

**Meritech closes \$400 million third fund.**

October 21, 2005: Late-stage venture capital firm Meritech Capital Partners is closing its third fund this week at its hard cap of \$400 million, according to Paul Madera, managing director with the firm.

The firm started marketing Meritech Capital Partners III in March with a \$300 million target. It held a first close in July with \$340 million, and was then waiting for a few existing investors for final closing.

"It went very quickly because we have great supporters," Madera said. Only five new investors were able to participate in the fund, totaling less than 9% of the money.

The board of the Pennsylvania State Employees' Retirement System authorized commitments of up to \$35 million to the new fund, up from a commitment of \$24.6 million to the firm's second fund, although the new fund is substantially smaller than its predecessor. The State of Michigan Retirement Systems, another returning investor, contributed an undisclosed amount in the fund.

Meritech Capital Partners II closed in early 2001 with about \$1 billion. In June 2002, the late-stage venture capital firm reduced the size of the fund by about 25% to \$738 million.

"We had trouble investing a \$700 million size fund into qualified deals," Madera said, adding that Meritech's second fund is so far two-thirds invested. Excluding follow-on deals in existing portfolio companies, it will be fully invested by the end of the year at which point the firm will start investing out of its third fund, he said.

Madera also said Meritech has seen the size of its deals drop. "We have seen smaller deal sizes that we couldn't justify with a big fund." While the lower range of its investment size used to be about \$10 million, it will now be \$6 million to \$7 million. Similarly, it's unlikely that Meritech will do a \$50 million investment as it has done in the past. "We'll still go up to the \$30s."

Meritech Capital Partners was founded in 1999 in partnership with Accel Partners, Oak Investment Partners, Redpoint Ventures and Worldview Technology Partners to invest in later-stage information technology companies.

While those firms have helped launch the firm and are still sourcing deals to Meritech, it is increasingly finding its own deals now.

Meritech invests in information technology companies in the areas of communications, software and services, enterprise infrastructure, and semiconductors and components. Portfolio companies include Vonage Holdings Corp., 2Wire Inc., Force10 Networks Inc., Fortinet Inc., Proofpoint Inc., Softricity Inc., Salesforce.com as well as IntraLase, Inc.

Madera mentioned fixed-mobile convergence, security, and Internet-based businesses as areas where the firm will be especially focused.

Meritech anticipates it will invest in approximately 30 companies. At the firm's current investment's pace, it will take the company three to four years to fully invest its third fund.

The Palo Alto, Calif.-based firm currently has four investment professionals including Madera; Mike Gordon, managing director; and Rob Ward, managing director. Mark Lockareff joined the firm in the spring of 2004 and serves as venture partner. The firm isn't planning to add any new partners in the near future.

<http://www.meritechcapital.com>