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# THE SERIES A TEAM: Prelert's Search For Data Center Patterns Persuades Venture Capitalists

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(EDITOR'S NOTE: This story is the first in a weekly series profiling innovative start-ups that received Series A funding in 2010. These stories offer an inside look at the cutting-edge technology or service that enticed venture capitalists to invest, as well as the events that led to a deal.)

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DNA sequencing and speech-recognition technology aren't obvious tools for rooting out a data-center glitch at one of the world's largest banks, but that's exactly what gives start-up Prelert Inc. its edge.

Most systems management vendors' technologies use a series of rules to find the cause of application errors, but "as infrastructures have gotten more complex, it's been impossible to write rules to determine what went wrong," said Mark Jaffe, the company's chief executive and one

of its founders.

"This one was intriguing from the beginning because, living in the enterprise world, it's a problem you hear about all the time," said Rick Grinnell, a managing director with Fairhaven Capital Partners, which, along with Sierra Ventures, provided the company with \$3.75 million in Series A funding in August.

It's in the DNA

The idea behind Prelert was developed by Steve Dodson, its chief technology officer, who had helped build the last generation of rules-based products as a founding engineer at RiverSoft Technologies Ltd. "In looking at the root cause of a problem, you need to understand the behavior of the system," Dodson said. Prelert accomplishes this by gathering multiple types of data from complex IT systems.

To put that data to work, the company leans on pattern recognition algorithms developed for DNA sequencing and speech recognition--advances that Dodson was familiar with from the time he spent at Imperial College, London, doing research in the related field of computational mechanics and getting a Ph.D. before he joined RiverSoft in 1998.

In 2008, he began working on an idea that he'd been kicking around for a while: using pattern recognition to find the cause of enterprise application performance issues. Though the raw data used in DNA sequencing or speech recognition is very different from what comes out of data center monitoring systems, part of Prelert's secret sauce is in transforming the data to fit into those algorithms.

The company's early code was developed in London at Promethyan Labs, an incubator run by some former founders of OnLink Technologies Inc. and RiverSoft Technologies, with the idea of finding a CEO and moving the business to where that CEO is based. That happened in mid-2009, when Jaffe was brought in to set up the company in Needham, Mass. (It later moved down the road to Framingham, Mass.)

Prelert uses those advanced algorithms to build self-learning software that's capable of parsing log files, events, performance and usage data to learn about a customer's IT infrastructure and how it all relates together.

**A Matter of Minutes**

Armed with that knowledge of how a customer's infrastructure is uniquely connected, Prelert can determine in minutes what is causing applications to perform poorly, compared with days, weeks or even months of meetings between application developers, network engineers and IT operations staff to determine the source of the problem.

Rather than replacing existing monitoring tools, most of which are aimed at one portion of the application infrastructure, Prelert's software gathers and analyzes information from those.

The problems that Prelert solves are common, but solutions to them are anything but. For example, one of the world's five largest banks, which is a paying customer and has deployed Prelert in data centers around the globe, was getting stale stock price data from its Reuters Market Data System. Prior to using Prelert, it spent weeks tuning the hardware that runs the application, with no result. It then devoted three engineers to the problem and after two months all they could do was recommend a \$1 million infrastructure upgrade.

With Prelert on the case, in five minutes its Incident Cause Analysis determined that one of the application servers was frequently terminating a connection and recovering it was causing a surge in traffic that was slowing down the pricing data. Jaffe declined to name the bank.

Prelert is focusing most of its early sales efforts on companies in financial services because they're more willing to try products from start-ups and they appreciate analytics more than other industries. It has also begun to dabble in selling to telecommunications companies, Jaffe said.

Subscription licenses for Prelert can cost \$75,000 but can be much higher depending on the size of the environment where it's being used.

After joining Prelert in 2009, Jaffe spent six months learning about customer needs, sizing the potential market and developing the business plan, and then began reaching out to investors.

**'Money is Money'**

Jaffe first looked west, to David Schwab, a managing director at Menlo Park, Calif.-based Sierra Ventures and an investor in OnLink, where Jaffe was an early employee. Schwab had also been an investor in Micromuse, where some of the principals at Promethyan Labs had worked. Sierra is also an investor in Promethyan Labs and had backed the first company to come out of the incubator, Rivermuse Inc.

With those connections, Jaffe was able to secure a commitment from Sierra Ventures after two meetings, but Jaffe and Schwab agreed that the Massachusetts company would benefit from having an East Coast investor with more local connections, Jaffe said.

It took much longer to get a commitment from Cambridge, Mass.-based Fairhaven Capital, which was introduced to the business through Sierra Ventures but otherwise had no connection to the founders. Grinnell and Jaffe first made contact around Thanksgiving 2009. Between then and the close of the Series A in August, the two had more meetings than either could count offhand to discuss Prelert's market, technology and the competitive landscape.

Meanwhile, Fairhaven did its due diligence on the market and Prelert's technology, while Grinnell gathered intelligence from senior IT managers, like the head of systems management at a large bank whose staff spends 50% of its time isolating the main cause of service issues.

"You don't want to underestimate the time and effort that the [Series A] process takes," Jaffe said. But "it does tend to force you to answer good questions that customers won't ask," Jaffe said.

For Fairhaven, Prelert fit well within one of the firm's investment themes: helping IT reduce operational costs. It's had success with that theme in the past with investments such as EqualLogic Inc., which made storage systems that were less expensive to buy and manage than they had been. It was bought by Dell Inc. three years ago for \$1.4 billion.

Fairhaven wasn't the only firm that Jaffe pitched to; he had about three other firms with significant interest, he said. But when he got the term sheet from Fairhaven, he accepted because he felt he and Grinnell would work well together.

"Money is money," he said. "You've got to live with this person on your board."

-By Scott Denne, Dow Jones VentureWire, 212-416-2028; [scott.denne@dowjones.com](mailto:scott.denne@dowjones.com)

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