Interview of Edward (Ed) Leonard

Interviewed by:
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Charles House: Ed, it's a real pleasure to have you here today. I'm Chuck House, and I'm with the Cisco Heritage project. And we're here at the Computer History Museum for an interview today. Today is September 11th 2015. It's a historic day in American history. And we're pleased to have you. I wonder if you could start by maybe describing a little bit where you were born and raised. And what your schooling was, and then we'll talk about how you got into the career you did.

Edward Leonard: Sure, thanks, Chuck, happy to do this. So I'm a New Yorker. Went to school on the East Coast, Yale. And I was in the Navy for five years, and came out here to Stanford Law School. And after Stanford, I joined a San Francisco law firm, Brobeck, Phleger & Harrison, which represented Cisco early on.

House: You met Don Valentine long before you met Cisco, I should say.

Leonard: Well, not really. I was-- I knew Gordy Russell, Don's partner, who was a board member of the company I represented. And when I first met Bill Graves and Sandy and Len, I introduced them to Sequoia through Gordon. And Gordon was more of a medical guy, so he turned it over to Don, and that's how I met Don. I think I'd met Don a couple of times before that, but I didn't really know him all that well till he got involved with Cisco.

House: So you actually brought Cisco to Don instead of the other way around.

Leonard: Yes, yeah.

House: So you go back about as far in Cisco history as they have history.

Leonard: Yeah, well, they apparently had seen a lot of other venture capitalists, and I didn't know that when I met them. But my partner Jeff Kingston at Brobeck was a friend of Bill Graves at the Berkeley Flying Club. And Len and Sandy worked for Bill at Schlumberger. And so Jeff told them that I could help them get financing. So the three of them came to me, and I turned them over to Gordy Ruseell at Sequoia, as I said. And then David Morgenthaler at J.H. Whitney, and I believe Whitney had a conflict. I think they were in WellPoint (this is actually WellFleet). And also John Doerr at Kleiner Perkins. He was a friend that I knew pretty well. And John at the time was taking a sabbatical with Sun, and I can't remember if Kleiner had a conflict. But in any event, they didn't follow up, but Sequoia and Don jumped all over it and were very interested in the space. And you know, decided to make an investment.

House: So this would have been '86?

Leonard: '87, yeah, '87, sometime in '87. 'Cause we did the financing, the Series A financing was done at the end of '87.

House: Okay, got it.

Leonard: And uhm--

House: And then you served as a sort of a legal counsel for Cisco for quite a while.

Leonard: Yeah, well, then I was their main outside counsel through the time I left my law firm in 1997. So that was ten years.

House: Wow, so you saw-- you know where the bones are buried, I would have a hunch.

Leonard: Not all of them, 'cause he didn't see the internal workings and obviously there was a lot of conflict, or H hear there was a lot of conflict internally. But I didn't see that. But I went to all the board meetings from basically Day One, and was in constant contact with Bill Graves when he was CEO, and then Sutcliffe, and then Morgridge, and then Chambers. So yeah, I got a--

House: So I was thinking about that coming over. You probably are one of the few people on earth who knew every one of the CEOs of this company.

Leonard: Through Chambers, yeah.

House: Through Chambers, yeah.

Leonard: Yeah.

House: Yeah, maybe not today, but for the first 30 years of the company basically.

Leonard: Yeah, exactly.

House: You knew the founders personally.

Leonard: Yep.

House: You knew Graves, obviously.

Leonard: Yeah.

House: And then Sutcliffe was an interim, I think.

Leonard: Yeah.

House: And then Morgridge.

Leonard: Well, Don was interim, too.

House: Don's <inaudible> himself?

Leonard: Yeah, so Don counts as a CEO there for a while.

House: Okay, okay, well, yeah.

Leonard: I can go into that story if you want.

House: Well, take me through some of the personalities and how you saw that unfolding when you first got there.

Leonard: Yep. Well, Len and Sandy were obviously very bright, and Don liked them both. And they thought Sandy was, at the time, you know, great woman example and a good person to have onboard, and she was fiercely-- had fierce advocacy around the customers, and that was her initial title, I think, was Head of Customer Advocacy. And so Don liked that. He liked the two of them. Bill Graves was a good guy, really. He was a PhD, very smart, was really good at getting projects done. I think perhaps his failing was he was, Don used to call him a serial processor, he'd do-- sort of focus on one thing at a time. And he didn't really understand startups. And they had all sorts of issues to deal with. I mean, manufacturing, engineering, sales. And I just don't think he was ready to undertake working on all those different fronts at the same time. And at one point, I think Sandy and Len said, "You know, we can't work for this guy anymore." They originally had convinced him to leave Schlumberger to help form the company, and then they'd obviously done some work at Stanford before, they even had a team together. But they looked at Bill to be the CEO and to start the company. But then they came to Don later and said, "Wait a minute, this isn't working. We can't work for this guy." And Don, you know, that upset his organizational thinking. Because the employees aren't supposed to fire the CEO; it's the other way around. So that irritated him quite a bit. But he agreed to do it, provided he has complete control over the company. Which he did. You know, we arranged some agreements. And I think what he mostly wanted to do was to get a new CEO. So--

House: Help me with that transition a little bit. It sounds as though he had already made an investment, Graves was running it, and he was content with that. And then he cut a deal that got him the ownership structure somewhat separate from the funding? Was that?

Leonard: Yeah, yeah. So he was-- Graves was there for a year or two.

House: Okay.

Leonard: And I'm not sure Don was completely happy with him, but you know, Don was coaching him and things were going along. It was just helter-skelter. And there was a lot to stay in control of. And you know, there was some management changes as well. So I think-- and I should mention, the CFO was Lloyd Embry, who was a guy, who was a Navy Lieutenant Commander and didn't really have any small company experience either. So I think Don was a little upset about how that was going. But you know, Don was always willing to tolerate a little of non-standard organizations and behavior, and non-standard people.

House: So he'd invested in Apple many years before.

Leonard: Right.

House: Talking about crazy kids to bet on.

Leonard: Yeah, exactly. It was--

House: He didn't try to run that company.

Leonard: No, no. Don definitely didn't want to run the company. And I remember one board meeting where Bill Graves was kind of asking him, you know, what Don thought he should do, and Don said, "Well, wait a minute. You tell me what you think you ought to do. And I'll tell you whether it's good or not. We want you to run the company." And that was kind of Bill's attitude a little bit, I think. And Don was, "No, I'm not running it, so I'll give you my opinion, but you're making the decisions."

House: I think some of mythology of Silicon Valley does us a disservice. Because I think Don's characterized as sort of this take-over guy by many of the books. What you're describing is much more what I personally knew about him.

Leonard: Yeah. Well, he's got strong opinions, but he wants other people to voice their opinions, too. And Terry Eger who was the first sales guy, I think, I mean, you know, this is a long time ago-- I don't remember all that stuff exactly, but Terry was adamant that they have a direct salesforce. And Don wanted distribution, and Terry was quite a character, too. I don't know if you've--

House: Oh, we're going to talk to Terry.

Leonard: Or met him. But he prevailed, and they did a lot of-- well, the early sales-- I mean, one of the reasons Don was attracted to the company, because there was no salesforce, they were just selling the product on basically word of mouth. And when Don invested, I think they had about a million or a million-and-a-half in sales; mostly from this word of mouth, and Don said, "If people are buying the product without marketing to them, our salesforce has gotta be pretty good." And the evaluation, you know, in retrospect, looks crazy. I mean, they bought a third of the company for 2.5 million dollars, so, with a million dollars in sales. I mean, you don't see that nowadays.

House: Yeah, that's a pretty good deal. Pretty good-- different than Instagram.

Leonard: Yeah. But I think the thing Sequoia did, and maybe this is why people get a little confused. They really helped. I mean, Pierre Lamond did a tremendous amount of work and contributed a lot of engineering, manufacturing. Don was a leader of the board, and helped hire Sutcliffe, and then Morgridge. So they were very influential in making the company successful.

House: So let's pause there a minute and take me through how Pierre got involved, and what his role with Valentine was. How the company viewed that.

Leonard: Well, Pierre was a partner of Sequoia, a partner of Don's, a long time.

House: Kind of an entrepreneur in residence, if you will?

Leonard: No, no, no. He was a full venture capitalist. I mean, he worked for-- I can't remember if it was National-- he worked for a semiconductor company.

House: Right.

Leonard: Brilliant guy, knew the semiconductor industry cold; knew engineering projects cold. And Don put the full resources of Sequoia behind the company. And I may have this wrong, but I think there-- at one point, their manufacturing facility was on the second floor. So when they'd finish a product, you know, you couldn't put it on the truck without dropping it on, so that was pretty basic. But I mean, Pierre--

House: Like building a boat in a basement, right?

Leonard: Yeah, exactly. So Pierre did an awful lot to organize and structure the engineering and manufacturing, and just generally helped the organization. I think he was down there once or twice a week, trying to turn them into a real company versus a bunch of really smart software engineers.

House: So again, the name that comes up, but the literature doesn't treat him as having any significant role, whatsoever. And what you're saying is--

Leonard: Yeah, well, he had a very significant role, and we just had to call it a party for remembering the old days, and Pierre was there, and they took a picture of the board, and said, "And Pierre, come on! You gotta be in this picture, too!" Although he wasn't on the board, but I mean, it was-- he was a full--

House: And you weren't on the board.

Leonard: I was not on the board.

House: Were you ever on the board?

Leonard: No, I was never on the board. But I went to every board meeting, and so--

House: And describe the early board, because I think that's, again, a group that's not well-known.

Leonard: Well, it was Len, Bill Graves, Don, and I can't remember if there was anybody else. They got a financial guy, Bob Sweifach, for a short time. And-=

House: And there was Bill O'Meara?

Leonard: Yes, Bill O'Meara, yeah, was-- I think Don might have known him through when it was semi-conductor companies.

House: And so he brought a couple people in. But it wasn't that Sandy and Len had them.

Leonard: Right. Yes, yeah, no, they were recommended by Don. I think probably Len and Sandy interviewed them.

House: Sure.

Leonard: But part of a venture capitalist's role usually is to find some outside board members and bring some with third party perspective until--

House: And he was the only funding investment, right?

Leonard: Yes.

House: There wasn't like a tiered thing where--

Leonard: Well, it generated so much cash. I mean, I remember going to a meeting once later on, there was some celebrating. And Don had this big chart about cash flow, and said, "Morgridge is a magician because it grew from a million-and-a-half to billions without needing any financing, except through the IPO." And even that was only $50 million, so.

House: Yeah, and that was-- so the $50 million, that would have been '90?

Leonard: That was 1990, yeah.

House: And they were doing by then, what? Five/six million, on that order?

Leonard: You know, I looked it up the other day, I can't remember. I think it was more like 20, but I'm not sure. (fiscal 1989 was $27.7M)

House: Okay.

Leonard: But they had a fantastic run there. I mean, I remember one year where they-- the current year's net income exceeded the previous year's revenues.

House: Is that right?

Leonard: Yeah, so they had tremendous growth, tremendous profitability.

House: Their margins were--

Leonard: Yeah, margins, when Don invested, were in the 50 percent. But then quickly got up to high 60s.

House: So and that had to be a heady time for you. I mean, just watching this. There aren't many companies that were quite structured like that at the time, were there?

Leonard: Yeah, no, it was a lot of fun to be part of, for sure. You know, the whole pre-IPO period was nerve-wracking, because there was such turnover in management, and you know, questions about whether the company would actually succeed with all that turmoil going on, but the main thing is the customers, it was a perfect market, and they were the leaders, and they actually ran the company very effectively. So.

House: So let's trace that a little bit. So when you got involved, Graves was running it.

Leonard: Yes.

House: And Sandy and Len were troubled by him, but he wasn't gone yet.

Leonard: Well, he was their guy to begin with. But then they asked for one reason or another to get somebody else.

House: Then Don cut a deal that gave him control.

Leonard: Right.

House: And he ran it for a short time himself?

Leonard: Well, basically just long enough to get Sutcliffe in there.

House: Okay, and tell me about Chuck.

Leonard: Well, he was a good guy. I mean, he wasn't, I don't think, a superstar manager, but he managed to calm the waters and keep the products turning out. And the goal was to get a permanent CEO. So Chuck knew--

House: So he knew he was interim?

Leonard: Yeah. I mean, I think he wanted to put his hat in the ring for permanent, but that was never really in the cards, I mean.

House: And were you involved in Don's thinking around how to find someone else?

Leonard: Well, I recommended that he interview Steve Smith, who was an old friend. And he'd just left Reference Technology, so I knew him as a kind of corporate guy at Amdahl, and then he was an entrepreneur, and a very smart guy, and Don interviewed him. I didn't know Morgridge, but so I understood the process. I think there was another-- I think there might have been a third person. And we helped write John's contract, and so forth. But John was obviously the right choice, and did a great job.

House: John, not on camera, but offline, described for me that contract at one point. <laughs> Can you give me your perspective on how that--

Leonard: You know, I honestly don't remember what the details were. But I remember we got it done.

House: I think he said something to the effect of, "Seemed to focus a lot more on what happened if I didn't succeed, than if I did."

Leonard: That's probably our doing.

House: <laughs> Definitely go look at the contracts, get-- so what you met John, what was your impression? Did we have the right guy? I mean, in retrospect, obviously, it was the right guy.

Leonard: Yeah, in retrospect, obviously. I mean, I couldn't tell-- John, as you know, is a unique type of personality. Very focused on-- he's very frugal guy, which made a huge difference. And I can tell you some stories about that later. But he didn't have a whole lot of use for lawyers, so I wasn't his favorite person to talk to. But he was very loyal, and he included me in a lot of his thinking, I think. But he-- and then when he hired Bolger-- would give me lectures periodically about, "Better, cheaper, faster-- and particularly, cheaper." <laughs> And before the public offering, he took me out to lunch with John and said, "Look, this is for us to make the money, not for you to make the money." <laughs>

House: Really?

Leonard: Yeah.

House: Okay, pretty clear.

Leonard: Pretty clear. But I mean, that was his persona.

House: His style of the day.

Leonard: Yeah, and he-- I don't think we ever really had a dispute over the bill, but that was-- he just wanted me to understand that he didn't want to run up the meter here.

House: Right, sure.

Leonard: I think I was always pretty cognizant of that. And one of the-- I mean, I was never a lawyer to just run up bills, for sure. And one of the reasons I liked working with people like Cisco is they valued judgment. You know, this is important, and this isn't so important." And I think John's point of view, and Don, to some extent, too, is lawyers can overpay for things, and get you projected on things that'll never happen. And that wasn't my outlook.

House: So we kind of glossed the period, but between Graves and Sutcliffe, with Valentine, there was a set of issues around Stanford, and I think got resolved before Morgridge showed up, didn't it?

Leonard: Yeah, well, that was actually just at the time that Don was investing. It was certainly-- Graves was still President. And there's a lot of literature on this. And I don't really know what happened, but Sandy and Len, you know, worked at Stanford. I think Sandy was Business School, and Len was in the Engineering Department. And they wanted to have the departments talk to each other, and they had two software guys in there, (Greg) Satz and (Kirk) Lougheed. And so they developed some software to make that happen. And then Cisco wanted to be able to sell that software commercially. And Stanford thought that they had taken the exact software developed for Stanford and were making commercial use of it. And a lot of the literature that I read said that Stanford was mad and considered criminal charges and so forth. I don't know if all that is true, but I do know that they sent Cisco a letter-- and I just can't remember if this is after Don invested, or before-- saying, "Everything you have belongs to Stanford." And so my partner, Jeff Kingston, again, went to negotiate with them, and Bill Graves was part of that. And they basically settled in a day. I mean, Jeff did-- Jeff said, "Look, you can give them a royalty, but we got to cap it. And if you cap it, they're going to want a guarantee. But the cap can make a tremendous difference, and the guarantee won't make any difference, because if you don't pay it, you're going to be bankrupt anyway."

House: <laughs> Sure.

Leonard: So they agreed to that.

House: They? Sandy and Len.

Leonard: Stanford agreed to that.

House: Oh.

Leonard: Yeah, so the cap was pretty small. I think we ended up not disclosing it in the IPO, but stuff I've read said in the hundreds of thousands.

House: Yeah, I've heard a quarter million.

Leonard: Yeah, yeah.

House: That's pretty accurate?

Leonard: Yeah, so.

House: Which is nonsense <laughs>, when you think of the Google deal.

Leonard: Yeah, no, exactly. But Don put Stanford Engineering Department into the Series A round.

House: Oh, did he?

Leonard: Yeah.

House: Huh!

Leonard: And so they made plenty of money on that.

House: Yeah. Oh, I didn't-- I don't think that's ever been disclosed in a public way. I mean, it's obviously a matter of record. But--

Leonard: Yeah.

House: But I haven't seen that in the journals, the accounts.

Leonard: All right, well, now it's out there. I don't think there's any secret about it.

House: Yeah, I doubt that there is. But in fact, there wouldn't be if it's in a round. But so that all got done and settled, before Don made the investment.

Leonard: Well, I can't remember that for sure.

House: It was in that timeframe.

Leonard: It was in that timeframe. It was just--

House: Was it just the thing for him to invest, or do you recall?

Leonard: No, no. I don't remember that being any contingency. There was a contingency that he agreed that he'd make the investment, preferably. And Cisco was then selling some commercial product to Hewlett-Packard, and Hewlett-Packard had a whole bunch of different ways they wanted to interact. Were they were going to acquire the company? They were talking about acquiring the source code. And they ended up just saying, "Okay, we'll buy some product." And we resisted the source code license, obviously. So we said we'd sell them some product. But then Hewlett-Packard said, "Wait a minute, the product isn't functional. We're not going to buy it." And at that point, Don said, "Hold on. The material adverse change; we're not going to invest till we get this resolved." And this is-- there was not contract signed, so we didn't really need to invoke material adverse change, but that's kind of a legal thing so say, "Wait a minute. Let's see how this works out." And then I can't remember how it was resolved. I sort of think we must have-- they must have accepted the product. But anyway, Don went ahead and invested.

House: Were you involved in any of those discussions with HP?

Leonard: No, that was my partner, again, Jeff Kingston.

House: Okay. Okay, my understanding of that is that there were two different groups at HP interested in the product, and the group that prevailed could care less about the source code. The group that was interested in the source code, essentially saw them as a competitor.

Leonard: Yeah.

House: Yeah, one was an internal group trying to build internal tools. And the other was obviously externally.

Leonard: Well, that's certainly consistent with what Jeff told me was that they kept on changing their mind on what they wanted to do.

House: Is he still around?

Leonard: Jeff Kingston? Yeah. Sure.

House: Might be interesting to get his perspective on that matter.

Leonard: Yeah, well, I talked to him yesterday, and he just said, "Well, they were all over the place." So, he-- maybe he can give you a little more detail on it.

House: Okay. Yeah, if I could get contact info on him, that'd be great.

Leonard: Sure.

House: And I'll give him a call at least, and see what he would share. So that was an early conflict. But their next major customer, I think, was Boeing, if-- does that resonate? Or do you have much memory of that?

Leonard: You know, I heard that after the fact. But yeah, they had the Boeing person at this dinner to celebrate the old days.

House: Gary Kunis?

Leonard: I think so. Because he ended up working for Cisco.

House: Yeah.

Leonard: And he told--

House: I mean, they attracted characters!

Leonard: Yeah, well, exactly. And then some brilliant ones. But some rough edges on other ones. But he said when he was-- when Cisco was telling him, you know, "You gotta get this order through; can't you hurry up and buy this stuff." He said, "You don't understand. At Boeing, more people have to sign off on this piece of paper than you have in your entire company."

House: <laughs> What a perspective!

Leonard: Yeah. Yeah, I mean, I think John actually went up to Boeing, and stayed at one of the employee's houses, or his mother's house, maybe even.

House: Is that right?

Leonard: Up there, yeah, to try and get the deal done.

House: He was famous for staying at a cousin's house, or a sister's house.

Leonard: Yeah, save money, yeah.

House: Saving money riding a bus from the airport over to the home. You know, kind of fascinating in many respects.

Leonard: Well, it worked. I mean, this is a little bit further on, but I remember one time at a board meeting, they showed a comparison of the Cisco numbers, and then a competitor numbers-- might have been 3COM-- but I'm not sure. And the top line was about the same, the margins weren't that much different, Cisco was a little better; but the operating expenses, Cisco's were about half of what this other company's were.

House: Is that right?

Leonard: So turned into total bottom line. And it gave Cisco a better multiple, and the market cap was, you know, hugely different. So.

House: So you were pretty connected in the whole Valley at that time. This was late '80s/early '90s.

Leonard: Yeah.

House: What was the mood as you recall it about networking companies in general? Because 3COM was obviously earlier and bigger for quite a while.

Leonard: Yeah.

House: And there was also Synoptics around and Ungermann-Bass, and several others.

Leonard: Right, yeah. Well, and Hewlett Packard and Sun were basically poised to be great networking companies. And IBM, of course, was a closed system, but they had a capability.

House: Their SNA was--

Leonard: Yeah, exactly. So you know, I don't remember when I called up Don, I sort of understood the idea that it would be good to have computers connected to each other. And I had heard TCP/IP mentioned a fair amount. And I think that's what turned Don on is that particular protocol, which was basically turning into a standard. And I later found out Cisco was a really multi-protocol router, which was their big advantage. So I think it was pretty embryonic. I mean, it's not like the Internet has suddenly arrived.

House: Right.

Leonard: It was, "How do you do this?" And you know, big-- as I said, IBM, HP and Sun were poised to own that market if they wanted to, and if they understood it better. So yeah, I mean, I think that--

House: Do you have any thoughts on why they didn't do better? Or why Cisco uniquely did so well?

Leonard: Well, because they were big companies, and they had their own existing--

House: <laughs> Classic, huh?

Leonard: Existing, you know, products. And I'm a little surprised about HP, 'cause their philosophy was always to have different groups invent things.

House: Right.

Leonard: But you know, I don't know. It's just so much easier for small, nimble companies. And particularly when you've got a good venture capitalist on your board. I mean, Don was a great board member in a lot of ways, but he kept his ear to the marketplace, very interested in what customers were looking for. And Cisco, itself, I mean, we were very customer-driven. "What do they want?" You know, when they acquired Crescendo and Kalpana was all that, "We gotta get into the bridge business big time! That's what the customers are asking for." And--

House: So did you help engineer those deals?

Leonard: Yeah, yeah.

House: So yeah, give me some of the thinking around those. Because there's a school of thought that says, "Well, we're a router company, and we can compete with switches." As I also hear it, there was another faction that said, "You know, why build it? Why not buy it? Why not get there quicker?"

Leonard: Well, the quickest way was to buy Crescendo, and their product hadn't yet been introduced. And this I should go back and say I'm not sure they would have done this acquisition binge they went on without Chambers. Because when Chambers, before he was CEO, you know, he had various roles, but he said, "Look, to grow this company, we've got to have an acquisition program." And they turned it into a really good one. But the first one was Crescendo, and they acquired Mario Mazzola and a bunch of other people stayed there for a long time, that were really key players. But I remember, I told the board that, "You don't need a fairness opinion for this, because it's all about the new product in engineering. It's not about numbers." And that's the way they looked at it. And then as soon as they announced-- and then John also told the board, "Listen, people are going to say we're paying too much for this, and we're going to do some acquisitions, and some of them are going to fail, and I hope it isn't this one. But I think this is something we need to do." And so the board said, "Fine." But he prepared them that they're not all going to work. But it was very much about the new product that they had, which I believe had not been introduced yet. So anyway, they announced it, and Frank Quattrone called me up first thing in the morning saying, "Why didn't we get a fairness opinion on this?" And I said, "Well, I told the board they didn't need one!"

House: <laughs>

Leonard: And he said, "You idiot! How could you do that?!" <laughs> "I thought you were my friend." So he ended up calling up John Morgridge and getting some money out of him, 'cause--

House: Is that right?

Leonard: Yeah, they were Cisco's bankers, and they did the IPO, and it was kind of like, "You're our pals," but anyway, that was the way they looked at that one, and it was not that really financial, and what does it take to get there? And the next one-- it wasn't the very next one, but the next important one was Kalpana, and Kalpana had announced that they had a term sheet with IBM. And--

House: Oh, they did? Okay.

Leonard: Yeah.

House: And so they asked me, "What can we do here?" 'Cause the term sheets, I don't know if you remember, but there was a case that Marty Lipton (at Watchell Lipton) was involved in in New York, Pennzoil, where a term sheet-- somebody who overbid a term sheet was held to have interfered with a contract.

House: Oh, really?

Leonard: Even though it was not a binding contract. Didn't have as much good language in it as they later put, but yeah, and they got sued for millions of dollars and ended up paying it, so, luckily at that time, I had just been representing the Giant's Owner Group, who-- and the previous owner, (Robert) Lurie, had a term sheet with a group in Miami. And so the investor group in San Francisco wanted to know could they make a bid, and trump this term sheet. And so I did a lot of research on that, and I knew a little bit about it anyway, did a lot of research on it. Said, "Yeah, as long as it's subject to a condition, you're not going to be interfering with a contract." So I took that and applied that to the Kalpana situation. And said, "Yeah, it's not-- can't guarantee IBM won't sue," because they're a litigious company. And I did-- had a previous company that was involved in litigation with them, "But you know, you're going to win." So, they went ahead and bought Kalpana. And it was-- you know, both those deals at the time were thought to be overpriced. People said, "Oh, you're crazy, how can you do this?" But you know, they got their purchase price back in sales.

House: Oh, they got their-- overnight – it was stunning.

Leonard: You know, and yes, exactly. So.

House: Now it became an integrated company.

Leonard: Yes.

House: They could look like a full-service provider.

Leonard: Yeah.

House: Prior to that, nobody could. As I, you know, saw it.

Leonard: But I think more than that, it's their customers were asking for this product, and Cisco didn't have one.

House: You've referenced that two or three times that they were really customer-focused.

Leonard: Yeah.

House: What do you attribute that to?

Leonard: Well, part of it was Sandy, I think, set the wheels in motion. And part of it was probably John Morgridge. And certainly part of it was Don. 'Cause Don is a very evidentiary-based thinker. He's not one of these people who says, "I've got a theory, and let's get some facts that fit the theory." It's, "Let's get the facts first, and see what hypothesis emerge." So a very scientific way of thinking. And when you're thinking about new products, what better way to find out what the customers want than asking them, and staying close to them.

House: He made the comment one time about AppleTalk. You know, he'd been an early investor in Apple, and I think he kept watching that, and AppleTalk just went nuts with the kids, as much as anything in the schools. And it was like, "What's that about?" Don pieced it together, I think, quicker than anybody.

Leonard: Yeah.

House: And so he may have applied that to this arena.

Leonard: Yeah.

House: You know? And I mean people were still debating the value of PCs. It wasn't until 1990 and Windows 3.1, that Microsoft really scored in the office marketplace.

Leonard: Yeah, no, you're right. They were more single purpose. Yeah.

House: Yeah, so you know, we tend to not remember that.

Leonard: Yeah.

House: In our industry. But, so take me a little back. There was clearly a period that Don-- so what I'm thinking of is when Don joined. He brings a very different personality to the table than anybody prior. Sutcliffe had calmed the water somewhat. How did that baptismal time feel with John at the helm? I'm talking Morgridge, not Chambers.

Leonard: Well, I think John was able to calm people down, too. And they put some new people in there. Dave Ring was a brilliant guy in manufacturing, and made a huge difference. And I think they changed the engineering guy out, who was a little bit disruptive. And you know, of course, shortly after they went public, I mean, a couple of years after they went public, Len and Sandy left.

House: That was almost an insurrection, wasn't it, by the staff? At least some of the accounts are that a group of them marched into Morgridge's office and said, "She's gotta go."

Leonard: It's possible. I didn't see that.

House: You weren't part of that.

Leonard: I wasn't part of that. I just know that they wanted to separate themselves from the company, and they wanted to have some ability to get rid of their stock. Which I can't remember if it was under lock-up or not. But clearly, if they'd sold it all in one bundle, it would have been bad. So.

House: So describe that a little bit. I think you and I have talked about that, we've had a conversation. They wanted to sell? Were they nervous about their holdings all being concentrated? Or were they nervous and didn't want to go forward with the company? What?

Leonard: I think Len was nervous about the direction of engineering. Whether they were focusing on the right projects and so forth. And probably there was a little resentment, if there were people who didn't like them internally, there was probably a little bit of, you know, "If you don't like us, we don't want to be associated with you." But, and it certainly would make sense to say, you know, they should diversify a little bit, or maybe a lot. I mean, you know, giving a lot to charity, particularly Sandy. So I think they just wanted to be finished with Cisco. And I don't really know that. But what I do know is we had a negotiation in our office in Palo Alto with John and Don, and the lawyer for Sandy and Len. And they had a local lawyer here, but they-- he was with Latham and Watkins, and so they brought up a big hitter from Los Angeles. And this guy arrived in a white stretch limousine in front of our office in Palo Alto.

House: Classic Palo Alto tour bus.

Leonard: Yeah, and for Don and John, of all people, to see this ostentatious display by a lawyer, that set the meeting off on the wrong foot.

House: Oh, lord, yeah, Don! <laughs> I can imagine.

Leonard: Yeah. But anyway, we worked through that, and you know, as far as I know, they took their money and left and have done just fine. Done what they wanted to do.

House: So it wasn't that they left, and then, piqued, the next day they flooded the market. It wasn't a kneejerk reaction to leaving, necessarily.

Leonard: I don't think so. I mean, Sandy, as I said, gave a lot of her money to a charity. So.

House: Describe your interaction and your perspective on both of those founders, individually. You said a little bit obviously how Sandy and her view on customer advocacy.

Leonard: Well, I liked them both when I met them. You know, they were very sincere. Very kind of driven. And unusual personalities. But that's, you know, I don't have a problem with that.

House: That's a big word. Describe "unusual."

Leonard: Well, I mean, you know, more so than the typical software engineer. They were dressed very kind of raggedly in T-shirts that were making statements and so forth. And Len, particularly, bald head, very bright guy, very kind of intense. And every topic you gave him, he wanted to kind of iterate through every piece of it to understand it all. And I never did a lot of interaction with them outside-- basically not outside of business, but even within business, I'd see him at board meetings and stuff, because most of it would be with the CEOs.

House: Sure, sure.

Leonard: But I can see how they might have been-- Cisco was a big deal for them obviously. They wanted it to work, and if somebody internally wasn't following their mandate or vision or the way things-- they thought things should go, I can see how their-- could get confrontational, and irritated and so forth. So I can see how that all could happen. But I never really saw it. I thought they were both intelligent and interesting and driven and a lot of fun to be around, actually. But I didn't work with them every day, so--

House: Well, but first impressions count, and you had a number of first impressions with them. Sounds like they were, in the main, pretty positive. That these-- that this was a good tour.

Leonard: That was certainly my impression, yeah.

House: And they--

Leonard: But I mean, people, you know, obviously Steve Jobs was asked to leave Apple, but he irritated a lot of people. And there's just some of these really good entrepreneurs just aren't easy to get along with. I think another story from Don and Tom Perkins about a company they invested in, and they both got reference checks on the CEO, and they came back and Tom called Don and said, "These are the worst reference checks I've ever heard on anybody. This is a horrible guy!" And they said, "Well, it's all right. He does well, so let's make the investment."

House: And did they, and did it work?

Leonard: Yeah, yeah. Yeah.

House: Well, there you go!

Leonard: So it's not that you look for people that can't get along with other people, but a lot of entrepreneurs in Silicon Valley have unique capabilities and characteristics, and they're driven, they want to make things happen, and sometimes you got to put up with some of the rough sides of that.

House: Oh, well, here at this museum, we've recorded a lot of them. You know, Larry Ellison’s a character.

Leonard: Yeah, yeah.

House: You can go down the list pretty quickly to this. So some of the current round are no different.

Leonard: Yeah, yeah. Well, and you find in the military, too, a lot of the best military officers are people that are intense and hard to get along with, and want to get their way.

House: So a side characteristic was not only were they bright and driven, but the people they attracted seemed equally so. I mean, you mentioned Terry Eger, you know, was-- had his own drummer. And I don't know that-- might have been Bob Burnett was the--

Leonard: Engineering guy, yeah.

House: And didn't fit in, but you know, but a personality, certainly. Embry, what was Embry like?

Leonard: Well, Embry was a more level guy. I mean, he was a, as I said, a Lieutenant Commander in the Navy, so he was used to kind of taking orders.

House: So he understood that process of <inaudible>.

Leonard: Yeah.

House: And then they got-- who replaced him?

Leonard: Well--

House: Bolger.

Leonard: Bolger, yeah, John Bolger.

House: So what was John like? He was pretty level-headed, wasn't he?

Leonard: Yeah. John is very normal.

House: <laughs>

Leonard: John, if you watch this, I don't mean that in a bad way. But he was very dedicated. A good guy.

House: Did Morgridge bring him in, or Valentine bring him in, or how--

Leonard: You know, I don't know how he-- exactly who got him, but he got along very well with both of them. And he was a very responsible CFO. And you know, a good budgeter.

House: And he was there through IPO time.

Leonard: Yeah, so he did the IPO. Yeah.

House: So you worked with him, I'm sure.

Leonard: Yeah, a lot. So I don't think he was crazy about the conference calls, you know, investor quarterly conference calls. And it was a lot of pressure, because Cisco had told people, I can't remember, it was look for 30 to 50 percent growth. And for a long time they were great at hitting their numbers. Hitting a little bit better than their numbers every quarter. But you know, life doesn't work that way. It was non-sustainable. And I think John was always apprehensive that someday it was just going to come to an end, and people would be mad at him.

House: But it was John Russell, not John Bolger, that had the famous words.

Leonard: Right, yeah, yeah.

House: Which didn't, you know, offend anybody. A classic HP guy.

Leonard: Yeah.

House: To tell the truth, instead of, you know.

Leonard: Yeah, so John Bolger made lots of money, and has been on boards, devoted himself to playing the Top Hundred golf courses in the world.

House: Yeah, he's the Top 100 golfer, that guy. Yeah. Yeah, he's enjoyed that period.

Leonard: Yeah, but he was a great guy. And he understood the personalities internally, and I think was a good sidekick to Morgridge to sit down with and say, "You know, how do we deal with this person, and keep them here and take advantage of what they can do well, and not have to put up with the bad stuff."

House: So some of the others that came along in that period, Kozel came along, Cate Muther came along.

Leonard: Yeah, I don't remember when Kozel got there. I sort of think of him as a little later, but he was a key acquisition guy. Key guy in acquisitions. And sort of think of him more relating to Chambers. But I could be wrong. Don Listwin was along then.

House: Now Don was a pretty powerful character.

Leonard: Yeah.

House: Describe your interaction with him, and how you saw him. Because when each of these people came in, it was a small enough company, and they had to put their mark on it.

Leonard: Yeah.

House: And I'm sure there was a baptism time.

Leonard: Well he did. He was a great sales guy, and I don't think this is really anything that-- it probably hasn't been seen-- heard a lot, but Don supposedly in a sales meeting dropped his trousers on a bar. And you know, this was discussed at the board, and people said, you know, "How could he do this?" And Don Valentine said, "It's great! You know? He's committed. He wants to sell these people." You know, so that's the case-- he was a character, there's no doubt about it. But he was a good salesperson, he put together a great organization and he eventually ended up running the service provider organization, I think. You know? Not just sales.

House: And he's gone on and had a great career in the Valley.

Leonard: Yes!

House: No question about it.

Leonard: And Charlie Giancarlo and Mike Volpe were early people that assisted in all the acquisitions. And were really good people to work with, extremely smart. So I'll say one thing about John Chambers-- we haven't really gotten there yet, but one of the best things he did, I think, was to convince good people to stay. And can give them a vision of Cisco becoming as big as Microsoft, and as important as Microsoft.

House: Really?

Leonard: Yeah.

House: So that was Chambers more than Morgridge?

Leonard: Well, I heard it from people who'd heard it from Chambers. And it was sort of more in Chambers time. I mean, Morgridge was inspirational, and he got a lot of great people to stick around. But you think of all the acquisitions they did. They kept some really good people. In most companies, a year or two after an acquisition, a lot of the inspired people have gone, and you're left with good capable people, but they're nothing, you know--

House: Yeah, it's not that you-- it's not who you started with.

Leonard: Right, exactly.

House: So you were part of the Crescendo negotiation.

Leonard: Yes.

House: And wasn't there a stipulation in that one by Mario that you had to keep the people, or something to that effect?

Leonard: Yes, you know, that came up a lot. And I think that was basically Chambers invention, but the idea was, "We won't fire anybody without consulting you." So it wasn't you had to keep them, but, "We're going to make sure we talk to the old Crescendo management before we terminate anybody."

House: So due diligence, if you will, with who used to be responsible for it.

Leonard: Right.

House: And we've looked at the numbers of who stayed and who didn't from the Crescendo acquisition. And they acquired about 100 people. Does that sound about right?

Leonard: Yes.

House: And a lot of them didn't stay more than a year. But the leadership stayed more than the troops stayed.

Leonard: Yeah.

House: Which is what you just alluded to. And that's the end inverse of what you almost always see.

Leonard: Yeah.

House: So that speaks to that policy pretty well. That's sort of amazing. So you think that was Chambers building this, "You could be part of something really great."

Leonard: Right. And the other thing is, you know, in those days, Cisco was growing so fast, and the stock was splitting every year, and the market cap was going up and up and up. And so if you would--

House: You would handcuff them.

Leonard: Yeah, if you assumed the options, which they did-- first of all the time between signing and closing, they'd already made 20 percent, 30 percent from their option value, and then stick around for another couple of years to invest completely. So there was that financial incentive to stick around.

House: Were most of them two years, those kind of deals, or were they--

Leonard: Well, I think they were mostly four year options.

House: Well, yeah, four was what I was familiar with in the Valley.

Leonard: Yeah. But I mean, if you'd gotten two years in your old company, and then got acquired by Cisco, you had another two years to--

House: Oh, sure! Just hang on two years, and you're golden.

Leonard: Yeah.

House: Interesting. But yeah, the stock was on a tear, so, that had to be a pretty good inducement. But then if you get to run something, too. And he let them run things.

Leonard: Yeah, no, absolutely.

House: They got to be captains of their area.

Leonard: Yeah, so that's what growth'll do for ya.

House: That's interesting. That's a model that-- has that model been followed much? I don't know that it has. What's your perspective on the Valley in that way?

Leonard: Well, I think the company, you know, and I'm still in the business of selling small companies to big companies, and the big companies are so big now they've got infrastructure in place, and they've got people who have jobs and so forth. It's much harder to do.

House: Kind of like the Boeing has more people to sign off, and you get people in your company, kind of do, yeah. Intel with the science fair, you know, the old Westinghouse science fair. It's amazing.

Leonard: Yeah, yeah.

House: It's sort of a sad commentary that some of the great aren't in our industry today, but it's certainly different.

Leonard: Well, the big companies do well, and you know, to compete worldwide, you need a big infrastructure, and you know, it's a different talent, a different mindset to manage all that.

House: So instead of me asking questions, let me ask you to just freeform share some-- what do you think are some of the salient high points?

Leonard: Well, I think we actually, we covered most of them. I mean, I would say that both John Morgridge and John Chambers, you know, made huge leadership contributions. And so impressed with how hard they work, and how dedicated they were. I mean, Chambers, I remember seeing his first shareholders meeting, and he was not a fluent public speaker. And he just really worked to do it, and then he ended up giving speeches all over the world. He's on YouTube all the time now. He's retired. But I mean, he got to be a really good communicator. And it wasn't something that was natural to him. He just made it happen.

House: You know, I haven't heard anyone say that, but it stands to reason. But he was dyslexic. I guess he is dyslexic. And for an interview he did here, he talked about how that you can either view that as a difficulty or an opportunity.

Leonard: Right.

House: So he learned to be a good public speaker. It wasn't natural.

Leonard: And he wasn't a natural technologist, either. I mean, he was a lawyer. You know, he went to law school-- I don't know if he was ever a lawyer, but he went to law school and was a sales guy. So he surrounded himself with people who understood the technology and the trends. First, it was Ed Kozel and some other people that could help him out on that score.

House: So he had a lot of lieutenants that he seemed to trust a lot. You've made reference to several. Mario, for one, among others.

Leonard: Yeah, well, I think, yeah, and he kept on changing.

House: And there aren't a lot of CEOs at that stage that delegate, or that trust in quite that way, are there?

Leonard: Well, I don't know about that. It seems like you have to if you're in that big an organization, if you try to run it all yourself, it's gonna kind of collapse. So John's way of running the company was through money. So he and Larry Carter-- and I can't remember, who was the third person involved in that would allocate budgets to different business units. And then say, "Here's the money." You know, it wasn't totally without strings, but you know, "You spend it the way you want, and here are your goals in terms of revenue and profit, but you achieve them the way you think is to achieve them." Yeah, so I thought that was a pretty savvy way to do it.

House: Managed objectives in a pretty way clear way.

Leonard: Yeah.

House: Huh!

Leonard: So that's certainly not micromanaging, and that's trusting.

House: No, yeah.

Leonard: You know?

House: Well, that's a key facet right there. Other people that stand out in your recollection? You know, within the company?

Leonard: Well, I mentioned Kozel, I thought he made a really big contribution early on. And I think Giancarlo and Volpe doing the-- starting the acquisition program were pretty crucial. And they turned it into a business process. It wasn't just-- that was the lawyer's, I think, transactions. And once the deal is closed, the money changes hands. You know, then it's over. But they learned how to integrate companies, take care of people. And Day 1 when it closed they knew who was going where. And they had a procedure where to come to the board to recommend an acquisition, you had to have a full integration plan. So it was all laid out beforehand. And I've been to lots of companies where it's just, "Can we get this deal done?"

House: Interesting. Yeah, for that, I'm more familiar with the latter. <laughs> Both sides of the other way.

Leonard: Right.

House: But yeah, those are kind of shuck-and-jive kind of deal.

Leonard: Yeah, and so obviously, not every acquisition has been successful, but you know, it's--

House: High percentage.

Leonard: Right, high percentage.

House: And the ones that hit are really spectacular.

Leonard: Yeah.

House: Service side. Joe Pinto comes to mind as someone that picked up Sandy's advocacy.

Leonard: Yeah, I didn't deal with him, or know him.

House: Engineering, anybody stand out, you know?

Leonard: Well, no, because the-- well, Mario. But then the people who came after him, I was either disassociated or not something that was in my province as a lawyer. Manufacturing, as I said, Dave Ring made a huge contribution early on, and Carl Redfield. He's been doing it forever, but he was a really influential guy, too. I mean, manufacturing is a crucial piece of it.

House: Oh, sure.

Leonard: And I think Cisco was early on, and just in time. And I'll say another thing about-- this is Chambers and Morgridge-- I mean, they're both-- they wanted to have good partnerships with their suppliers and vendors and service providers. So when they had the 100-year flood thing in 2002, my-- I was gone from my law firm at the time, so this isn't anything I knew from board meetings-- but my impression was that they didn't automatically cut all their suppliers dead. You know, (coulda said,) "We're not taking these chips. We're not taking these parts," because they had the problem. They said, "Look, let's work on how we can reduce the pain here across the board, because we're all gonna have pain," because they way over-ordered for what the demand was.

House: When you say the 100-year flood, the dot-com meltdown?

Leonard: Yeah, the dot-com meltdown, yeah. So they were saying, you know, 30 to 50 percent growth forever, and then all of a sudden, it's a 100-year flood, and we're gonna have to retrench and write-off inventory, and so forth.

House: So they didn't cut people off.

Leonard: Yeah, I mean, they did some painful restructuring, but I'm sure they canceled some orders, but it wasn't like, "We're protecting ourselves at your expense." It's more like, "Hey, let's figure out how to work through this, so we both do well."

House: It's not something in the literature very much, and a very thoughtful, you know, community approach.

Leonard: Yeah, well, it definitely pays dividends. And then John Chambers and I used to have lunch, you know, once a quarter, once a month-- or breakfast-- just to, he wanted to make sure that we were keeping our end of the bargain in terms of are we hiring enough people to service them, and what are our problems with Cisco and so forth? So it wasn't just, "Hey, I've got an assignment for you." It's like, "We're partners in this, and let's make sure that we keep that relationship." So.

House: Dan Scheinman, did you work with Dan?

Leonard: Yeah, yeah.

House: All right, he tells the story that Morgridge certainly didn't want a lawyer around. <laughs> So he had to change the title he might take.

Leonard: Yeah, yeah.

House: It fits against what you said earlier.

Leonard: Yes, well, so Dan was hired, I think, as sort of a Contract Administrator, and then he eventually worked himself upward to a visible position, where he was my main interface.

House: Okay.

Leonard: But I kept going to the board meetings, and so we'd have to work on how we managed. And obviously, Morgridge wasn't gonna have Chambers work and manage the whole legal relationship. 'Cause they had so much. They had real estate, they had patents, they had litigation. They had the corporate stuff, so you know, it was a lot to manage.

House: Oh, yeah, well, well, they were a multi-billion dollar company by then, right?

Leonard: Yeah, exactly, yeah.

House: I mean, you can't get to five billion without having a lot of those issues...

Leonard: Yeah.

House: ... become pretty front and center.

Leonard: Yeah.

House: Let me just take a quick look at my list to make sure there's nothing that I've left out.

Leonard: Okay.

House: I raised with you on the questionnaire, something about the Network Equipment thing, but that may not be something you know much about. I know there was a deal that Morgridge cut with Network Equipment that later they wanted to not be part of.

Leonard: Yeah, I don't remember that too much, and I may have been involved in negotiating, but I don't remember. But it was something that I think nobody was crazy about at the time. But it was an OEM distribution arrangement, so it enabled them to get greater sales. And I think maybe they gave them some rights to the technology, which in hindsight-- well, I think going in they knew that that was a risk. But the benefit was better to keep the sales going, I think was the-- and I don't remember how it got unwound actually, but-- so I might not have been involved, because Network Equipment was also a client, so.

House: Oh, were they?

Leonard: Yeah, and maybe they had a conflict on that one.

House: Oh, okay.

Leonard: But I just don't remember.

House: So I've probed it a couple of times in questions, but let me just--

Leonard: But I'm not giving you a complete answer.

House: No, no, I'm not worried. You're among friends. The question, I guess, in going back to this period, just what perspective did you have on the network game? You know, the local area network was the 3COM kind of thing. This was the wide area network, kind of a novel piece of cake. And while HP was doing some proprietary stuff, and IBM was, and things like that, this notion of wide connection, you know, of competitors, defenders, to the thing that allowed them to do the vendor support systems, that wasn't in the thinking, was it, in the Valley, even? I mean, it wasn't just that it wasn't unique to Cisco. Have you got a--

Leonard: You know, I don't-- my perspective was so Cisco-oriented, and I represented NET, and didn't have a lot of other networking companies that I remember. I might have worked on VitaLINK IPO, but I'm not sure. But my perception was, "Hey, it's working. They're growing like mad, and they're making lots of money." So--

House: So it wasn't a question of trying to understand that perspective.

Leonard: Yeah, I didn't--

House: It was hang on and go for the ride.

Leonard: Yeah, exactly. You know, I didn't see some big theme, although in retrospect, it's obvious.

House: I think in retrospect, we all were at the big meeting of the Homebrew conference, right?

Leonard: Yeah.

House: But the room wasn't that big.

Leonard: Yeah.

House: And well, this has been great, Ed. And I really appreciate your taking the time to share these thoughts. And I don't have a lot of other questions. I think what you contributed to Cisco is unique and certainly worth recording for posterity.

Leonard: Okay, well, thanks. I'm glad I did it, and it's a great company, and it's a great project that you're doing here for the computer industry.

House: Oh, well, thanks for your time. A pleasure.

Leonard: Yep, okay.

END OF INTERVIEW

