, develop a product, and achieve its financial goals? I believed you could achieve that if you could have a high-growth, high-margin team. So we would try to hire marketing people from Apple, which had expertise in creating emotions in customers to buy products based on value, and, maybe, engineering people out of Atari or Commodore who could really keep costs low.

The key to raising money was to select investors who could really be our partners rather than the money men who are just demanding performance, and if you don't deliver, they get unhappy and keep complaining. I would rather have people who would say, "Kamran how can I help you meet the numbers? How can I help you get this thing done? And I am on your side, and I'm going to fight for you."

On October 9, 1989, Kamran issued a press release, announcing the financing and management team for Momenta. The release noted that Kamran had:

. . . assembled a senior management team with the broad range of technical, management, industry and international experience needed to propel Momenta to success. In a manner similar to Apple Computer, Elahian's new company has drawn its talent from both the personal computer and semiconductor worlds.

The Corporate Culture Meeting

Kamran was concerned that outstanding individuals might not be sufficient to build an "immortal corporation," and on October 16, 1989, he sent a memo to 11 members of the Momenta team.

> From: Kamran Elahian
> To: Distribution
> Re: Corporate Culture and Values
>
> Our first meeting to discuss the creation of a common corporate culture and shared values among the team will be on October 29 from 1 to 5 at Momenta.
>
> Attached find some useful reading on the impact of shared values.

Kamran commented:

> It is unusual for me to send a memo for a meeting. Our company is in the back of one of the buildings of Cirrus Logic—they have kindly given us free space and all the support we need. We are all in one big area with no walls. So usually to call a meeting I say "Okay you guys, let's get together," and everybody comes and sits around a table.
>
> Besides, the 29th is a Saturday. I wonder how we are going to make the session worthwhile.

Exhibit 1

Contact: Robin D. Stavisky
            New Venture Marketing
            (415) 856-9090

For Immediate Release

KAMRAN ELAHIAN ANNOUNCES FINANCING AND MANAGEMENT TEAM FOR MOMENTA, A NEXT-GENERATION COMPUTER COMPANY

MILPITAS, Calif., October 9, 1989—Kamran Elahian, co-founder and former executive vice president of strategic operations at Cirrus Logic Inc., today announced financing and the founding management team for his third start-up venture, *Momenta*, a personal computer company.

To finance this new company, Elahian carefully selected a premier venture capital team which has both experience in building global companies and deep roots in the personal computer industry.

"The venture capital companies and individuals we have selected are all very seasoned," Elahian said. "Each of them is experienced in building a major company and each has strong industry contacts and commitment for the long haul. Even more important to me, each is capable of understanding and sharing a bold vision for a next-generation personal computer company. We expect their ongoing input and advice will be as valuable as their financial support."

Initial financing for Momenta, amounting to $5 million, is being led by Nazem and Company and Institutional Venture Partners (IVP), backers in Elahian's previous companies, and has been joined by Sequoia Capital, Walden Group of Venture Capital Funds, and Associated Venture Investors (AVI). Each firm has pledged approximately $1 million.

"The 1990s will be the era of the global economy," said Lip-Bu Tan, partner in Walden Capital and counsel on *Momenta's* Far East strategy. "The world will become more interdependent. Successful companies will operate around the world, harnessing and combining the best of what each country has to offer. *Momenta* will serve as a model for how a successful business will operate under the new rules."

"The PC industry is experiencing a major transition to a new generation of personal computers," said Fred Nazem, managing general partner at Nazem and Company and an investor behind success stories Apollo and Ungermann Bass. "Far from maturing, we believe the industry offers tremendous opportunities for a next-generation computer company."

Founding Team

Elahian, age 35, has assembled a senior management team with the broad range of technical, management, industry and international experience needed to propel *Momenta* to success. In a manner similar to Apple Computer, Elahian's new company has drawn its talent from both the personal computer and semiconductor worlds. The team includes the following:

- Shiraz Shivji, vice president, engineering. Considered "the father of the Atari ST," Shivji, 42, was the primary developer of Atari's most successful personal computer. (In 1988, it is believed the ST accounted for the majority of Atari's $500 million in sales.) Equally proficient with hardware, software, and system

and manufacturing design, Shivji will be responsible for defining the characteristics of Momenta's products as well as overseeing all aspects of the design engineering process.

- Robert Groppo, director, hardware development. Formerly with Intel, Groppo, 37, is an expert in small, low-power designs. Most recently, he was responsible for developing the architecture and applications for the low-power 386SX component family. Prior to that, he was charged with Intel's acquisition of and applications for RCA's Digital Video Interactive (DVI) technology. His design expertise encompasses both integrated circuits and microprocessor systems.

- Beatriz Infante, director, software development. A 12-year veteran of Hewlett-Packard, Infante, 35, ran software development for HP's internal computer-aided design effort. With the increasing power of PC's, software development has become extremely complex. Infante brings strong team-building skills as well as a disciplined approach to software development in a distributed environment and a proven ability to produce products within budget and on time.

- Jim Guzy, board member. Regarded as an "entrepreneur's entrepreneur," Guzy, 53, was on the founding teams of Intel, Control Data, Memorex and Versatec, and was instrumental in the beginnings of Cirrus Logic. He is a director of Alliance Capital Management Technology Fund and the publicly held mutual funds managed by Venture Advisers.

In addition to co-founding Cirrus Logic, Kamran Elahian earlier founded CAE Systems, one of the first computer-aided engineering companies for the design of systems and VLSI (very large scale integrated) chips. He is regarded as one of the most successful entrepreneurs in Silicon Valley.

Momenta is in the development phase of a radically new personal productivity device that will meet the needs of business professionals in the 1990s and beyond. *Momenta* was founded in October, 1989 and currently employs 23 people at its facility in Mountain View, California.