



Idealab Reloaded

Surprise! Ex-dot-com-wizard Bill Gross is back. BY NADIRA A. HIRA

BILL GROSS HURRIES ACROSS THE ROOF AND UP A FLIGHT of flimsy metal stairs. He's talking a mile a minute, showing off a five-foot-wide solar collector that's taking in the rays on this blinding Pasadena afternoon. "So this has a whole bunch of individual mirrors that all attract the sun and shine on that receiver up on top. And because there's 25 mirrors shining on that, it puts out 25 times as much power. And because it puts out 25 times as much power, it's \$300, a lot cheaper than a traditional solar panel at \$1,200." These solar "sunflowers" are being tested by Energy Innovations, a five-year-old subsidiary of Gross's Idealab, which hopes to get them to market this year.

Gross is just getting started. He turns, gesturing toward a nearby Cheesecake Factory and other buildings farther down the street. Atop them are shiny black objects resembling sleek, cylindrical wastebaskets; they're actually networking gear made by Omnilux, another Idealab startup. "Omnilux does free-space

optics—high-speed optic communication—this is one of their units, right over here," Gross says. "It goes on a roof and broadcasts an optical beam to other rooftops. And that communicates 100 megabits per second, and it's only \$2,000."

Downstairs are more surprises: prototype robots with the ability to see and recognize objects, a cellphone prototype designed to work without towers in the Third World, a very-early-stage two-person hybrid car that incorporates an unconventional Stirling cycle engine. They're all made by the current crop of companies Gross is nurturing at Idealab, the business that hatched out of his brain in 1996 and inspired a wave of imitators known as tech incubators.

If this were 1999, the roster of Idealab startups would be much longer. Idealab housed as many as 50 dot-coms simul-

GROSS NEVER QUIT hatching companies, but his watchwords are now fewer startups, nurtured longer.

What's cooking on Idealab's roof

Idealab's 16 startups include businesses like Energy Innovations, maker of this solar collector. Designed to get more out of expensive solar cells, the six-foot-tall Sunflower, as it is called, concentrates light to extract 25 times the electricity for less than half the cost of a conventional solar panel.



RECEIVER

Built-in fins and fans keep a foot-square set of high-efficiency solar cells cool as they convert light to electricity for use in the building below.

CONCENTRATOR

Twenty-five bathroom-scale-size mirrors on a motorized metal frame bounce solar rays toward the receiver. Like a real sunflower, the unit tracks the sun across the sky.

taneously at the height of the Internet craze, when Gross, with his superkinetic inventiveness and geeky charisma, seemed to embody the promise of the web. Some of Idealab's brainchildren were lasting successes—like GoTo.com, which pioneered the idea of paid search, paving the way for Google (GoTo sold to Yahoo in 2003 for \$1.6 billion); or Picasa, which Google bought for an undisclosed sum last July. But most of Idealab's dot-coms imploded with the boom. So did Gross's reputation, and so did Idealab, nearly.

Now the business is down to 16 companies. Its portfolio is far more diverse, including software, hardware, and web businesses. Not all the startups have products or services on the market, but those that do generate annual sales of \$435 million.

Gross, 47, is surprisingly different too—he's starting fewer companies, expanding and financing them more cautiously, hanging on to them longer, and letting the management teams he has assembled do their jobs without meddling. He's much more selective about when he takes an executive role; for example, he is CEO of Energy Innovations because energy is one of his lifelong passions. Gross's new sober side emerges as he heads back to his desk, in a glass-walled office smack in the center of the floor. His voice drops an octave and he encourages a visitor to interview the other CEOs "to really learn about Idealab's businesses."

The makeover seems to be working. Idealab is the only tech incubator that survived the crash in its original form (some morphed into other kinds of businesses). Though it remains a private company that doesn't disclose its finances, it has retained all 400 backers who owned shares in 1999—a roster that includes such big names as Compaq co-founder Ben Rosen, actor Michael Douglas, and venture capitalist Tim Draper. Idealab's businesses are attracting capital too: Since January, Idealab has closed major fi-

ancing rounds for six of its startups. While the amounts involved are modest by bubble standards—the deals total \$33 million—much of that money comes from top-tier VCs, including Mohr Davidow Ventures and Mayfield. Says Erik Straser, general partner at Mohr Davidow, the lead investor in a \$16.5 million financing round for Energy Innovations: "Bill is starting companies of great promise and of great interest to the venture community. His enthusiasm and passion are still contagious. But now there's a clarity that comes from having to regroup and think about the next wave of companies—and a new ability to take execution to the next level."

WHEN FORTUNE LAST TUNED IN TO BILL GROSS, investors weren't saying such nice things about him. The tale of what Idealab insiders call the "dark time" has been well told, notably in our spring 2001 cover story (see fortune.com). At that point, many of its startups had failed, and Idealab had canceled a long-planned IPO. It soon shuttered newly established satellite offices in New York, London, and Silicon Valley, and fired scores of people—headcount fell from 250 to below 100. In January 2002, investors who had bought into a private placement of Idealab shares at the peak of the boom sued to get their money back. The private placement had valued Idealab at \$9 billion, but the plaintiffs estimated its re-

maining value at a mere \$500 million. (The suit was eventually dismissed and the two sides came to terms.)

Gross, who still owns about one third of Idealab, talks about that period with downcast eyes. "I never expected to lose shareholders' money," he says. "I never want to be in a position to do that, or cut people's jobs, again." The setbacks forced him to slow down and reflect for the first time in a career that had begun before he was old enough to drive. Gross had his first entrepreneurial epiphany as a high schooler in Van Nuys, Calif., during the energy crisis of 1973, when he founded a business that sold solar-

Chastened by the crash, Gross pulled the company through what a director calls a "managerial growing up."



energy products. The profits helped pay his college tuition at the California Institute of Technology. There he started a loudspeaker company (with his younger brother Larry) that helped support him through graduation.

The brothers moved the business to a quiet, tree-lined street in Pasadena. They expanded into software during the IBM PC craze of the early '80s, selling an add-on for the Lotus 1-2-3 spreadsheet. "That was back when software was expensive," Gross remembers. "You'd make it for \$5 and sell it for \$695, and we thought that was amazing." Lotus eventually bought the company and kept the brothers on as consultants (Larry is now a partner in Malibu Capital, which invests in renewable energy).

IDEALAB RELOADED

In 1991, Gross, now father of a 5-year-old son, was itching to hit the entrepreneur trail again, and founded Knowledge Adventure, an educational-software maker. By 1995 it had grown into a \$25-million-a-year business, cementing Gross's reputation in Silicon Valley as an ideas guy—even Steven Spielberg became an investor. But Gross found himself getting restless again, and as the Internet emerged in 1995 he went off to launch CitySearch, the first online metro guide, and Idealab.

For Gross, the notion of a dot-com hatchery was the breakthrough of a lifetime. The concept was simple. Each idea—most of them Gross's—for a web company would get startup funding (up to \$250,000) from Idealab's board. Idealab would recruit a staff, create a subsidiary, and solicit outside investors to provide any additional funding. Meanwhile, the fledgling would have a home at Idealab's offices and help with all the generic functions that often bedevil startups—publicity, finance, HR. The startups would be free to concentrate on innovating. And more important, Gross would be able to realize more of his ideas. "I'd been a serial entrepreneur," he says, "but now I was a parallel entrepreneur."

Rethinking it all during the crash was a humbling ordeal. "For all of us, especially Bill, it was a managerial growing up," says board member Howard Morgan, who headed Idealab's New York City office. Day after day, Gross and his management team—including Morgan, former AT&T executive Robert Kavner, and Marcia Goodstein, Idealab's COO and Gross's soon-to-be second wife—debated how to break the downward slide. "We had to completely reevaluate what we were going to be, what we were going to stand for, what kind of companies we wanted to make," Gross says. The dot-com collapse was making it obvious that "starting a company for \$250,000, having other people fund it, and quickly spinning it off, was not going to go anymore."

Gross's answer was to concentrate on what he calls "big, impactful, change-the-world companies" with vast potential markets in energy, communications, and transportation. "We said, It's going to take five years to get any company profitable," he explains. "To make that amount of heartache worthwhile, we had to set the bar completely differently." He adds, "We slowed our pace dramatically. We still had 20 ideas a month, but we just rejected 20 a month for six months, before we started one."

IDEALAB'S OFFICES STILL LOOK LIKE THE HOME OF A DOT-com. Conference rooms are named for famous inventors; Gross's own travel photos adorn the walls, which are painted in neon colors; and in the middle of everything is a carpeted corral for showing off gadgets from Evolution Robotics, one of Gross's "new class" of startups. But don't be fooled: There's real technology innovation happening here. Alec Hudnut, the robotics

company's CEO, is in the corral, pushing a shopping cart loaded with cases of Coca-Cola through a prototype grocery checkout lane. As he plays checkout clerk, scanning the items, a shin-level digital camera spots a case tucked under the cart and automatically rings it up (grocers lose big money on items stashed or forgotten under the cart). The system's vision-recognition software, called LaneHawk, is being tested at Pathmark, Giant Eagle, and other supermarket chains.

Down the hall is Snap.com, Gross's latest Internet search and advertising brainstorm. The company is not much to look at—a bunch of techies at computers with stuffed toy dragons dangling overhead—but its search engine is among the Internet's most talked-about innovations. It enables advertisers like United Airlines, Hewlett-Packard, and eBay to pay only when a purchase or other transaction occurs, instead of paying for clicks that might or might not result in action. (For instance, eBay pays 10 cents per bid and \$20 per new customer.) Snap.com recently landed \$10 million of additional venture funding: \$4 million from Idealab and \$6 million from Mayfield. Says the fund's managing director Allen Morgan: "The entire \$8 billion to \$10 billion market we call search to-

day is more or less all based on Bill's idea for GoTo.com. To be able to invest in a company that bears the brunt of his creative passion is a real advantage."

Idealab is creating startups at a rate of about two a year. Five are making money, says Gross, including Internet Brands, which started as CarsDirect, an online new- and used-car lot, but now handles mortgages too (Gross calls it an "Amazon for large purchases").

It is Idealab's big revenue generator, accounting for \$300 million in annual sales. Six other startups—including Evolution Robotics and X1—are on track to reach profitability next year, says Gross. Idealab's burn rate is down to a respectable \$1.5 million a month (vs. \$40

million in the run-amuck days); it has just 75 employees, with more than 1,000 in the extended universe of Idealab companies.

For his 400 shareholders, Gross still expects to deliver. "I want Idealab to be a way better investment for them than had they invested in the stock market," he says, "so they'll have started companies, created jobs, and done better than the market over the same period." Rosen, having seen Gross through his ups and downs, thinks his presence makes Idealab still a worthy bet: "Bill has developed many very commercializable technologies that have created companies, and there are a lot more in the works now. That's what's kept me excited and loyal and enthusiastic. The business model is secondary. Idealab is an investment in a unique person—there's only one Bill Gross." For now, however, there's no talk of an IPO; watch for Gross to let Idealab mature, perhaps partly to show how much he has matured himself. ■

FEEDBACK nhira@fortunemail.com

Idealab's big bets

In the past six months outside investors have helped fund six Idealab startups. A sampling:

Omnilux \$8 million Its rooftop "nodes" create high-speed data networks between buildings, using optical beams.

Snap.com \$10 million Search engine delivers "cost per action" ads; advertisers get billed only when a customer does what they want, like buy a product or download information.

X1 \$10 million Makes a search tool that enables PC users to locate old files, e-mails, and attachments on their desktops or corporate servers as fast as they can type.

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