Oral History with Michael C. Brooks

NVCA Oral History Collection

This oral history is part of *National Venture Capital Association (NVCA) Oral History Collection* at the Computer History Museum and was recorded under the auspieces of the NVCA. In November 2018, the NVCA transferred the copyright of this oral history to the Computer History Museum to ensure that it is freely accessible to the public and preserved for future generations.

CHM Reference number: X8628.208

© 2019 Computer History Museum

National Venture Capital Association
Venture Capital Oral History Project

Michael C. Brooks

Interview Conducted by
Carole Kolker, PhD
June 30, 2010

This collection of interviews, *Venture Capital Greats*, recognizes the contributions of individuals who have followed in the footsteps of early venture capital pioneers such as Andrew Mellon and Laurance Rockefeller, J.H. Whitney, and Georges Doriot, and the mid-century associations of Draper, Gaither & Anderson, and Davis & Rock — families and firms who financed advanced technologies and built iconic U.S. companies.

Each interviewee was asked to reflect on his formative years, his career path, and the subsequent challenges faced as a venture capitalist. Their stories reveal passion and judgment, risk and rewards, and suggest in a variety of ways what the small venture capital industry has contributed to the American economy.

As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 21 percent of U.S. GDP and was responsible for 12.1 million American jobs and $2.9 trillion in sales**.** These figures, while significant, greatly understate the collective accomplishments of the venture capital industry.

I'm pleased to have initiated and given my early support to this project, which is now receiving support and funding by NVCA. I believe these oral histories will advance the understanding of the venture capital industry. This collection, along with Paul Bancroft's Bay Area oral history project at the Bancroft Library at the University of California, Berkeley, and Paul Holland's Silicon Valley project for the Western Association of Venture Capitalists, will add significantly to a growing body of venture capital memoirs available to the public sector.

A special note of gratitude goes to each interviewee who generously gave of his time while candidly sharing his memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry.

Charles W. Newhall III

2010

VENTURE CAPITAL GREATS

A Conversation with Michael C. Brooks

Michael Brooks, a venture capital industry veteran, has been a Partner with Venrock since 2000 and an active venture capital investor for over twenty-five years. From 1985 to 2000, Michael was a Partner of J.H. Whitney & Co.; prior to that, he spent eleven years with Morgan Stanley & Co, where he was the Managing Director responsible for the firm's investment banking activities with emerging growth and technology companies. His extensive background in finance and investments provides entrepreneurs in enterprise software, financial services and digital media with unique insights into managing and financing rapidly growing businesses.

Michael has been a director of numerous public companies including People Express Airlines, Filene's Basement, Decision One Corporation, Fogdog.com, Homestore.com, MediaMetrix, P-Com, Niku Corp, USinternetworking, VitaminShoppe.com, and Sungard Data Systems. In addition, he has been a director of many private companies during his venture career.

Michael has been recognized multiple times on the Forbes Midas list and served as a director of the National Venture Capital Association. He is a member of the Yale Development Board and currently serves as a Trustee of the Hospital for Special Surgery, the US Ski and Snowboard Foundation, and the US Cycling Development Foundation. Michael earned a BA in History from Yale University in 1967, served as an officer in the U. S. Navy during the Vietnam War, and received an MBA from Harvard Business School in 1973.

The following is an interview with Michael Brooks of Venrock. This interview is taking place at Mr. Brooks' office at 530 Fifth Avenue, New York City. Today's date is June 30, 2010. This interview is being conducted for the National Venture Capital Association's Venture Capital Oral History Project. My name is Carole Kolker. [This interview was edited for clarity by the interviewer with additional edits by Mr. Brooks.]

THE EARLY YEARS

Carole Kolker: *Well, I'm going to go back and start from the beginning, if you don't mind, because I want to know when and where you were born.*

Michael Brooks: Well, I was a Navy brat. I was born in Miami Beach, Florida, where my dad was stationed during World War II as commanding officer of a sub-chaser. During my early years my two older brothers often teased me because I was born in St. Francis Hospital, which was on the water along one of the causeways connecting Miami Beach and Miami, and they would tell me that because I was born on the water, not on the land in Miami, that I was not born in the U.S.

So 1945 was at the very end of the war. We then moved up north to where my grandparents lived in Scranton, Pennsylvania. We were there briefly. My father became a sales engineer with Hewitt Robins, a technology company ultimately acquired by Tex Thornton at Litton, and he was transferred to Virginia for a couple of years and we lived in Williamsburg. He then was transferred by Hewitt Robins to the headquarters in Stamford, Connecticut, so we moved again, to Wilton, Connecticut. Sadly he died very suddenly of a heart attack shortly after moving to Wilton so there was my mother with

three boys — 13, 10, and 8 — and decided that Wilton was where we should grow up. She remained in Wilton for most of her remaining years.

CK: *So your father was young.*

MB: Absolutely. Forty is too young, but today there is the technology to diagnose these problems and hopefully avoid them. And as a result, all three of us have been pretty careful about our health. So I grew up in Wilton, stayed there through elementary school, and then followed both my brothers to northwestern Connecticut to attend Kent School. I then continued on to Yale where I majored in history — not necessarily the most relevant preparation for this business, but it was a fun major and I remain pretty interested in reading up on political history.

CK: *So you're the youngest of three.*

MB: I'm the youngest of three.

CK: *Of three boys.*

MB: Yes. My mother deserves enormous credit. What a saint!

CK: *Lucky later, but its tough raising three boys, especially alone. How did you all get along?*

MB: Pretty well. I got along perhaps a bit better with my oldest brother — family dynamics often are that way. Tony was five years older and led the way to Kent and to Yale. Colin, the middle one, was our "black sheep" and went on to Harvard. But I got along pretty well with both of them. We were very competitive athletically. We all played football, hockey,

and tennis at Kent, and Tony went on to captain the tennis team at Yale. As the youngest I followed them around on the fields, rinks, and courts and enjoyed a very early start in those sports. I was lucky to be able to excel in both hockey and tennis at Yale — playing two varsity sports today is almost impossible.

CK: *Were you a tinkerer at all, or more of a reader?*

MB: You know, growing up, I was focused mostly on sports. The picture there is something that Yale produced for me — my son and me in our Yale hockey uniforms about forty years apart — two generations. It was a real thrill to watch him follow in my footsteps there — perhaps the apple does not fall far from the tree. But being so involved in sports limited the time I might have had for tinkering, although I did rebuild several cars over the years. Reading was mostly nonfiction about history and politics. But competitive sports were the priority.

CK: *I can see it in your eyes!*

MB: I was not a particularly voracious reader. I just loved competition and was lucky to be reasonably talented in a couple of sports, and so school was about working hard enough to get through to college and having fun on the school teams. Playing competitive tennis on a national level consumed summers when I was out of school. I guess I don’t fit the profile of someone that tinkered around in my garage and built things.

CK: *Were you a good student? Easily or just—?*

MB: A good student, I guess — I didn't struggle. I ended up majoring in history because I entered Yale with enough advanced placement credits to opt out of several survey courses and that gave me the opportunity to meet some of the really good professors early on. That was how I became interested in the history of Russia and Eastern Europe — the Cold War was then raging and there were several professors who had experienced that in real life, such as Ivo Lederer and Wolfgang Leonhard.

CK: *Did you have any mentors along the way?*

MB: You mentioned that in your email and I have thought about that. I would say there were a couple of mentors in school. New England preparatory schools are very close knit. Kent was all boys for most of the years I was there, three hundred students, and there were some really very dedicated faculty members, teachers, and coaches. I was on the board at Kent for about fifteen years, and one of the things we've always looked for in recruiting faculty members were those triple play people who could excel as teachers, coaches, and mentors. There were a couple of them I admired at Kent. Yale was such a big place it was more difficult to develop close relationships with the faculty. Obviously I became close to several coaches but I never developed a strong affiliation with any particular teachers. Notwithstanding the great education opportunities offered by Yale, most of the most interesting courses were pretty large, except for upper class seminars, and those weren't always taught by the full professors. But a couple of the professors in the larger courses did inspire my interest in the history of Eastern European and Russia. My senior year

paper was on the communist takeover of Czechoslovakia in 1948, and I really enjoyed doing the research.

I graduated in 1967, and the Vietnam War was in full tilt. I was contacted by my draft board in the spring of my junior year. They told me that no matter what happened, whether I was married, had kids, or was in graduate school, I could expect to be drafted. Not a lot of volunteers in Fairfield County. So I applied to the Navy and Marine OCS and the CIA. I never was officially accepted by the CIA, but they found it pretty interesting that I knew so much about Eastern Europe, and of course that was when the Cold War was at its peak. But I didn't speak the languages — Serbo-Croatian, Hungarian or even German — so I guess they thought I might require too much training.

CK: *How would your classmates describe you in terms of — were you always exuberant, passionate?*

MB: I think they'd say I was passionate, focused, and pretty directed. I had some specific goals and was very focused on achieving them. Growing up without a father leaves you a bit vulnerable in the sense that you aren't that comfortable seeking out mentors for advice, but it also makes you pretty independent, because you don't have anyone watching over you. Just as long as you can stay out of trouble and not make bad decisions.

It's interesting — one of the more successful hedge fund people here in New York — at the firm where my daughter works — is John Griffin of Blue Ridge Capital. We helped

John start up Blue Ridge when he left Julian Robertson at Tiger. We had some extra space at J.H. Whitney in New York and one of my partners, who went to Stanford with John, offered him a short term lease on some of our space. So he moved in, and our hope was that he might be willing to establish a hedge fund under the Whitney umbrella. Anyway, I have known John for a long time, and coincidentally and fortunately my daughter ended up working for him, and she's a partner at that firm now. But John is a very private guy in contrast to many of the very successful hedge fund guys, and one of his passions is an organization here in New York called iMentor. And what iMentor does is it employs technology, basically the Internet, to connect mentors with inner city students. They enable about a thousand of these relationships, some of which have been really wonderful, and many of which have not really blossomed. But very successful young business people, in their thirties and forties, sign up and say "yes, I will mentor a child in the public school system in New York." They are required to meet with mentees four times a year, and if the relationship flourishes, they end up meeting with them more frequently.

So we went to this dinner the other night, they honored John for ten years of supporting this organization, and they obviously invited the poster children who had done really well, and they had a couple who came from really problematic backgrounds to attend some wonderful schools. And my wife and I started talking about mentors, and she asked, "Did you ever really have a mentor?"

I really scratched my head. I didn't really have one that I can really point to, perhaps because you proceed pretty independently when you don't have someone who's taking a strong interest in what you're doing, as a father might. And my mother, for all the love and support she gave us, was not in a position to serve as one.

My oldest brother was perhaps the closest thing I had to a mentor. He went to Yale. I followed him to Yale. He went into investment banking at First Boston. I went into investment banking with Morgan Stanley. And so probably subliminally he was more of a mentor than anyone else. And he spent thirty-five years on Wall Street. He was smart. He retired to Jackson, Wyoming — he skis, fishes, hikes, bikes, and has a great time out there and remains in great shape. I haven't followed him out there yet do spend some time out there with him.

CK: *This is Tony?*

MB: Yes.

CK: *And the middle brother?*

MB: Colin? He graduated from Harvard and then Cornell Law School, becoming a lawyer at Winthrop Stimson, now Pillsbury, and then spent a couple of years in investment banking before joining Amax, American Metal Climax, where he ran their operations in Central America before the company was sold to Chevron. He then started a company that did language translation with his wife.

CK: *You're all pretty active.*

MB: We're still kicking.

CK: *How would you describe the values in your home growing up, maybe in terms of work ethic or success or towards education?*

MB: Our dad went to Yale. My mother's dad went to Harvard and was a big hockey star on Harvard's teams at the turn of the century — also played tennis there. Quite a coincidence that we ended up with the same interests as I never knew him since he died very early. There was, I guess, an academic tradition of sorts, so it was probably expected that we would go to good schools. Kent was a very interesting school in those days because it had a very diverse group of students; the school didn't have a set tuition but you paid what you could afford. It was modeled on the English public schools and founded by Father Sill and the Episcopal Church. The motto was "Temperantia, Fiducia, Constantia" — self reliance, simplicity of life and directness of purpose. It was pretty basic.

It drew some interesting kids. There were no full scholarship kids there, but also there were people who were paying way above the average cost. It was a real meritocracy. We played hockey on an outdoor rink. I got there about the time that they had their first artificial rink, but overall it was really pretty spartan. If you go up to where our son went, Hotchkiss, or to Deerfield, where my daughter went, they are so developed with beautiful facilities that would rival those of many colleges. It has become an arms race where growing endowments and alumni giving are essential to keeping competitive with rival

schools. But when I was at Kent, it was very simple and you knew you were there for one purpose — to survive and get through, to go to college, and move on and hopefully do something with your life.

CK: *The other question is, did you ever work while you were going to school, before you went to college?*

MB: I did have a couple summer jobs — I had a reasonably lucrative business stringing tennis rackets for some local pros which made me some spending money — but from thirteen to twenty-one I played competitive tennis every summer. I did take off one summer to teach tennis after my first year at Yale, and that made me some good money in those days.

CK: *How did you get interested in tennis?*

MB: Well, my older brothers were the ones who started playing tennis. I was the little kid gathering up the balls, and then I started hitting them around and before long was playing. Interestingly, my mother's father was a very good player at Harvard in 1904, but I never learned that until I looked at my mother's scrapbook long after I started playing. Anyway, I was reasonably successful by the time I was thirteen or so and so our section — the New England Lawn Tennis Association — sponsored me to play in national tournaments. So most of the summers were consumed by that. Two summers during my Kent years I was invited to some of the early summer hockey camps so I participated in those as well. I was pretty busy and pretty focused.

CK: *When you finished Yale, where did you see yourself going? You majored in history.*

MB: I wasn't sure. Vietnam beckoned and I did not have to think about it for a while. I never saw myself using history to go on to graduate school or teach.

U.S. NAVY 1967-1970

CK: *What was history a path toward?*

MB: When I left Yale, I thought I might want to be a lawyer. That was when Ralph Nader was using the law to change the world. But I did not have that luxury and went off to Newport for Navy OCS. I was in the Navy for three years and spent about half of that time in the waters around Vietnam. I spent a lot of time over there.

Before too long I was out. I actually wanted orders to command a swift boat, but by the time they were cut I had only six months left and was not about to extend to do that. Also, they were moving the swift boats over to the Vietnamese, so it was a bit dicey. With only six months left of active duty, I persuaded the Navy to let me out early. And at that point, I had refined my thinking and decided I wanted to go to business school. So I submitted applications to three business schools.

CK: *How do you feel about that experience in Vietnam — you were really there at the height of the war.*

MB: Yes, my first days there were during the Tet invasion of February 1968 — which I will never forget. But I was offshore for most of the time — not in a foxhole or firebase. It was

more responsibility than I probably deserved and pretty frightening from the perspective of having three hundred people you could kill in an instant if you made a mistake. A lot of our work was doing search and rescue off the coast of Haiphong for pilots who were downed coming back from Hanoi airstrikes, or chasing carriers and picking up pilots who had to ditch. We were also on the "gun line" providing naval gunfire support for our Marines or the ROK (Republic of Korea troops) and supported "market time" activities which involved surveillance or intercepting marine traffic in the Tonkin Gulf. And then we even served as secondary recovery landing area for several of the Apollo missions.

CK: *And I'm just thinking you're the youngest, you're not the oldest, and having all this responsibility isn't something that usually comes naturally to the youngest—*

MB: My oldest brother was in the Navy as well — he was in the Atlantic during the Cuban Missile Crisis. So I don't know. I will say that I've often thought about my career path when I talk with younger people who are just getting out of college. I really didn't have a clue what I wanted to do and the military helped me get focused. The Navy gave me three critical years to sort out what I wanted to do, because I wasn't at all ready to make a career decision. I had just finished an intense college career — never getting much of a break from hockey or tennis — and just did not have much of an idea about what I might be good at after finishing college.

CK: *So then how did that Navy experience influence that decision to go to business school? In other words, what were you learning about yourself?*

MB: Well, the Navy is a real meritocracy — if you did well you moved up the chain. In my case you started as a junior officer of the deck, you eventually became an officer of the deck, and eventually became an underway officer of the deck and a command duty officer. I was in intelligence in something called CIC, Combat Information Center. So I was in charge of gathering and evaluating all the intelligence for the ship — from the radars and communications gear — and recommending courses of action to the captain. This inspired some curiosity about the electronics world and focused things a bit for me.

In the Navy there was a pretty direct correlation between effort and success. When Vietnam was really hot in ’68 and ’69, you could see that a lot of people bailed out and went in the Navy rather than be in country with the Marines or the Army, so the quality of people was pretty high. I guess I could’ve figured out a way not to be in the service if I really tried, but I just didn’t think that was the right thing to do.

HARVARD BUSINESS SCHOOL MBA 1973

CK: *So you decided to get your MBA, and you went to Harvard. And this is 1971, and you also got married.*

MB: Well, no. I came back in ’70, and I applied to three business schools, got into two of them, but was flat out turned down at Harvard. I couldn’t understand why and this was a real blow to my pride. I had submitted all the applications while I was in the Navy and just

assumed that I would get in. And so I came back and stopped by to see an old friend from Yale, Sam Chauncey, who then had just become dean of admissions for Yale. I explained my situation over lunch and said, “I think I’m going to go out West to business school.” And he said, “Well, that’s great.” And I then said, “You know, I am not that excited about this because I had hoped to get re-established back here on the East Coast after three years on the West Coast and in the Far East, but unfortunately I got turned down at Harvard.” He listened intently and at the end of lunch said, “Listen, if you’re only going to business school because you want to put Harvard on your résumé, then you’re really making a mistake. Why don’t you come here and sort of get your head straight and spend some time at Yale and work for me as the assistant director of admissions at Yale?” So I thought about it and I said, “Well, I might do that.” So I said, “I’ll tell you what. I’ll come up and be assistant director of admissions if I can also coach.” And so I talked to the hockey coach and was hired both as the assistant hockey coach and the assistant director of undergraduate admissions. It was a great year and, believe it or not, the process of interviewing and evaluating prospective students was a real learning experience — although very challenging.

But anyway, I went back to Yale, where my future wife Dede was a junior. We weren’t married then, but I saw a lot of her friends, and getting back into the whole Yale environment again reignited my interest in law school. It was only after I applied to several law schools that I came around and thought, “You know, I really don’t want to go to law school. I think business school makes more sense.” So I called Harvard and asked them to

send me another application. They said, “Just send us a letter to us and tell us what you have been doing for the last year.” I thought that was kind of strange. So I wrote the letter and a couple of weeks later they responded with a one-pager telling me to show up in September — one of those times when the thin letter was good news. So anyway, I decided to go to Harvard, and when I arrived they took a look at my background and said, “Would you be willing to work in the admissions office? We’d willing to pay you to work in the admissions office.” So I did, and for those two years I worked in the admissions office and interviewing prospective students and helping out with the admissions process. That, plus income from joining a Navy Reserve unit, helped pay my way through Harvard.

There was a wonderful guy there by the name of Jim Foley, who was one of the key people in the admissions office, and one day I was sitting with him, I said, “I’ve always wondered why my application didn’t pass muster when I applied in 1970.” And he said, “Oh, I’ll take a look.” And he goes, “Hmm, that’s interesting. There’s no letter in this file.” So the likelihood was that I received the wrong letter, but I never pursued that further because everything had turned out fine. During that year at Yale I realized that I was not going to be a career hockey coach, and I met and married my future wife. Life would certainly have been different if I had not spent that year there. We were married that June — and have been together for nearly forty years now.

So, despite the twists and turns, things often happen for the best. I ended up at Harvard, and one of the things that was really interesting to me was private equity and venture

capital. It seemed to incorporate everything one was learning at HBS. There were a number of pretty interesting players doing quite well — Ohrstrom and Dysson Kissner. Dover Company was one of Ohrstrom's big holdings; they were sort of a mini-conglomerate. They bought up a whole bunch of small mid-market businesses. It wasn't technology investing; it was primarily what you would call today private equity, middle market private equity investing. They both played in the mid-market. This was long before the days of KKR, Gibbons, Green, and Forstmann Little. So I did some research on those firms as well as some of the family venture organizations.

So that sparked my interest. I talked to a couple people down here. Peter Gerry, a classmate of mine, was going to work at Citicorp Venture for Bill Comfort. Through my father-in-law I was able to get an interview with Walter Curley at J.H. Whitney — he was so charming and his description of the J.H. Whitney business was fascinating. Unfortunately he concluded the interview by recommending that I go and get some real business experience before taking a crack at venture capital. Some very wise advice, I might add. As the year progressed, I did had little success in finding something in the private equity or venture area, so I signed on with Howie Pifer of HBS to write a case for him on the Trans Alaska Pipeline. Dede and I headed off to Alaska that summer, and I researched the case by interviewing Wally Hickel and other interested parties up there. Remember, the Trans Alaska Pipeline in 1972 had not yet been approved. Congress was holding it up. So I wrote a case on the environmental impact of the Trans Alaska Pipeline and what might happen if they'd gone ahead and built it as planned. To make a long story

short, they went through years of hearings and evaluating the design; and the original design envisioned burying it in permafrost, which would have been an ecological disaster. I finished the case that fall and it was taught that spring at HBS. I still have a couple of copies that I gave to both my kids to help them through their business school careers — I doubt that it helped.

During my second year up there I decided that investment banking might be an interesting place to start one's career. Morgan Stanley was dominant in financing most of the Trans Alaska Pipeline, so I interviewed with them and they hired me. And for the next three years I spent all my time working on financings for Sohio, BP, Mobil, Texaco, and Exxon — still not much of a preparation for venture capital.

CK: *Was General Doriot at Harvard?*

MB: I don't believe he was teaching at Harvard by the time I was there. The real movers and shakers for me up there were Warren Law, who taught finance and on the side advised LTV on how to structure their acquisitions, and Jay Light, who recently retired as dean of HBS and was just an outstanding professor teaching investment management. Pat Lyles taught the "Starting New Ventures" course before leaving to join Rick Burnes at Charles River — that was the only course that dealt with venture capital. There was Willy White, who did a fabulous job of teaching Capital Markets — perhaps the most difficult and challenging course in the curriculum — and Hank Reiling, the only person who could have made taxation interesting and fun. I focused a lot on finance courses up there, and there

were some spectacular professors, particularly in the second year courses. In contrast to Yale, it was easier to develop close relationships with the faculty, and I was lucky to have had the chance to learn from them. They were an impressive bunch.

CK: *Would you see these as mentors or just inspirations?*

MB: Real inspirations. Harvard was both interesting and intimidating because the first two months one felt so inadequate. My total "experience" was the Navy and college admissions, and you get into an accounting course and the ex-accountants just run circles around you. You felt pretty stupid. And after the first two months you recognized that everyone had real strengths and some real weaknesses, and the self-imposed pressure abated and you just focused on learning as much as possible about things you never knew existed. It was not as academic as Yale, but more practical and more fun. I think that only twenty-five or so people in our class of eight hundred got jobs in investment banking — the investment banking industry was then in a trough — the market crash had crushed the "Nifty Fifty" and inflation was right around the corner. I mean the seventies was an awful period of time in terms of the investment banking business, so a lot of people went into real estate and Peter Gerry went into venture capital. I think he was the only one.

MORGAN STANLEY 1973-1984

CK: *And what was your connection to Morgan Stanley? How did you get there?*

MB: I had no connections. I just interviewed with them at HBS and it turned out that the guy who interviewed me was David Goodman, who was in charge of the Trans Alaska Pipeline

financings. I doubt that it was coincidental since my resume indicated that I knew something about the project.

CK: *So what excited you about this work at Morgan Stanley? What were you doing that was—*

MB: I was pretty naïve. By helping structure financings, I thought that investment bankers played a really pivotal role in advising the senior management of most companies. What I discovered was that the relationships with big companies were restricted to the financial staff and that you were not involved in many of the non-financial decisions. I did think that if I understood the way things were financed, then it would help me understand the other decisions people make in building companies. I remember we had to write a paper in one of the organizational behavior courses at HBS predicting what we might do after graduation, and I said that I was going to be an investment banker for ten or fifteen years; then I would gravitate into the principal business as a private equity or venture capital investor and eventually end up in public service. So I did two of those; I didn't get to the third.

CK: *Well, you're young.*

MB: Those days predated the big days of M&A. Investment banking in the early seventies was much more similar to what it was in 1935 than it is today, in the sense that you had some really pivotal figures in that industry who were key advisors to major companies, and major companies wouldn't do anything without talking to them.

CK: *Like who?*

MB: There were three or four: Charlie Townsend, who headed up corporate finance at Morgan Stanley, was a close confidant to several CEOs of Morgan Stanley's clients. So was Parker Gilbert. If you were a CEO you had to listen to what Lewis Bernard had to say — he was the smartest guy I ever worked with in the business and he became a Morgan Stanley partner before he turned thirty. Dick Fisher was equally effective and very highly regarded. You also had Gus Levy at Goldman, Pete Peterson at Lehman, and Andre Meyer and Felix Rohatyn at Lazard, just to name a few. And your aspiration was to be such an accomplished investment banker that you had four or five companies that just wouldn't do anything without reaching out to you and getting your advice. That's the way investment banking used to be.

Then something very important changed in the late 1970s — a real watershed during the Carter administration. First the SEC enacted Rule 415. When I first came to Morgan Stanley, when you did a bond deal for a client, you would file the registration statement after you had gone through all the minutiae to make sure the prospectus was absolutely correct in every respect. You got to know your lawyers quite well. Ours were Davis Polk & Wardwell. Off to the printer, wait for SEC comments over the next thirty days, and then on to the road show, the pricing, and the closing. It would take at least a month because the SEC would not approve the issuance of securities in much less than thirty days, no matter how up-to-date your current reporting was.

There was the ’33 Act, which covered the issuance of new securities, versus the ’34 Act which covered disclosure of existing securities. Then they changed the rules with 415, saying: If you’re a reporting corporation, you no longer have to wait those thirty days. The SEC is not going to review your documents. If we think your ’34 Act reports are current and accurate, so you can literally do a shelf offering, and you can go to five investment banks and say, “I want you to buy my bonds — today.”

From that day forward — and I’ll never forget when Dick Fisher contributed to an insightful *Fortune* article about it — it changed the relationship between investment banks and their clients. Morgan Stanley’s clients seldom went to other firms because they considered Morgan to be a trusted advisor who was intimately familiar with their business. But now they could put their bonds — or their stock — out for bid in a shelf offering and Morgan was now on the other side of the table from the issuer. Whoever had the best price would win. But the firm winning the bid was not necessarily thinking of getting them the cheapest issuance cost but rather a price at which they could resell the securities for the most profit. And that changed the nature of Wall Street almost overnight — at least for the large issuers. Fortunately it was not the case for the smaller companies who could not take advantage of Rule 415 — particularly with initial public offerings.

CK: *The loyalties changed?*

MB: Your investment banker was no longer as likely to think of themselves as your trusted advisor; your investment banker was on the other side, and it became a vendor relationship

in which they simply re-sold your securities. And the late 1970s was also a really pivotal time for the venture industry, because you had ERISA legislation permitting pension funds to invest in venture capital and then you had the impact of Rule 144.

One of the companies that J.H. Whitney had funded in the early 1960s was Memorex (remember the ad “Is it Ella or is it Memorex?”). I do not know if he made the original investment, but Benno was on the board of Memorex throughout the 1970s. Memorex had a very successful public offering in 1965, but in those days, to be able to sell privately purchased stock in a public company, you had to do it through a registered secondary offering. You didn’t have Rule 144, which gave you the ability to register shares that could be sold into the market over time. If J.H. Whitney had $20 million of Memorex stock and was unable to sell it because of market conditions, then the portfolio would be impacted every quarter by the change in the public market price. I think that it took nearly fifteen years for J.H. Whitney to finally sell their stock in Memorex and Benno was really proud of making the investment work — twice!

Then along comes the SEC, who implements Rule 144 which finally permits venture firms to sell their holdings in a rational way and avoid subjecting their portfolio to the whipsaw of the public markets. Before Rule 144 venture capitalists had to stay a lot closer to their portfolio companies to continue to create value so that they could sell their remaining stock. Once venture firms could distribute or sell their stock and move on, that dynamic

changed. There were plenty of examples in the early 1980s of firms just abandoning companies once they had distributed the stock.

Another perverse trend was the tendency of firms to focus on the current fund only until you were able to raise the next one. It was a very different dynamic, and Benno was really concerned about the quick money that was coming into the industry — aided by the ability of firms to access new LPs (for example, the public pension funds) and liquefy their holdings more rapidly.

So the seventies was a decade of low productivity and hyperinflation, but these changes also created an opportunity at Morgan Stanley to take advantage of this new investor interest in venture-financed companies. Up to that time Morgan Stanley never had a broad distribution capability in fixed income or equity — they were a bulge bracket firm that managed deals that could be distributed by others. In the mid-1970s they decided to expand their securities distribution capability — they thought they were leaving a lot of money on the table in doing huge bond offerings but not selling them.

So after three years of working on the Trans Alaska Pipeline they asked me to consider covering the West Coast to sell bonds. It's probably the only time in my professional life that I looked at myself and said, "I really don't like what I'm doing, and I don't think I am particularly good at it." Selling bonds is quite different than being an investment banker. I did that for a year, and then went back and said, "Look, it's time that I get back to

something that fits me better." It had been more fun than grinding out spreadsheets in corporate finance, but it wasn't terribly cerebral. However, I did learn a lot about sales tactics and techniques.

I think my colleagues at Morgan Stanley were surprised at my request because I had people skills and demonstrated that I could build client relationships, so they asked me to join the recently organized "business development department." Our role was to approach the clients of other firms and convince them to switch allegiances to Morgan Stanley. While it was not common to poach another firm's clients, Rule 415 had changed the world and we were now compelled to pitch our competitors' clients as they called on ours. It had become a very competitive business. Goldman was well known for having the most effective new business program, and Morgan Stanley wanted to emulate that. There were five of us in that group supporting two partners, and I was assigned the entire East Coast, from New York all the way down to Florida.

I still remember calling on Gannett, Corning, Scott Paper, Air Products, Black and Decker, RJ Reynolds, and Coca Cola, to name a few. There I was five years into the business as a vice president of Morgan Stanley with my business card, going in and trying to talk these people into doing business with Morgan Stanley: "But by the way, we won't co-manage; we either take it all or we get nothing." But I got a big break when I developed a good relationship with an assistant treasurer down at Coke who had gone to Yale, been in the

Navy, and gone to Harvard Business School — see the pattern? He confided to me some of the problems Coke had because of the Wine Spectrum, their wine business.

When Coke entered the wine business they were a bit naïve and as the revenue grew, so did the need for working capital. Wall Street firms would visit Coke and pitch their money management capabilities because Coke had a strong balance sheet with a lot of current assets, but much of that was illiquid and tied up in inventory to support the growth of the Wine Spectrum. Underneath it all there was real concern at Coke that they might run out of cash. So I went down to Atlanta and pitched Coke on raising medium-term notes. It's a long story, but Robert Woodruff, who started Coke, hated taking on debt because he had to go around and hawk some of his stock when the banks once called some of his notes. So his view was to distrust Wall Street, despite close personal connections to people at White Weld. Then White Weld was sold to Merrill Lynch and that opened up the game for Morgan Stanley — and others.

So I went down to Atlanta and convinced the board that they ought to do a five-year note. First they thought I was clairvoyant to understand that they might need money. Secondly, I told them not to consider a long bond because with a five-year note we might be able to price it below 9 percent. Remember, these were the days when inflation was really rampant, but they did have a AAA rating. I almost had the deal, but then the board asked to bring in Goldman Sachs for a bake-off. So I had to come up with some more creative ideas — convincing them that they needed leverage to enhance their return on equity —

and we eventually won the business against Goldman. And that was a big, big success for Morgan Stanley's business development effort.

Coke was a big win, but I had also been hard at work in the mid-Atlantic region. Dede had established a brokerage account with a good friend of ours at Alex. Brown and suddenly a number of interesting companies began to appear in her account — Paradyne, Policy Management Systems, and Applicon, to name a few. I knew a lot of guys at Alex. Brown, and Dede's grandfather lived in Baltimore, so I started nosing around Alex. Brown's stable. As Chuck [Newhall] can tell you, they were very early into the technology world along with Hambrecht and Quist, Unterberg Towbin, and Robertson Colman — the "Four Horsemen.".

I succeeded in getting the Paradyne business by convincing Bob Wiggins that they needed a larger firm to support their continued growth — they were the dominant modem company at that time. I then picked up Applicon's secondary offering by convincing J.H. Whitney, the lead investor, that Alex. Brown needed help with this financing. Alex. Brown was not particularly happy with this. Bill Hambrecht saw the writing on the wall and was more cooperative in bringing us in — in most cases they had already made the big money as an investor in these companies.

It became clear to me that this was a wide-open opportunity for Morgan Stanley. The pitch was pretty simple — "you should consider us because you already have outgrown your

investment banker" — and it was easier to make this case against Blyth Eastman Dillon and Paine Webber than the Four Horsemen. Blyth had Tom Volpe and George Montgomery, both excellent bankers, but there was real concern about the long-term longevity of the firm. Goldman seemed asleep at the switch. We seemed to be the only people looking at technology companies, but Morgan Stanley had done only three IPOs in the whole history of the firm. So it was not long before Don Hebb of Alex. Brown started to get concerned — you may have interviewed him as he was the one who built the technology franchise at Alex. Brown and eventually became the CEO of the firm. He called me and said, "You ought to come down here and run investment banking. Morgan Stanley will never consider this as a core part of their business." I came down and interviewed with Alex. Brown and was really intrigued about joining them.

As I was contemplating this move, I solicited some advice and perspective from Fred Whittemore — one of the most senior partners of Morgan Stanley and a friend of my brother — and told him that I was going to leave Morgan Stanley to join Alex. Brown. A private conversation with him did not stay private for long and soon I had Dick Fisher and Lewis Bernard in my office. Dick Fisher asked, "Why do you want to leave?" And I replied, "Because we're just never going to be a major factor in IPOs unless we assume more risk." I will never forget Dick Fisher closing the door and saying, "Look, you want to do that? Give us a business plan; we'll let you do it." And that's how Morgan Stanley's IPO business was launched.

Shortly after that conversation we won the Apple business, in part because the team there respected Paradyne and several of the other companies we had developed relationships with, but this was really due to the long relationship between Dick Fisher and Bill Hambrecht from Princeton, and I had little to do with that one. No question that Apple's successful IPO led to a heightened profile for Morgan Stanley with technology companies and the venture community, but I worked hard to develop these relationships. After Apple, we won the IPOs of Quantum and 3Com and we were off and running, and as this developed I began thinking about the venture business again. Perhaps the biggest win for us was the IPO of Apollo Computer, a company started by Bill Poduska and funded by Venrock. In 1983 it was *the* company — the first microprocessor-based scientific and engineering workstation. It was a huge IPO and I had worked on that one for three years, massaging Bill and convincing the people at Morgan Stanley that this was a franchise maker. After Apollo, we landed Stratus and at least ten more sought-after IPOs of really good companies. In the process I got to know a lot of the venture capital community.

CK: *That was my question. You're really coming into contact and meeting not only venture capital people, but learning what they're doing.*

MB: Yeah, and I watched closely as Paul Ferri of Matrix jumped in to fix some problems at Paradyne, Henry McCance worked closely with his software companies, and Peter Crisp helped influence the course of Apple. I knew Peter from hockey at Yale, so we had a connection there. I really admired their judgment and how they conducted themselves. Most importantly, I figured out the people who were the key decision-makers — the

venture guy — and how they influenced company management. I worked behind the scenes, and while other firms were pitching a company, I would also be pitching Whitney, Venrock, Greylock, and KP.

That's how things evolved. I got to know the firms on the East Coast pretty well. There was Whitney, the granddaddy of the industry — Benno claimed they were the first venture firm, although most considered Doriot at ARD to be the first, just after the war. In addition to Whitney, you had Bessemer with Bill Bergen and Neill Brownstein, a very successful partnership, Venrock in New York — and then Greylock, Charles River, and Matrix in Boston.

CK: *What about Oak?*

MB: Oak was interesting because I knew Ed Glassmeyer quite well. Ed and Stu Greenfield had left Sprout to start Oak. At first they seemed to follow Whitney and Greylock around to do their second rounds, but soon were first round investors in their own right. By the time I got to Whitney, we had a lot of deals with Oak. Ed was the primary person, but we had a number of deals with the guys out on the West Coast as well. It was a pretty small universe. I forgot, you also had Kevin Landry at TA up in Boston, as well as Burr, Egan. I'm forgetting several other names—

CK: *Peter Brooke.*

MB: Peter Brooke, of course, although I never really knew Peter very well as he had left TA by the early 1980s and started Advent to focus on international opportunities. He was legendary.

So by 1984 I had already been involved with a number of Whitney deals — Applicon, Cypress, Miniscribe, Masscomp — and was then working on helping Benno with a private round for Genetics Institute. Now I could talk the talk, but I really knew very little about recombinant DNA technology or monoclonal antibodies, so I was at a disadvantage in dealing with him on that subject. However, we had some really good analysts at Morgan Stanley that were covering the biotech world at the time — Paul Brooke and several others. I can't remember how this actually started, but we decided — because Brook Byers had come in to pitch both Genentech and Hybritech to us, and Genentech was a big success in the IPO market — we should take on this assignment with Genetics Institute.

CK: *So you knew Peter [Crisp] from those early days.*

MB: Absolutely. But from hockey and not from business. When he called Morgan Stanley about Apple, it was to Jack Wadsworth rather than me. But I do think that they were impressed with the portfolio of clients we were assembling, and we had Ben Rosen at the firm to validate our technology chops.

At any rate, Benno selected us to raise money for Genetics Institute, and I went up there with John Freund to meet with Gabe Schmergel. He was really demanding — perhaps tougher than Benno — but raising private rounds for companies could end up being a big hole in the ground for investment banks. You'd go out, spend a lot of time, and raise only $15 million in a private placement versus $50 million for an IPO. But I convinced the partners at Morgan Stanley that Whitney was an important account, and such a pivotal firm in the industry, that if we could do something and do it right, that it was worth it. And if we could line up the Genetics Institute IPO we would have a real lion's share of Whitney's business. So they agreed.

We went and made the pitch to Gabe and Benno — with all the pitch points and how we're going to do a great job — but for a pretty solid fee of 4 or 5 percent for raising $15 million. Benno called me up about two days later and he was in classic form. He was like a boxer who takes 90 percent of the ring, you fight your way out to 30 percent and you think you've won. I am not sure that this was ever a negotiation. He just sort of went in upfront and said, "Okay, I want this." And eventually you'd sort of argue him back, but he generally got pretty much what he wanted. So he called me and said, "Mike, this fee for Genetics Institute, it isn't high, it's *outrageously* high." So I suggested that we get together to talk about it. I walked over to 630 Fifth Avenue, only about a block away from Morgan Stanley, and sat down and told Benno why it was not worth our while to raise money for Genetics Institute at 2 percent. Benno responded, "Even for the best biotechnology company in the world?" Not surprisingly we ended up at closer to 2 percent than 5 percent.

Then he said, “I’d like you to come back some time to educate my partners on what you are doing at Morgan Stanley, what’s going on in the market, etc.” So I attended a partners’ meeting with a presentation on the IPO market outlining what had been successful and what had not. What I didn’t realize was he was putting me on audition with the other partners. I remember telling them — and David Morganthaler, Jr., was there — “We just took Cypress Semiconductor public and that deal had a lot of hype.” David was offended: “What do you mean, hype? It’s a great company.” Anyway, he never let me forget that comment.

So following that meeting Benno invited me for lunch. It was in a little dining room separate from the rest of the office. Benno talks about Genetics Institute for a while and then says, “Now, one other thing I want to talk about, I’m sure you’re not interested, but would you like to become a partner at J.H. Whitney?” And he added, “But I know you have a great career at Morgan Stanley, so probably that doesn’t make any sense, but—” Obviously I had passed muster with the partners and Benno had said, “I’ll take care of it from here.” So he offered it, and then almost took it back off the table. I said, “No, no, wait a minute, Benno, I think I might be interested in that.” I had just become a partner of Morgan Stanley that previous December, so it would be pretty awkward, but this is what I really wanted to do. Fred Whittemore later enjoyed telling his colleagues that I had the shortest partner career in the history of the firm. They published a book the year that I left to celebrate the first fifty years of Morgan Stanley and I was the shortest duration partner in the history of the firm. Oh, well.

CK: *Oh yes, and you were coming into the heyday or the romantic period.*

MB: Well, '79 through '83 was a venture bonanza fueled by a robust IPO market. The disk drive companies — remember Jugi Tandon and Al Shugart? There were probably fifty 5¼-inch disk drive companies formed in that period. You had the scientific and engineering computing workstations. After Apollo came MASSCOMP, Silicon Graphics, and Sun Microsystems. Masscomp had an all-star team with no CEO, but it was a successful IPO for Whitney — although it hit some hard times later. But you also had a bunch of workstation companies that were just absolutely awful, all trying to ride in the slipstream of Apollo. Remember Fortune Systems? You had the early biotech companies commercializing recombinant DNA research. And with workstations became networking — Ungermann-Bass, Network Systems, 3Com, and Bridge.

J.H. WHITNEY & CO. 1984-1999

CK: *How did you feel when Benno Schmidt offered you this position — you had said back at Harvard you had thought you'd like to be in venture capital?*

MB: I know. I never told Benno about my earlier interview with Walter Curley until long afterwards. I was worried that he might have thought of me as a venture groupie and not as the mover and shaker for technology companies at Morgan Stanley. I had a colleague at Morgan Stanley, Dennis Sherva, who at the time was probably the best emerging growth stock analyst on Wall Street, and he had helped me put together the original IPO business plan. When I told him about the J.H. Whitney offer he said, "Are you crazy? You have to take it!"

CK: *So he has a coup getting you from Morgan Stanley, and you have a "pinch me" moment becoming a venture capitalist with J.H. Whitney, this venerable firm. Am I right there?*

MB: Yeah, absolutely. I came into the firm thinking about the recent successes of the venture business, not knowing that it was about to implode — but not before raising a lot of new money. Jim Swartz and Arthur Patterson had visited with me at Morgan Stanley to discuss the beginnings of Accel. They had decided to leave Fred Adler and start a new firm. They asked, "Will you guys help us?" I don't know how they ended up landing at Morgan Stanley, except that Arthur's dad was running J.P. Morgan at the time. They made a good pitch, but it seemed that there were enough firms in the business at that point and we did not think that they would have an easy time of it. We declined, but they were very successful at getting funds, as were many other first time funds.

Firms were springing up all over the place in the early 1980s. If you go back and look historically at the business, you had J.H. Whitney and a couple people starting in the forties, a very, very small number, and you generally had families investing — the Rockefellers, the Phippses, and Payson Trask, which included Jock's sister. You can see our "timelines" out in our vestibule and the deals Laurance did before Venrock was formed in 1969. By and large there weren't many established firms. It was a very small, tight group. And then in the seventies you finally had the beginnings of an industry. There were a whole bunch of SBICs that got started under the Eisenhower administration in the sixties, and almost all of them failed. But the principals learned how to invest; and so in the 1970s a couple of veterans from that business started up partnerships. I think that is

how Mayfield got started. Kleiner Perkins is a fascinating story and you really should spend some time with Henry Hillman about that, since he committed their initial capital. And of course Bill Elfers and Dan Gregory started a firm and named it after the tallest hill in Massachusetts — Mount Greylock.

Most people of that generation remember the days of hyperinflation. When J.H. Whitney bought Metro Mail in 1979 and they paid 21 percent for their short-term money. Wow! And despite all that, Boston and Silicon Valley were funding some very interesting technologies. Nobody was making money in equities during the 1970s. It was a very difficult place to find where to make money. And the venture business suffered from the absence of a viable IPO market. But Rule 144 comes along, which helps you return some cash to your LPs, and suddenly Venrock can distribute Intel and KP can distribute Tandem and this business starts to looks a lot more attractive to investors. And in the early 1980s, if a firm has one or two hits, they can actually distribute the stock out to their LPs, with the LPs getting five or ten times on their money, and then they are able to raise additional funds. I guess you would call that the "virtuous cycle." And in 1981, 1982, and 1983 we have a great IPO market. And then I join into the venture business and someone steps on the brakes. Just like that!

You can see every one of Venrock's investments on that timeline. It's interesting because most firms, you go in and you see all their IPO prospectuses and all their successes, and you never hear about the failures. With us you get "the good, the bad and the ugly." I

believe that you can learn a lot more from the failures than you might from the winners. But secondly, it gives you an idea of what the pace was like when venture capital was a cottage industry and not an "asset class." And you look at 1980 and 1981 in the boom times, and everybody's investing, and then you look at 1984 and Venrock invested in only five companies and the same in 1985. And then it starts to build up again, with 1987 another down period and also 1992. Venture capital investing is cyclical, if you haven't noticed. It used to be a three- to four-year cycle, and it was brutal when it was down. So I got into the venture business when it was pretty brutal.

CK: *Yeah. And here you come into Whitney, which is, as you say, the oldest venture capital firm. I'm wondering what you heard about Jock Whitney.*

MB: I never met Jock. Jock died in '82.

CK: *But there must've been some lore that went around the office about—*

MB: Of course. And I couldn't possibly do justice to all the stories, but one from David Morgenthaler, Sr., stands out. David has some wonderful stories about Jock. I'm sure he's told you the story of them trying to talk David into taking on one of the companies in the Whitney portfolio. Nat Owen went to David and said, "We got this great company, and we want you to take it over." And David looked at it and, being an intelligent guy — with good investment sense — said, "No, it's not for me." It wasn't until the third try that they finally talked him into taking over one of the companies. And I can't remember the name

of the company, but he took it over, and the first year Whitney helped put a bank line in place and everything went well.

And as David tells it, the year goes by and the company grows nicely, but it then needs additional working capital. He comes back to Nat and says, "I need help here because we need to expand the line with the banks." He figured that Whitney was going to help him do this but Nat said, "No, no, that's why you're here, that's why we hired you. It is your responsibility to get the line expanded." So he goes to a couple banks, gets some competitive proposals which persuades their established bank to submit one as well. So far, so good, but there is one hitch — they want Whitney to guarantee the additional borrowings. He returns to Nat to tell him that he will need a guarantee from Whitney and Nat replies, "Gee, I'll talk to Jock, but I just don't think that's going to fly." So he goes and explains to Jock that the company is doing very well and needs a larger line to support the growth and that the bank wants Whitney to guarantee it. And Jock, with a straight face, looks at him and says, "Well, of course we can guarantee it, we can do that anytime, but that just wouldn't be very sporting, would it?" (laughs)

As David tells that story, it's so much like what I've heard about Jock. And you know, Whitney was an interesting firm because it went through a real metamorphosis, as perhaps you know. The firm was started in '46, or '47; the first investment was in a company called Spencer Chemical. I'll never forget, there was a picture in our old offices of an ugly plant spewing out smoke, and it was Spencer Chemical. The company was a munitions

plant in World War II; Whitney invested some subordinated debt and equity to transition it into a fertilizer plant, and they recovered their investment in less than a year. Benno was so proud of that. In one year they got all their investment out! Not bad. They had a number of private equity investments like that. A far, far cry from technology investing.

And then in the ’50s, Benno — and I suspect others — started consolidating TV stations. I loved Benno, but in fairness he told the same story so many times that even if it was not totally accurate he had begun to believe it all himself. Benno takes credit for most of Whitney’s TV investments, but I have a feeling that it was a real team effort. TV was brand new in the 1950s, and these properties ended up becoming Corinthian Broadcasting and were eventually packaged and sold to Dow Jones for a huge win.

Jock left the firm in 1956 because he was asked by Eisenhower to become ambassador to the Court of St. James. He was not that active in the investing but his departure certainly led to changes at the firm. He returned two years later, Eisenhower is still in office, and Jock, as bedrock liberal Republican, is asked to help save the *New York Herald Tribune*. Have you heard this story? Okay. Walter Curley would be a great guy to talk to about this because he was there at the time.

Anyway, Benno challenges Jock and says, “I’m not sure that we should buy the *New York Herald Tribune*.” The *Herald Tribune* was the Republican paper in New York City, and Eisenhower basically said to Jock, “We can’t lose New York. We can’t have only the *New*

York Times, a liberal Democrat paper in New York. We've got to keep the Trib going." But the Trib had terrible labor union problems, which was its ultimate demise.

Anyway, Jock persisted. Jock had invested $10 million of his capital into J.H. Whitney at the time it was founded, and Benno was proud to say that after the proceeds from Spencer Chemical they never needed it. Jock thought it was fair that capital got 50 percent and the working partners 50 percent. A pretty lucrative arrangement. So by the late 1950s they really did not need his $10 million, and he offered to keep it in the firm and said, "If you guys don't want to buy the *Herald Tribune*, I will buy it as long as it does not damage J.H. Whitney in any way." And that led to a split within the firm, because Benno did not want to buy the Trib, and as it turned out he was absolutely right, because it was a flawed business model.

So Jock left and several partners joined him in creating Whitney Communications as a vehicle to buy the Trib. They transferred his interest in kind rather than in cash, and he took the TV stations. Benno then basically restarted the firm and hired Don Ackerman and a couple of others into J.H. Whitney. Benno revised history a bit and gave everyone the impression that Jock was involved with the firm — and he did remain a limited partner — but it had really become Benno's firm.

CK: *So J.H. Whitney was Benno Schmidt?*

MB: It became Benno Schmidt's from that point forward. When I joined J.H. Whitney, Benno in his Texan drawl said, "I would like you to become a general partner of J.H. Whitney, and I will give you '*x*' percent out of my carry." Benno was basically the "house money" at J.H. Whitney. If you did well he would say, "We've had a wonderful year; I'm going to add an additional '*y*' percent," or whatever. Benno had the lion's share of the carry for a long time.

It was Benno's view that if you took on a new partner, it should come out of his piece, which was generous, but Benno had a lot to be generous with. The dynamic was interesting because he'd say, "I think we ought to hire a partner." In most firms with fixed partnerships the ownership pieces were already set, so everybody had to give up something to get that partner. It wasn't that way at Whitney, because at Whitney it came out of Benno's piece and not yours. There's a positive and a negative to this because it also led to some frustration about Benno's ownership level and may have indirectly contributed to some of the darkest days of J.H.Whitney when the firm overstepped its bounds and bought Prime Computer. I think that several of my partners were eager to spread their wings and, candidly, a bit frustrated with Benno's dominant position at the firm.

But Benno was J.H. Whitney; there was no question about it. And Benno, with smoke and mirrors, made everybody think that Whitney had the deepest pockets of anybody in the world. When I came to J.H. Whitney, we had basically the basic evergreen fund — you

know what an evergreen structure is? Venrock and Bessemer also had this structure because it made sense for families where members passed away and new ones were born. By the way, I think that Sutter Hill may be the only firm left that uses an evergreen structure. An evergreen partnership was an accounting nightmare. With the way Whitney set it up, it was highly tax-efficient, as long as everything worked, but if the firm ran a deficit you had to sign a note saying, "I owe J.H. Whitney *x* million," or whatever your piece was. If you had public stocks in the portfolio and were in a down market, it had a major impact on your net worth and the amounts of notes you owed J.H. Whitney.

Naturally you would take an ordinary loss on that full recourse note. And then when things in the portfolio went public, you enjoyed capital gains, so there was a huge differential on that, and it was very efficient. The only problem was if you had several down years and you had signed several notes. So everybody at Whitney had real money in the game. It isn't like today where the downside for general partners is somewhat limited.
At Whitney the general partners could get hammered even if the private portfolio was making good progress. I remember coming home one night to Dede and explaining this after a particularly bad year and told her the amount I owed J.H. Whitney. And she said, "If something happened to you, Benno wouldn't enforce this on your estate, would he?" And I said, "Oh yes, he would." And then I remember her saying, "My God, are you kidding?" And this is right about the time that Morgan Stanley was going public. So I've left Morgan Stanley, where I was a partner and would've had a huge windfall, and I'm sitting here with a whole bunch of notes from J.H. Whitney. Well, the business then turned

around pretty rapidly, and the upside was well worth the anxiety. But no doubt, J.H. Whitney partners were in the risk business.

CK: *What was the environment at the office in terms of the partners?*

MB: Whitney was — well, I'll describe it as a continuum. On one end of the scale you had highly collaborative partnerships. I'd say the most collaborative partnership was Greylock. Bill Helman, who you really might want to interview as part of this process, now runs Greylock. I hired him at Morgan Stanley, he was my first analyst, a wonderful guy, a close friend and extremely talented. I think that I was a bit of a mentor to him during the early years. Bill went to Harvard Business School in the early 1980s — he did not need much help from me on that score — and then secured a summer position at Greylock. I had recommended him to Dan Gregory and they hired him for the summer and then he joined them after graduating. Bill and I worked together on a number of deals during the 1980s and our buyout of Filene's Basement from Campeau, for which I give him and Greylock well-deserved credit, was an enormous win for our firms.

In any event, we would sit there and talk about Greylock's decision on a project, and he would point to empty chairs in their boardroom and say, "Well, he really didn't like it, and he did." And it was because they'd come in every meeting and Henry McCance, Bob Henderson, Dan Gregory, Bill Helman, Howard Cox, Dave Strohm, and Charlie Waite would take the same seats and discuss their deals. They were very collaborative, and

Greylock never seemed to do anything unless there was 100 percent concurrence of all the partners. That was their investment style.

Whitney was at the whole other end of the spectrum. To do a deal, you had to go to Benno and say, “I want to do this deal.” You didn’t really discuss it as a partnership and only moved ahead after Benno had the final say. We were sort of individual practitioners using Whitney’s name. But Benno would often ask your opinion on other partners’ deals. He did not evaluate things in a vacuum.

However, we did have a lot of informal communication in addition to the four valuation meetings we had every year, but by and large you were on your own to develop. I had the closest relationship there with Russ Planitzer — we were a year apart at Harvard Business School, and we’d both been in the Navy. Russ was one of the most successful venture guys in early 1980s after joining Whitney, after seven years at Prime Computer. He funded Paul Severino’s company Interlan; then later Wellfleet. He had a great initial win with Miniscribe, which had a great run for a while. He did three companies out of the box that were just phenomenally successful. I got a lot of help from him and also from David Morgenthaler out on the West Coast. There was a significant age differential: Benno and Don [Ackerman] were older, and then there were five of us all in our early forties and hungry to make some good investments. The environment was one where we all got along pretty well, but there was no question there was only one boss and it was Benno.

CK: *It sounds a little lonely, though, in a sense. There's not a lot of support, because you're not all in it together in that same—*

MB: Not nearly the kind of support I have observed at Greylock or Venrock, who seemed to achieve a lot more through teamwork. Venrock did Intel, they did Apple, they did Apollo. You take a look at the timelines for the 1980s and you can see that they had a very good run. Hank Smith made so much money on Apple that he moved to Vermont and got out of the business.

But the difference was that there you debated things a lot as a partnership — although at Venrock it seems that if you did not get the support of Peter Crisp the deal would not happen. I am not as familiar with how Greylock worked. But the dynamic was different than at Whitney where Benno had the checkbook. It is interesting how these three firms could succeed so well with very different cultures and operating styles.

Firms have cultures. Whitney was not very collaborative but Benno was very perceptive and understanding. We had a partner join about the time I did and he started out with some bad luck. Four deals representing a total investment of $8 million — not a small amount in those days — and none worked. This was in the '83-'85 time period. But Benno told him, "I don't know whether you're going to be good in this business, but I know that I cannot tell from only one or two deals. Keep on investing, and I'll let you do a bunch of deals, and even if the first two don't work, just like pancakes, eventually they'll work if you're good." Benno had a long-term view on people.

Benno would look you straight in the eye. You'd go in there and say, "Benno, I want to do this project but want to explain it to you first." I remember a tax processing deal I did with Bruce Anderson and Rick Stowe at Welsh Carson. It was very complicated as we were combining three different companies. I showed Benno a diagram with the concentric circles and added that one of the companies had an excellent management team as well as a net operating loss carry forward to shelter future income. Benno, who had a great sense of humor, pondered the complicated diagram and then observed, "In my investing career, excellent management and NOLs seldom show up together." Benno could just look at you and tell from the look in your eye whether you were really committed to this investment and if you were breathing fire. Benno would never say no, but if he did not see that passion and commitment, it just wouldn't happen. So it was a very old-fashioned way of doing things, but it seemed to work at Whitney.

Benno often told me, "I never had a bad deal in my career." Tony Evnin and I muse about this. Benno served as head of the president's cancer panel under Nixon and then evolved into biotech investing and taking advantage of this network of Nobel Prize winners. Benno didn't always understand what these companies did, but he had access to some of the best minds in the world that could help him sort things out. I remember when we looked at both Isis and Gilead. They started out with similar concepts and several of us wanted to do the Isis deal. It took only a couple of calls to Paul Marks at Memorial Sloane Kettering for Benno to conclude that we should do Gilead despite the much higher valuation. Perhaps

we paid more than we should have for Gilead, but it became a great company and Benno was absolutely right.

I finally discovered why Benno never had a bad deal. If one of his deals started to look problematic, he'd call you and say, "I want you to meet so-and-so, he's the CEO of this wonderful company and someone you might be able to help." Next thing you know, the company was on your list of investments. Rank had its privileges. (laughs)

But it was a way of life and highly remunerative if things went well. Benno amassed a small — or large — fortune and lived life to the fullest. Working for J.H. Whitney was a great opportunity to do something that was challenging and interesting and where you could earn a very good living doing it. If you made the effort you could get sufficient reinforcement from other partners whose advice could be invalauable. Don Ackerman had such an incisive mind and a natural to be one of the early success stories in the LBO game. Whether it was Filene's Basement or Metro Mail, SunGard or Filene's, we had a great run, were able to use Whitney's reputation to borrow the money, and then step up a quick second round and pay out the bank. Not dissimilar, I guess, to the Spencer Chemical story. SunGard was a phenomenal company and I served on their board for nearly twenty years.

Whitney had its own style — for better or worse. As to the latter, perhaps it was this culture and investing style that led to the Prime debacle. In 1987 I was working with Greylock and Oak to get the Filene's deal closed, and Russ suggested that I go out to

Natick with him to meet with the management of Prime. Prime had been a very successful public company in the '80s — it was the best performer from '74 to '80 but, like the other minicomputer companies, had seen their markets mature and the business flatten out. So Prime was struggling, and about that time Bennett LeBow of MAI Basic Four was considering a corporate raid. So First Boston called up Russ, because he knew a lot about Prime, and said, "Would you take a look at it for us, because we're trying to figure out who might want to buy it." Russ quickly concluded that we should consider a buyout of Prime, and he and Don set out to work on it. We did a $1.5 billion buyout with $20 million of equity. I mean, that's leverage! I was not as convinced as Russ and told him that the guy running it was an IBM guy who didn't seem to have an idea of where to take the business, and most of the entrepreneurial guys had left. Finally I said, "I just don't see the exit here. I just don't see how we can buy it at out of the public market, even at a depressed price, and get a venture return on it."

Russ probably knew more about Prime than any outsider, and Don loved big, difficult projects. And Prime gave both of them a chance to step out of Benno's shadow, I guess. They were convinced that this could be a home run and said, "We're going to do it, and by the way this is going to be the best deal Whitney's ever done." We borrowed a big bridge loan from Shearson American Express and closed the deal. We immediately installed Jim McDonald, who we recruited from Gould's computer business, and the first year went pretty well. Then we hit the headwinds of an economic downturn and an even worse IT environment. And when all this happened it was tough on Benno, as he was getting older

and did not understand fully the risks of the project. We slammed right into the 1990-91 recession and suddenly Prime's base business got incredibly soft. They owned Computervision, one of the original CAD/CAM companies and a good maintenance business, but the hardware business melted down very rapidly.

The CAD/CAM business was a good business, but even that was slowing. So we had a highly levered company that was deteriorating right before our eyes. The question was how quickly could we react to save it. Unfortunately Benno had become chairman of the company when it was doing well in the first year, and had participated in the debt road show, so it was partially his baby, yet he was now pretty embarrassed. It became obvious that Russ would have to go fix it and for Benno that was perhaps the hardest message he had to deliver to his son-in-law. "You broke it. Now you have to fix it"

It was a very, very difficult period of time for the firm, and Benno was really not up to dealing with it. He asked me to assume the leadership of the firm with Peter Castleman, and we spent the next two years working our way out of the Prime situation and recruiting a new team at Whitney because both Russ and Don were now gone. We did nothing for the next two years but deal with Prime.

Eventually we dealt with the hung bridge loan and restructured the company with Russ as CEO of Computervision. He took that company public, and then we put the parent company, DR Holdings (originally an eponymous name for Don and Russ), into

receivership. This consumed most of our time, with constant meetings with Goldman Sachs and Paul Weiss. Meanwhile we had a business to run and investments to make from the first fixed term fund we raised in 1990 before Prime hit the wall — the 1990 Whitney Equity Fund. Our limited partners were less than pleased — to say the least — and so raising a subsequent fund from them was going to be a massive challenge. There were many days that I was pretty sure that J.H. Whitney would sink beneath the waves, but I was not going to let that happen without a good fight.

The Whitney 1990 Equity Fund was the first non-evergreen fund we had ever raised. Before that we had the J.H. Whitney & Co. partnership, initially funded by Jock's $10 million, and then we supplemented it with a couple of side partnerships funded by the Met Life, American Express, and the Olayan family and later by J.P. Morgan and American Express. That was our capital base and it was a closed loop system — you could not make new investments without liquidating old ones. This probably led to some irrational investment decisions within the firm, but I suppose every structure has its own issues. Suffice it to say, if Whitney could not convince our LPs to renew with us we would be out of business before the end of the decade.

We finally got Prime resolved and the rest of our investments did well — Filene's generated well over $100 million on an initial investment of less than $5 million, and Wellfleet, a deal done by Russ, was also a home run. But many of our LPs were saying, "I'm never going to give money to Whitney again. You put our money into Prime and it

blew up." But thanks to J.P. Morgan and a couple of our more loyal LPs we limped across the finish line in 1994 raising $135 million for Whitney II, and this turned out to be a great fund with great wins like The North Face, Homestore, NBX, and Pegasus, to name a few. People's memories are long, but fortunately not that long. This led to raising money from some really high quality foundations and educational endowments, and we were on solid footing by the end of the decade. I would like to think that Jock and Benno would have been proud of how we dealt with adversity and got the firm back on its feet and attracted a very stable LP base.

As I look back, I was there to watch venture capital transition from a cottage industry to something much bigger, highly complicated, and more challenging. It would have been nice if the big money had passed by and the industry had stayed twenty firms, but that was never in the cards.

CK: *When you were at Whitney — Chuck uses the term "band of brothers," these early venture firms, that networking — did you find that?*

MB: There was a lot of networking. We were close to several firms but the ones that we worked with the most with were Greylock, Kleiner Perkins, Sequoia, Oak, Bessemer, and NEA. For some reason we did not do as much with Venrock — perhaps because they were right across the street in New York, we were more competitive than collaborative with them. When I joined Whitney we had the closest relationship with Kleiner Perkins due to the mutual respect of being the only two firms with a 30 percent carry. I had known the

partners there pretty well since I had helped them raise KP III while I was at Morgan Stanley.

We had done a lot of deals with Greylock, but until Bill Helman introduced us to Filene's Basement we did not have a lot of great winners with them. I remember Dan Gregory coming down to meet with Don Ackerman and me about their portfolio and it seemed like we had co-invested in all the dogs! All their good deals they had done with someone else. Our West Coast guys had a particularly close relationship with Oak and NEA. In those days you seldom did solo deals.

We also had a number of deals with Morganthaler. Those didn't work very well, either. They weren't with David and his dad; it was with Bob Pavey and a few other guys out there. But we were pretty tight, and we knew each other well. The NVCA was pretty much managed by these firms as well as TA and Warburg Pincus. The industry was pretty concentrated, and it put the entrepreneurs at a disadvantage because it was hard to hold the line on pricing when most of the venture firms knew each other well and talked with each other.

That changed. The amount of money that came in during the 1980s changed that dynamic. It spawned a lot of firms, some with little experience and a lot more money than common sense. It changed the price discipline and the leverage that you had over the entrepreneur.

The thing that's been interesting for Venrock is that if you look at that list up there, I'd say 80 percent of the companies on that list are people we had backed before or where we had a direct relationship with them — our network. That's one thing that's very hard to replicate. And if a firm goes into hibernation, and isn't active for a while, you lose that connection. You have to continue to invest to be good in this business, partly because you never know how much of it is luck and how much of it is smarts. But if you stop investing, it's very hard to keep that network vibrant and together.

THOUGHTS ON VENTURE CAPITAL

CK: *What makes you decide to take on a company? And when you're vetting a company, what's that decision process?*

MB: I think that's a very personal question, because everybody looks at it differently.

CK: *How about you? You've been successful, and there must be a strategy that—*

MB: The first thing I look at when I review a business is the quality and experience of the management team. From my perspective the biggest common denominator between successful investments is the capability of the management team to stretch and scale to be capable of taking the company a fairly long way, if not all the way, down the road. If I have to step in to run a company, that's not good news.

In the early '90s, when Whitney began hiring analysts from Wall Street, people who'd worked for two years at Morgan Stanley or Goldman or Alex. Brown — we were doing

more buyouts and needed more analytical firepower — I would bring in the new group and go through a little exercise. I would review the results of the Whitney portfolio and say, “Here’s the business, and out of this portfolio we had eighteen companies and seven of them turned out to have outstanding returns. Tell me what the common denominator was of these. How many of them changed management? How many of them changed strategies? Now tell me how many of these where you think we changed management and also changed the strategy.” In the Whitney 1990 Equity Fund, I think there were seven outstanding outcomes. In six of the seven companies, the management that we initially backed was there when the companies got liquid. We only changed management in one of those companies. And in only two of those companies did we alter the business plan. Now there’s always the example of a company — like Decision One where we’d written our $25 million investment down to nearly zero, where we recruited new management and changed the strategy and ended up making $125 million. But that is exceptional and it was because we recruited Ken Draeger out of ADP and he did a fabulous job. But that is the exception rather than the rule.

However, that is just my opinion. I am sure that Don Valentine would say, “Give me a big market and give me the opportunity, and I’ll find the management people.” Well, if you came out of the electronics world, which he did at National Semi and Fairchild, he had access to some pretty great people with very specific domain expertise and they could make a big difference. Don was that smart and that well connected.

You're always going to get blindsided occasionally by a market. Apple comes out with the iPhone with apps, and suddenly that's the end of a whole lot of other alternatives that might compete with these apps. But to me, management is the most important thing in reviewing an investment opportunity. And they must be able to articulate, in relatively short order, what the business model is and what value they are adding for their customer. That's why I've never been terribly fond of indirect distribution models. The disk drive business is a good example. You were selling into the OEMs, who were then selling the PCs. You just didn't have much visibility. As Russ Planitzer used to say, "It's like driving on the Long Island Expressway — somebody steps on the brakes at the Midtown Tunnel, and all the way out to Exit 44 everybody slams on the brakes." You need that visibility of end user demand. That's what I look for and I have been pretty lucky on occasion. For example, Jim Mann at SunGard was just spectacular in being able to articulate the SunGard business proposition and recruit outstanding people to help him scale that business.

CK: *So scalability is important.*

MB: Yes, in terms of market size. You cannot build a big company without it. One of the things that's changed, I think, in our industry, is that today there's a lot more long ball hitting. We went through a period of time when we said, "Gee, if we can get two to three times on our money and it's really pretty riskless, and we can get an early liquidity, then we'll do it." But the reality is, nothing is riskless and liquidity is not always something you can

control. What is the outcome if it takes five or six years to liquidity and some exogenous factors change the risk profile? Then you just have a mediocre outcome.

When I came to Venrock we had a bunch of venture deals that were considered “safe,” but those deals did not necessarily turn out that way. I was asked to assume the title of chief operating officer to deal with the transition away from the evergreen partnerships and to evaluate the whole decision-making process and how we came to conclusions about decisions.

One fascinating aspect of the Venrock culture was the pride in being able to say, “Entrepreneurs love us because we support them to the end.” But the reality is that when you have a company that isn’t going to make it — and you’re working only to reduce your loss or get your money back — you’re doing it at the expense of another company that may become really successful. Our loss rates at Venrock were very low in contrast to a lot of venture firms that might lose 40 percent of their portfolio. I am told that Kleiner Perkins had a fund where only three of thirty investments really worked — but one of them happened to be Google and that is all they needed. You need those outsized returns to “move the meter,” so there’s a lot more long-ball hitting today, and you can only do long-ball hitting if you aim at big, big markets, which inherently involves bigger risk, more competitive entrants, and less control over some of the variables that can throw you off the track.

CK: *You've been on a lot of boards, I see, and I'm wondering, how do you allocate your time? How much time does it take to be on a board, to do the hand-holding to work on a strategy? If you want to use an example—*

MB: I think there's an inverse relationship between the quality of the management and the time that you spend on the company. Take the example of Jim Mann at SunGard. He was as good a CEO as you can get. SunGard became a public company by way of a relatively small IPO. We had only four formal board meetings a year, but it was rare when I didn't spend a couple of hours a month on the phone with Jim — but I didn't have to see him in person to be up to speed or help him.

When you've got a company in trouble, your time with the CEO and the other investors becomes very significant. There's no real design to it, because you're sort of dragged into it. Another factor is how other firms work in difficult situations. I've only been in two firms in this industry, but I've felt that if you go into business with people that you trust, partners that you trust, and everybody puts their agenda on the table, you shouldn't be reluctant to pitch in when you can help. I can't tell you how many deals I've done in both firms where I've chipped in and taken over somebody's deal, because they just weren't capable of getting something done. Often the odds are that things won't work out, but you have to try if you are the one that has the time and the ability to make something good happen.

As you can tell, I have great respect for Greylock as a firm and the way they've done their business over a long period of time. They're now essentially a West Coast firm, but at one point they were exclusively in Boston and really owned that market. You could always depend on them when the going got tough, even if you felt that there was a lot of duplication. Naturally there is a lot of the chest beating about being the lead investor in a project and with great outcomes it seems that "success has many fathers while failure is an orphan." It's sort of like investment banking, where everybody takes credit for a deal, and it adds up to well over 100 percent. But you really see who consider themselves the lead when a project is in trouble because it is more than money at stake — it is your reputation. So the quality of your co-investors can either reduce or dramatically increase the amount of time you spend helping a company out. And if you have a good relationship with your co-investors, you can divvy things up and avoid the issue of, "Hey, we're the lead investor." As frustrating as it might be to duplicate some effort, no one has a monopoly on wisdom, and I would rather have it that way than have a co-investor who runs for the hills when things get difficult.

Being able to say that you are the lead investor certainly helps with the marketing of the next fund, and so there is a lot of revisionist history in our business. When I arrived at Venrock there was a lot of conversation about our PR strategy: "Do we want everybody to know who Venrock is?" There are people, like Tony Evnin, who are just not that interested in going out on the stump to promote themselves — although Tony is probably the most successful health care investor in the history of the industry. After many years and a lot of

experimentation, we finally concluded that our real audience should be the entrepreneurs. It is not our LPs, but we obviously need them to understand what we do. It certainly is not other firms, since co-investing is a lot less frequent today. Our target audience is really the entrepreneurs, and we want the really outstanding entrepreneurs to think of us first when they are looking for funding.

CK: *That's changed.*

MB: Oh, of course, because there are more firms and more money. Andreesen Horowitz is a great example of a firm that is very highly respected despite a somewhat limited track record as an investing group. I'm sure there are a lot of people in Silicon Valley who now believe that Andreesen Horowitz is the leader in the industry. Let's see if they have the staying power after they make their first thirty investments. It is really remarkable the number of firms that have been at or near the top of the pile for multiple decades. In Venrock's case this is largely the result of tapping into their extensive network of entrepreneurs.

CK: *What's your relationship with the entrepreneur when you're working with them?*

MB: While we're involved with the company?: I think different people bring different strengths to the table. If you have a group of investors that are like-minded, the entrepreneur has to be adept at using each to the company's advantage. When I first came to J.H. Whitney, people knew of my Morgan Stanley background and probably expected me to be most helpful in working on creative liquidity options. Hopefully I have developed some other

skills over the years. I chaired the compensation committee at SunGard for most of my tenure there, and we developed some really interesting, creative, and tax-efficient and accounting-efficient ways of approaching compensation programs — and compensation is important as it is difficult to recruit and retain a great team without the right compensation systems. You just can't do it. And most entrepreneurs don't think of things that way. They talk about building a team, but there are a lot of things that have a second-level impact when you're trying to build an organization and trying to become successful. So compensation has been an area of expertise for me, as has strategic planning, for sure. And of course CEOs hope their directors can network with people they may need to help them build their companies.

But it also depends on the firm and on the individual. If you go back and look at people that have been successful, where did they come from? Up until 1980, it seemed like the most successful people in this business were like Walter Curley with a strong finance background. While some had worked in a company, most were ex-investment bankers who knew how to cut deals and understood the underlying economics and how to raise money.

.

CK: *What made you think you were well suited for venture capital?*

MB: I was not sure but I wanted to try it. I had a lot of experience evaluating people and had been successful in investment banking, and I thought I understood how some CEOs had successfully built important companies. It's not dissimilar to coaching — you help construct a system that optimizes the talents of the individuals and then train them to work

together as a team. You build the system to fit the skills of the individuals rather than try to fit the team into a pre-set system. I had come to know a lot of people in the industry. I really admired those who had had succeeded in it.

With investment banking you originate and sell securities and might help with acquisitions but you don't really build companies — and there was a real rush in a lot of the things we did at Morgan Stanley that were very important in the scheme of things. And if you controlled the financing process, which you did as an investment banker, you certainly generated some respect and influence over how things turned out. But having said that, you went from account to account, and it was service business where you were on call twenty-four hours a day.

It turns out in the venture business you are pretty much on call, too. And one of the really hard things about it is that any decision you make on an investment is likely to involve a five-year time frame. That means you really get to know the entrepreneurial teams well, and the people, and you feel really awful if things do not work out — even if you weren't closely involved on a daily basis.

CK: *So you get emotionally involved.*

MB: Absolutely. And if your standards are high, and perhaps my standards have been too high, you get very frustrated when teams don't execute well. Where you get the biggest bang for the buck in this business is finding untested but potentially very strong people that can

build businesses. But once they have succeeded, they can get pretty stubborn about how to do it the next time around. They're going to do it their way.

Bill Poduska's a great example. Bill founded Prime, and then founded Apollo — both extraordinarily successful companies. Then he founded Belmont Computer, later known as Stellar and then Stardent (be wary when companies changes their names that often), and he could not match his prior success with the third one. The odds of someone succeeding three times in a row are very slim.

CK: *Do you have a company from your days at Whitney that just stands out as the most memorable or challenging?*

MB: I'd say that SunGard is probably the one that stands out the most just in terms of being able to evolve and scale. Alex. Brown took SunGard public in a very small IPO. We then made over one hundred acquisitions in twenty years.

CK: *How did that investment come to Whitney?*

MB: There were several introductions to J.H.Whitney, Welsh Carson, and Greylock. You may recall that during the late 1970s Sun Oil diversified into some non-oil businesses and among them were several data processing ones. Then they tried to acquire Becton Dickinson in a contested takeover and eventually lost — Morgan Stanley successfully defended Becton — and as a result the Pew family, that had a large position in Sun, was really not happy with the management team. To make a long story short, the family forced

some management changes and the company went back to their historic focus on energy. When they decided to divest the data processing businesses they asked John Ryan, who had several friends at Greylock, to find a home for them. It was then called Sundata. They had several data processing businesses — AFS provided mutual fund accounting, NMS provided trust and banking services, Catco had an employee benefits business, and there was a time sharing data processing business that became the base of the disaster recovery business. John approached several firms and eventually J.H.Whitney and Welsh Carson put together a creative buyout and joined with Greylock to put an acceptable deal together. Bruce Anderson, one of the Welsh Carson partners, had been very successful at ADP taking pretty mundane processing businesses and getting Wall Street to value the recurring revenue and the margin enhancement as an attractive investment opportunity. Welsh Carson had some great successes during the 1980s, and J.H.Whitney was fortunate to have worked with them on several. We bought two businesses from GE, bought Metromail from Kluge at Metromedia, and then did the Filene's buyout with Greylock and Oak.

CK: *Did SunGard keep you up at night?*

MB: There were some challenging times, but I always had confidence in the management team there. Jim was a close friend and an excellent entrepreneur, so I stayed on the board after it went public and then one year led to the next. Their business model was really excellent — they controlled 95 percent of the market in selected segments that serviced both buy side and the sell side through a highly focused and carefully executed acquisition strategy.

CK: *You were on the board for how many years?*

MB: From ’85 to 2005. Twenty years.

CK: *That’s a long time.*

MB: That’s the only public company where I stayed on the board for a significant period of time. One of the reasons, if truth be known, was because that tax processing deal we did with Walsh Carson ran into some problems with the tax software just before the tax season started. Jim Mann had actually written some of the code many years before and was on the board of the company. He volunteered to step in and find some people to fix the situation and helped us avoid a really embarrassing situation. When he did that I told him that I would stay on the board as long as he wanted me. I think that it worked well for both of us.

CK: *Is any of your networking coming from Yale, from Harvard?*

MB: Not too much. I’m very involved with Yale. Yale hasn’t really spawned a lot of companies, although things are quite promising up in New Haven, thanks to the recent work of the Yale Entrepreneurial Institute.

CK: *I’m talking about the people you went to school with, that perhaps you’ve stayed in touch with—*

MB: I think Harvard Business School has always been a great resource for me. My daughter also attended Harvard Business School and graduated 2004, and I remember her making the decision between Stanford and Harvard. Stanford has about 375 people in the class and

perhaps half are women; Harvard has 800 people in the class with 350 women. She said, "Somewhere in my business career it'll be important to have that commonality and that bond, and there are more women out there from Harvard than there are from Stanford." The decision did not have much to do with the quality of the education as both schools are superb. I think that she wanted the breadth of a business school education and also the breadth of personal relationships that Harvard is good at providing. She got a lot out of Harvard, but she did not change jobs when she graduated. She returned to Blue Ridge Capital, and she enjoys the hedge fund business because she is very astute and a good judge of people. With two children she has to balance a lot, but investment management is a career where you have the flexibility to manage your personal and business life pretty well.

CK: *So you're coming in contact with people—*

MB: Yes, but most of the relationships now are with people that I've invested with. But there are a lot of venture people in the industry that I know well and go back a long way with. And the personal relationships are important, which is why we may work with a firm on one coast but not the other.

CK: *Do you see a big difference in the East Coast/West Coast cultures?*

MB: I suppose I could talk for hours on that. Location and proximity has a lot to do with who you work with and how you collaborate. I used to be a bigger proponent of Boston than I am today.

CK: *In what way?*

MB: With the Boston companies, you didn't have the situation that you had in California, where a company would start up, and within a year you had people poaching your company and employees would go across the street for another 1,500 options. Employee raiding is more prevalent among Silicon Valley firms, and that doesn't seem to happen as much in Boston. But I am speaking mostly of firms from past decades up in Boston.

CK: *Who are you talking about?*

MB: DEC, Prime, DG, and then Apollo and the startups of the 1980s. There was a real culture up there, particularly in the minicomputer business. When you assembled a team, that team stayed together, unless someone didn't work out. You did not hear as much "I'm going to latch onto this for two years, and then I'm going to move on to something else." You were able to build a team and take a much longer term view. I just thought that the long-term orientation made me feel more comfortable about the chance of success.

Having said that, you cannot deny that the bulk of technology investing has moved to the West Coast. That is a fact. Silicon Valley was a great environment. You had HP, you had Stanford, and the confluence of a strong academic community and a couple of really innovative companies spawned such an incredible amount of innovation. Other parts of the country had this but in a much less obvious way — Control Data out in Minneapolis, IBM in Austin, Texas, IBM and then Storage Technology near Boulder; and of course the minicomputer and biotechnology businesses with MIT and Harvard in Boston. I've found

it fascinating to watch how that evolved. And now even New York City is humming, and I have been spending most of my time on companies that service and support the financial services industry.

CK: *Because?*

MB: Well, I guess it is a combination of my prior work with SunGard, where I saw virtually everything in the industry; my background in the investment banking industry; and the fact that I'm sitting in New York, which is where it is happening. We made a decision ten years ago to open up an office in Boston. We used to cover Boston from New York. And there were a number of years where people said, "You know, if we really had our druthers, we'd probably have just an office in Boston and California, not in New York," because not much was happening here. Today I am not sure that people would feel as strongly about that.

CK: *You mentioned MessageOne. That's with Venrock — I'm going to add this quote from the CEO of MessageOne.*

MB: Satin Mirchandani.

CK: *Satin:* "*We opened up a financing round purely to get Mike Brooks on our board.*"

MB: There is a long story to this, but I'll try to shorten it up. Venrock had backed Chris McCleary with Digex during the mid-1990s. Digex was one of the early hosting companies that competed with Exodus and others. The company was going sideways until

Ray Rothrock recruited Chris to run it and Chris was a fabulous marketer — he could, as they say "sell ice to the Eskimos." He turned the company around and engineered a very attractive exit for Venrock. Shortly after the sale Chris founded US Internetworking, the very first ASP — application service provider. Venrock, Grotech, and Blue Chip and others funded a first round and then went out to raise another round based on the success of USi selling customers both Siebel and PeopleSoft applications on a "software as a service" basis. Chris was very persuasive and there was no question that he was at the forefront of a very important industry. I liked the idea of the company, went down and spent some time with Chris, and after a lot of negotiating J.H.Whitney funded the second round.

The message of USi was pretty simple — "You can buy a license from Siebel or PeopleSoft and then get the consultants to install the software and do the training. After all that, it may cost you over $1 million. Look, you don't have to do that; we will give you Siebel or PeopleSoft by the drink. We will host it for you, and we will only charge you for what you use." It was a very compelling message, but unfortunately the company grew too fast and ran into some problems, but not before going public at a valuation approaching $6 billion. It was a big investment for both Venrock and Whitney and a huge home run right at the top of the dot com boom. Anyway, the company had some ups and downs and was finally taken private again by Bain and ultimately sold to AT&T.

But USi did invent the ASP business, and Chris was the guy who did it. But pioneers often get arrows in the back, and it ended up a mixed story for Chris. So anyway, Chris came to me in 2001 and said, “I got another great idea here. We’re going to do the same thing that USi did, except we’re going to host and remotely backup specific applications on a real time basis — something not even SunGard can do.”

VENROCK ASSOCIATES 2000

CK: *Meanwhile, you’ve moved from Whitney to Venrock.*

MB: I had joined Venrock, and Ray and I decided that it made more sense for me to stay on the USi board since Annapolis was a lot closer to New York than Menlo Park. So when Chris came in to explain his idea I said, “Chris, you know I’ve been involved with SunGard for years. They dominate the disaster recovery business, and there’s no way in the world that customers are going to buy your service when they can get the whole thing under one roof from SunGard. They’re just not going to do it. They’re not going to have fifteen different disaster recovery vendors. They’re going to do a disaster recovery contract with SunGard, but they’re not going to do it just for PeopleSoft or just for Siebel.” So over the next several months Chris and I talked about some other ideas and he listened. He came back about six months later and he says, “I have a new plan here. We are going to build a disaster recovery platform for e-mail.”

At that time e-mail was a stepchild in the data center, and the guy running e-mail on a couple of servers might be the one who did the telephone support. If you went into a big

data center of a corporation, they didn't know what e-mail was. E-mail then was pretty rudimentary, but even the CEO was starting to use it. Remember, you're talking about 2002. CEOs began to use e-mail — although blackberries were not yet prevalent — but when e-mail went down it became a real problem. All of a sudden it was, "Wait a minute, our e-mail's down. Get e-mail working!" Building a platform to keep e-mail up and running and being able to failover to a working network seemed like a pretty good idea, so we funded Chris and his new company, Evergreen Assurance.

At SunGard everything in disaster recovery worked perfectly. Everything went to the megacenter in Philadelphia or the one in San Diego. However, the economic recession left a lot of customers with excess data processing equipment and many began to develop and install their own recovery solutions on-site. The growth of the disaster recovery business was now being challenged, but some still questioned whether or not the home-grown solutions would work in a real disaster, and they felt that it was important to stay in front of the customer in the event that this ever happened. SunGard began to focus on developing related services for their existing customers while also trying to limit the defections from their disaster recovery customer base. One thing that SunGard discovered, about the same time as Chris McCleary, was that there were inadequate disaster recovery solutions for e-mail.

So we invested in Evergreen and we brought on some early customers pretty quickly. Chris was pretty encouraged by all this and wanted to raise much more money and

eventually take the company public, but this was in the aftermath of the dot com explosions and it was tougher to raise money. Further, our solution was an expensive one with a mirrored, hardware-intensive system, and while the concept was an interesting one, the business economics were not.

So fast forward a couple of quarters and SunGard issues an RFP for this type of solution. Chris believes that SunGard is simply trying to learn about Evergreen's technology and refuses to submit a proposal to them. Much to our surprise a little company run by Satin — MessageOne — submits a proposal and commences a distribution relationship with SunGard Availability Services, which effectively opens the door for MessageOne to approach most of the Fortune 500 with their innovative software-based service priced quite simply as "a dollar per mailbox per month." It caught on pretty rapidly, while Evergreen was finding it pretty tough going.

Shortly afterwards Satin called me and said, "You are so highly regarded at SunGard and know a lot about our space. Perhaps we should talk about combining Evergreen and MessageOne so that we can dominate this growing category." So I tell Chris that I am going to meet with Satin and his partner Mike Rosenfelt and take them to dinner around the corner at Parma. As we are sitting down my good friend Michael Bloomberg comes over and I introduce him to Satin and Mike. Well, not only is he the mayor but also the founder of Bloomberg, one of the great entrepreneurial stories of the past several decades. The two of them have stars in their eyes and are now convinced that I can open any door

for them anywhere! Satin starts out, “We want you on our board, and we want you to invest.” And I said, “I can’t do that, I’m competing with you at Evergreen.”

To make a long story short, after several more painful quarters Evergreen did not get where they thought they should get and MessageOne continued like “the little train that could.” It became obvious to the board at Evergreen that our lifeline was probably through a combination with MessageOne, but Chris was adamantly against the proposal and still confident that he could convince some outside investors to continue funding Evergreen. After some pretty contentious debate on the Evergreen board, I recused myself from the discussions and volunteered to negotiate with Satin and MessageOne if they wanted me to do so, but also made it clear that Venrock no longer had confidence in Chris or the business model of the company. Several months went by while Chris tried unsuccessfully to raise money, and we eventually merged the two companies with Evergreen, getting far less favorable terms that we could have negotiated if we had moved more quickly. The alternative was to watch Evergreen implode.

So the other Evergreen investors finally agreed with Venrock’s point of view and the two companies combined. MessageOne continued with their simple premise — “a dollar a mailbox a month for backup, archive, and recovery of e-mail. You sign a contract, and if your e-mail goes down, we’ll bring you back up, and you do not need all this mirroring and hardware in an expensive data center in Annapolis, Maryland.”

Once the deal was closed, Satin approached me again and asked if I would join their board and make an investment for Venrock. I explained to him that I was conflicted in that Chris was still upset about my initial contact with Satin, which he believed had influenced his board to sell out the company from under him. Investing directly in MessageOne, as attractive as it might have been, was not the right thing to do for me or for Venrock, at least until some time passed. About a year after the businesses were combined and the benefits had become more obvious to all, Satin approached me again. By now Chris was gone and the other investors were supportive of us accepting Satin's offer. I now felt that it was something Venrock could do.

So Satin opened up a prior round for Venrock and we made an investment in MessageOne, and I joined his board. It turned out to be a very good decision. Several years later we sold the business to Dell Computer for a very attractive price, and not only did the original Evergreen investors get their money back on their initial investment, but Venrock also made a good venture return on the subsequent investment. I will confess that I am still disappointed that only one of the other four Evergreen investors ever thanked me for making back their money for them — particularly after a couple had not supported the merger until it was obvious that Evergreen could not survive independently. It worked out well, but I learned a lot about my co-investors on that one. Satin was a very capable CEO. He did an excellent job, and we were fortunate that the business fit well with what Dell was doing to build a managed services platform.

CK: *He's tenacious.*

MB: Satin was. So was Ken Draeger at DecisionOne. The original business was a combination of Mohawk Data's computer service business and Decision Industries distribution of IBM-compatible hardware. That was an unpredictable business with lousy margins. We brought in Ken to try to improve it and he said, "This hardware business is just awful." And we said, "Okay, sell it if you can find someone who wants it. If not, we will close it down." He sold it to an Israeli company; we got out of the hardware business. And from that point forward, DecisionOne was able to focus on the computer maintenance business where they had a distinctive edge. We were able to take the company public, and then it was taken private by DLJ's merchant banking group. Our original investment of $25 million, at one point written down to nearly zero, returned us $125 million. I said, "This business is going to cost the venture industry a lot of money." Ken said, "What do you mean?" I said, "Because whenever a company is in trouble your instinct is to put more effort into it, and the DecisionOne example encourages you to think you can pull it off. Unfortunately you are fighting the odds."

Fortunately the successes at DecisionOne and MessageOne did overcome the odds, but at some point you just have to call a spade a spade and admit, "This thing's not going to happen." For every one of those companies that's a phoenix rising from the ashes, you've got fifty others that never make it. That's where you've got to have the common sense when you listen to the management team and say, "No, I don't buy it." And those are

painful decisions, because you generally like the management teams. If you don't like the management teams, then you probably shouldn't be the director on the board.

CK: *After all this time—*

MB: No one likes workouts, but fortunately I have had some that worked out well.

CK: *You were at Morgan Stanley, you were at Whitney, you've been here for ten years. What still excites you about the business? Keeps you going?*

MB: I like working with people who have innovative ideas and who need help to pull it all off. I do not mean to sound deferential, but if they're willing to respect the experience you've had and they're willing to listen, it can be really gratifying when they succeed. This is not a business where you get your name in the press a lot. In fact, I've always been a real proponent that "no press is good press." I know that there are many who feel differently about that, but I think that the more people who read about you on the way up, the more likely they'll kick you on the way down.

For me, it's a wonderful business because you never see the same thing twice. I often say to people joining this business, "You will always make some mistakes, just don't make the same one twice." You're going to make mistakes, but you should learn from the ones that you make and don't ever kid yourself into thinking the next deal that comes down the pike isn't going to have challenges. It is always difficult to anticipate problems, and doing so really involves some pattern recognition. You see a situation and hope to have the

experience to understand the problem and know how to address it. But the reality is that the circumstances and the industry constantly change, so from an intellectual perspective it is a really interesting business because you never quite see the same things, and you've got to fit the pieces together.

I did not leave Morgan Stanley. I joined the venture capital business. I was asked at the time, "Why would you leave Morgan Stanley and such a successful career?" I said, "When I got out of Harvard Business School, I didn't want to be the only guy in my class at Harvard Business School never to have changed jobs." Venture capital is exciting, it's intellectually satisfying, and it always keeps you motivated.

Obviously the venture business has evolved. It used to be pretty straight-forward: You looked at the business opportunity; you tried to understand the technology, and you tried to understand the market and the distribution challenges. You knew what the sequential steps were. Today you're sitting and funding a company with a couple kids who say, "We're going to do a social networking site, and if we build it, they'll come." And it might work. I mean, it certainly has for Facebook. When I first joined Venrock we lamented, "Why didn't we see the value in Google? Everybody missed Google." Well, the fact was Google was the fifth search engine in a business where it looked like you were never going to catch the leaders. And Google happened to rebuild the business to a paid search advertising model. And so number one, you have to be really, really smart, which I think a lot of people are. Not necessarily academically smart, but having good street smarts. But

you also have to see over the horizon at the next opportunity. A bit like Wayne Gretzky, who seemed to go to where the puck was going to be rather than where it was.

CK: *To see around the corner, almost.*

MB: And that's not very easy to do. We've debated a lot here when we do deep dives to try to understand industry segments. More often than not a management team comes to you with the business concept. Sometimes I've invested in a company that I thought was worthy of financing, yet management had some shortcomings. So you bring in a manager, and often that manager considers himself a hired gun to fix problems. The manager may be very capable but lacks that fire burning in his belly and does not think, "I'm going to kill myself to prove this right." That stubbornness doesn't work with an entrepreneur if he's wrong, but it does if he is right.

If you don't have a great entrepreneur, you're not likely to have a successful company. You may be able to do some financial engineering, or combine it with someone — we did more of that at Whitney than we do here. The venture business is almost a one-stop thing: You make it or you don't.

Venture capital used to be much more collaborative, where you said: This company's not working. I'll call up Dave Hathaway at Venrock and see if we can put this together with one of his companies, and maybe one way or another we can get a little more scale and we can reduce the burn rate. That doesn't happen as much any longer because there are so

many people in the industry. There used to be more of these mergers before all the money came rushing into the venture capital business.

Some of our most successful companies at Whitney resulted from just such combinations. I invested in a company called Relevant Knowledge, a company that in the early days of the Internet created a panel that tracked where people spent their time on the Web. This was before privacy became such a critical issue. Basically Relevant Knowledge ranked sites based on how many unique visitors accessed them. At the same time, Greylock and Venrock had funded a spinoff from Todd Johnson's company, NPD, and had created a competitive business by the name of Media Metrix. They used panels but did it with older technology to gather the information and it look a longer time to compile and distribute the results. They packaged software into a PC that would compile information on the floppy — it wasn't even a disk then — you'd take the floppy out after a month and send it to Media Metrix. They could identify the most popular sites, and advertisers found that information very valuable for display ads. But they didn't have the current technology that they had at Relevant Knowledge, where the information could be downloaded in real time. So Bill Helman and I got together and this led to combining the two companies — Relevant Knowledge's technology with Media Metrix's customers — and it became the gold standard of the early Internet days. Those mergers don't seem to happen as much anymore, despite the fact that the venture community is pretty incestuous.
In some situations, firms are just willing to bail out.

J.H. Whitney was an interesting environment where you didn't make an investment unless you could sell something and get liquid. It put the onus on you to get your company successful and liquid, and Benno evaluated you not only on your new investments but also how well you dealt with the old ones. Secondly, this raised the bar because you didn't have an inexhaustible supply of money. I thought that this made us much more careful about new investments, but after Prime, I wasn't so sure. But with many other firms there was not a lot of incentive to get the deals from a prior fund liquid if they were on to investing a new fund and the people there had a lesser carry in the old fund. So we literally would find people just disappearing on deals and no one spending time at the company. The worst example was when Bill Harding of J.H. Whitney was asked by Sequoia to join them in funding a Series A round for a company. About eighteen months later the company goes out for a Series B, and in the middle of the financing Sequoia calls and tells us that they are bailing — right in the middle of raising a Series B. They had made the fund with Cisco. It was just a tremendous win. So they told Bill, "We're going to triage this portfolio and anything that we're not absolutely sure is going to work, we're not going to support." They had been the lead investor! We're out there pitching people and they call and say, "You know, we're not going to fund the Series B. You can do what you want, but we're not going to fund it." That was the death knell for the company. In a show of loyalty to the company, we funded it and put in more money than we wanted. The company didn't succeed. So Sequoia was probably right. Different strokes for different folks.

CK: *I guess they do venture capital differently.*

MB: Yes, I suppose so. Should we have stayed with it? Probably not.

CK: *But that was your culture; that was your work ethic, in a way.*

MB: This will give you an idea of sort of the deals we did when I was at Whitney, and the kinds of returns, as you can see.

CK: *Compaq Computer, Storage Technology.*

MB: SunGard's all the way down there.

CK: *MiniScribe. So Compaq was the big—*

MB: Compaq was a big winner. And that was a favor from Tom Perkins. He gave us $2 million of Compaq. Hopefully we reciprocated.

CK: *You go into Compaq in 1982 and have an IPO in 1983. That's really—*

MB: Yes. Compaq went public a year and a half after it started.

CK: *Just reading these, for the record. Qum Corporation.*

MB: Qum was a printer company that Don Ackerman did in the '70s. Cypress was TJ Rogers and another deal that we did with Kleiner Perkins. David Morgenthaler did that one. We bought Metro Mail from Kluge. NET was Bruce Smith and an investment that David Morgenthaler made with Oak. We took it public with Morgan Stanley. Applicon was GE's

CAD/CAM business that we financed with Citibank. Genetics Institute was totally Benno. Xilinx was a programmable gate array company, which was Harry Marshall's big win.

CK: *They're all like six years from the initial, averaging, I'm looking at five, six years.*

MB: And that was what the business was like.

CK: *You'd just stay with it.*

MB: And then we got very spoiled in the 1990s with two-year turnarounds.

CK: *Can I ask you, quickly, before I wrap this up, is there anything I didn't ask you that you were perhaps expecting or would like to add?*

MB: No, I don't think so. I thought that you'd be most interested in Benno, because Benno was such a pivotal figure in this industry. With Benno it was the sheer force of personality that could get things done. He was just tremendous. There were few people like him.

CK: *I don't hear you saying he's a mentor, but is he—*

MB: He wasn't a mentor, probably because he was so competitive, both with other venture capitalists and with his partners. He loved to win and he wanted those around him to know it and be motivated to win as well.

CK: *Even with bringing you in, he still—*

MB: Absolutely.

CK: *Was he a role model, was he an inspiration?*

MB: Absolutely, he was an inspiration and so highly respected throughout the industry. One company really speaks to that. In the 1980s we were on a roll at Morgan Stanley with our technology IPO business, and the firm made a decision to leverage this with a small, focused firm investment account — investing the partners' money — to see if we could participate in the pre-public rounds of some of the better venture-backed companies. This started out with a chance to look at a lot of the Kleiner Perkins portfolio as a result of our helping them raise their third fund. I was on the board of this initiative, and one day Rob Walkingshaw comes in and suggests that we look at a buyout of a generic drug business. We discuss the merits of this for a while, but it is clear that buyouts are not in the mandate of the fund, so we start discussing who might be interested in funding this and whether or not we can generate some good will from referring it to someone. Rob's initial suggestion was Greylock, but I politely objected because they had not been that active in buyouts to that point and, additionally, we knew the J.H. Whitney people reasonably well and this was the type of investment that they seemed to like. At this point there were three key investors in the venture health care business — Benno, Brook Byers of KP, and Tony Evnin. But Benno was the guy at the top. So I called Russ Planitzer and said, "Would you be interested in this?" And he says, "Maybe we would. I'll speak to Benno and get back to you."

I'm never going to remember all the names of this company (Remember when I said that multiple names are not often good news?), but it started as Phoenix Pharmaceuticals and

ended up as Eon Labs before it was sold to a German drug company nearly twenty years later. Two guys had came out of one of the drug companies in New Jersey, the generic drug industry was heating up, and they were going after some big drugs that were just coming off patent. So Benno gets involved and invites Morgenthaler Ventures, the Olayan family, and Citibank into the deal and they raise $8 million. About a year later I have joined Whitney and Benno calls me into his office and says, “I’ve got a little problem with Phoenix Pharmaceuticals. This thing isn’t working quite right, and these guys are doing a lousy job.”

To make a long story short, he fires the management team and in a classic move tells all of us, “I am going to fix this thing.” After canvassing nearly the whole industry Benno hires a really good guy from one of the drug companies and damn if he doesn’t fix it. The company gets two drugs approved, and off we go, generating something like $20 million of annual cash flow within a couple of years. So we’re preparing to take it public, he renames it Vitarine, and then, to improve an already attractive story, they acquire a distribution company along the way for stock — that is likely to be public before long. So now we’re at $120 million in revenue, Benno is chairman of the board, and he has Peter Castleman also on the board, so it is clear that J.H. Whitney has built this company. This company has risen from the ashes and is now on the road show, and Benno is telling investors, “We’d like to give you an opportunity to share in our success at Vitarine.” It was a great story.

So anyway, the investment bankers tell us that the book is sold eight times over and they are at the end of the road show up in Boston and on the way to the last presentation in New York when Benno gets a call from the company. He is informed that the FDA is challenging one of their drugs — the generic for Diazide, an anti-hypertension drug that has succeeded Maxzide as the medication of preference. Vitarine had formulated the generic version in record time and got it approved as bio-equivalent to Diazide before anyone else. But the FDA had gone down to the Virgin Islands, where the manufacturing plant was, and reviewed the raw material purchasing records, which did not seem to match the production records for the drug. Then they dug a little deeper, they inspect the pills, and they cut up one of them and, lo and behold, it is the original Diazide with a different color coating. Sure it was bio-equivalent, because this guy took the real product, coated it, and then sent it off for tests. Of course it was bio-equivalent. It was a total fraud.

Benno was so disappointed in the company and the people. It just blew up overnight and the company was placed on the FDA blacklist. But in this case of incredible fraud, Benno's reputation was so clean — people knew that he would never be a party to anything like this — that neither he nor J.H. Whitney were ever mentioned in the press that surrounded the scandal. They knew that Benno would never have condoned that behavior. He was a highly ethical guy, and the press just said, "We're not going there."
Long story short, this phoenix rose from the ashes, went all the way up and back down. Peter Castleman helped him take the company through bankruptcy, figured out a way to restore its reputation, and then brought it back again as Eon Labs. It was sold many years

later to Hexal, a German drug company, and I think that the LPs actually got a return on it — after a very interesting twenty years. It was like Merichem. Benno was proud of that one as well. When I first joined J.H.Whitney they had just sold Merichem, a chemical company that had been in the portfolio for twenty years. But when you had evergreen funds like that, there wasn't pressure to sell if you thought that the company would be worth more later.

CK: *And that was the Whitney way.*

MB: It's a very different way. I'm not sure that model could survive unless your sources of capital were extremely patient.

CK: *Does that go along with your desire to have this reputation with the entrepreneur?*

MB: It does help with entrepreneurs. You hope that one of our entrepreneurs says, "Hey, you need Brooks, because first of all, he's smart, he helped me a lot, and the firm doesn't give up on you." There's always a balance. Keep in mind that no one in this business has all successes. I guess you subliminally suppress those bad experiences. But what's interesting is that some of the more successful deals I did were second tries at something where I really learned the first time around with mistakes I made in the same industry.

I lost *a lot* of money for Whitney in 1990, because I bought a mortgage business out of the Resolution Trust Corporation. It was a mortgage-servicing business. The way that the mortgage business worked then, before securitization, was that basically you'd sell the

servicing released. For example, the bank would sell a mortgage and keep the servicing business and it was an economies of scale play with the servicing. It was a nice business as long as the mortgages didn't get refinanced too quickly. But if interest rates declined and people refinanced, then you lost your servicing base. We bought the platform when mortgages were 12 percent. This was the era of inflation when most people did not think that mortgage rates would come down for a long time. Then they went down to 10, then 9, and then 8 percent, and it was like holding an ice cream cone in the middle of the summer and watching it melt. After that I vowed never to get back in the real estate business.

And six years later, along comes Homestore. They are able to offer innovative solutions using the Web and commercially available databases to provide real estate agents with access to the best and brightest decision analytics and tools. It enhanced productivity and became absolutely essential for every realtor. We joint ventured this project with the National Association of Realtors by rebuilding and rebranding a defunct project that they could not finish, and it was perhaps the best return J.H. Whitney ever had. A $4 million investment in Homestore became worth more than $220 on the exit. Sadly the ending was not so happy.

CK: *What happened?*

MB: Homestore went public, and over the next two years I went off the board and we distributed all our stock. Kleiner Perkins had financed the company in a pre-public round and stayed with it after the IPO. As the company came to the end of signing up most of the

multiple listing services, the CEO embarked on an expansion into Web advertising. The rest of the story you can read about in the press as he was charged with, and ultimately convicted of, fabricating revenue by constructing round-trip advertising arrangements with some corporate partners. To be candid, I never got along well with him, but I never thought that he was patently dishonest. I know that John Doerr did not, either. To Kleiner Perkins's credit they stood up and brought in a replacement for him, and the company continues to operate as Move Inc., but the high enterprise valuation is a distant memory. It was a great business model that was destroyed by dishonesty and greed, but I give Kleiner Perkins the credit for not giving up. They must have learned that from Benno.

BEYOND VENTURE CAPITAL

CK: *When you're not doing venture capital or thinking about it, what are you doing in your spare time?*

MB: I do a lot of bicycling and also ski a lot. Several years ago I had both knees replaced and now I can do things I haven't done for years. I still helicopter ski in British Columbia, which I have been doing for over thirty years. It never gets old and it is a real passion of mine. I remain pretty active at Yale and stay close to the hockey program.

CK: *I see the U.S. Ski and Snowboard Foundation and the USA Cycling Development Foundation.*

MB: Yes, I am a trustee of both organizations and derive a lot of satisfaction from helping young men and women achieve their dreams in those two sports. Our success last year in

Vancouver at the 2010 Olympics was particularly gratifying. I'm also still involved with tennis as the honorary chairman of the Prentice Cup. Tonight six players from Oxford and Cambridge arrive for a five-week trip in the U.S. which culminates in the Prentice Cup matches down in Seabright, New Jersey, against a combined team representing Yale and Harvard. I played in both of these matches when I was on the team at Yale and also was the chairman of the competition during the 1980s and 1990s.

CK: *What is the Hospital for Special Surgery?*

MB: It is probably the best orthopedic hospital in the United States, if not the world. It is in New York focused primarily on orthopedics and joint replacement. With fifteen knee surgeries over some thirty years, I felt that I should do whatever I could to help this institution relieve the pain and suffering of people who are afflicted with arthritis. As I said, I finally got them both replaced, and I've been ecstatic with the results. I wanted to repay them for all that they have done for me, so I have been on their board for several years.

CK: *And you're still active with the Yale Development Board?*

MB: Yes. Yale's just finishing up the Yale Tomorrow campaign. They recently announced that they've raised over $3 billion. It is a great institution and our family has been fortunate to have had the opportunity to be part of it.

CK: *And you were a director of NVCA.*

MB: I was a director from 1997 to 2000. I didn't serve out my four-year term, because Tony Sun of Venrock had just been elected to serve on the board when I changed firms, so I stepped down to avoid having two directors from the same firm. I enjoyed those years with the NVCA and was proud to be on the search committee that recommended Mark Heesen as the new director. He has done an excellent job for our industry.

CK: *Do you think they can be successful? Were you working on the same problems that they're working on now?*

MB: We have always had to keep the focus on differentiating capital gains from ordinary income. The last big issue that I was involved with was the expensing of employee options. I was in a minority on the subject, but at the time there was a lot of negative publicity about companies like Cisco taking tax deductions for the issuance of non-qualified options and then not expensing them for accounting. The position of the accountants was that if they were getting a tax break, then they should have to expense them. I said, "Look, it's very simple from the venture capital point of view — we don't represent Cisco. I mean yes, they were once a venture-backed company, but they have a very different set of dynamics today." But what we ought to have said is, "Look, if you take a tax deduction for the expense of those options, then you should expense them for accounting purposes. However, if you don't take the deduction (and most venture-backed companies cannot use the deduction in their early years), you shouldn't have to expense them." That would have been a very consistent approach for the FASB. The NVCA was

confident that we were going to win the battle because they had done so much to convince everyone that options were vitally important for job creation. We lost the battle. We should have compromised and focused on differentiating venture-backed companies from the larger more profitable ones. I think my instincts were right on that one.

And now they are spending a lot of time on taxing carried interest. Again, there has to be a way to take a look at carried interest and differentiate venture firms from the private equity firms and buyout firms where so much more of their compensation is from fees.

CK: *But how can you convince—*

MB: Well, the problem is that then NEA and Oak would define themselves as a venture firm, and so might many of the private equity firms. You could still differentiate on the amount of assets under management or qualify them in other ways. And now they are throwing a bone to the venture business by treating investments differently if the stock is held for seven years. But seven years a long time.

CK: *Today it is.*

MB: I think the NVCA has been an effective lobbying organization for our industry. They have a good pulse on the political process. But they tend to be a little bit more optimistic than they should be in assessing what they can do with the political process. But generally the NVCA has been well plugged into the issues that are down there. They are very good about making Congress understand the facts about our industry and job creation. But look,

congressmen vote to get re-elected. It's not necessarily what's best for the country; it's what your constituency wants back home.

CK: *This has been just fascinating, just wonderful. I feel like I'm sitting here getting an education.*

MB: There are a lot of people who know much more than me about all these subjects.

REFLECTIONS

CK: *Do you have a sense of the legacy you want to leave?*

MB: Not really. Venrock just raised a new fund. I made the decision not to participate as a general partner in that fund. I'm sixty-five-years-old now and do not want to feel like I am taking someone else's seat if they can do a better job. If I do three or four more deals here, it is very likely that I will be still involved with these companies in my seventies, and I am not so sure I want to be doing that. I am happy to help others if I can, and I am trying to refer prospective deals to others unless I have some specific expertise in the area.

CK: *You're kind of winding down?*

MB: I don't want to call it winding down because I just don't see myself not working at all. My golf game isn't good enough.

CK: *So what do you hope to be doing?*

MB: Not sure. I have a number of philanthropic things on my plate, so I am not worried about being bored.

CK: *Do you like to read in your spare time?*

MB: I do read. I still like to read history. I recently finished *The Next 100 Years,* by George Friedman, which was fascinating. I also read about investing and am involved on several investment committees as part of my work with Hospital for Special Surgery and some other not-for-profit boards.

CK: *You have your daughter here.*

MB: My daughter, Carter, is here in New York, seems to love her job. My wife, Dede, remains very active since she left Sotheby's, where she was CEO for over a decade. She is now chairman of the East Harlem School here in New York and a very avid competitor in both bridge and golf — she gives me strokes. She has always had a good sixth sense about people and is very smart, so I always thought she could have been good in this business. With her interests and two grandchildren here in New York I do not see us moving down to Florida or anywhere else — even if the weather is better in the winter.

CK: *And your son Christopher?*

MB: Chris is going to the Darden MBA program at the University of Virginia after playing four years of professional hockey with the minor league affiliates of the Pittsburgh Penguins,

New York Islanders, and the Anaheim Ducks. He played in a lot of interesting places — Wheeling, Augusta, Biloxi, Salt Lake City, and finally Bakersfield — and overall it was a good experience. I think that he will be happy to settle down at Darden, and I am sure that he will like it. He is pretty entrepreneurial, but I do not know if he will want to get into the venture business.

CK: *Is there anything that you would've liked to have tried, or could've done, over the years?*

MB: I often thought that I would have enjoyed doing something in the academic world after several years in this business. Teaching in a business school would have been interesting. It may sound silly, but I might have been a good director of athletics as well. Too late now, I guess.

CK: *Very related.*

MB: They're related. Twenty years ago I might have considered doing something in the political arena — perhaps helping some candidates — but I am really frustrated by the lack of privacy in doing that and also the polarization of the political process. I don't want to spend my time being miserable trying to do that.

I've had a lot of fun with some of the pro bono things I've done, just helping. Working with the U.S. Ski Team has been a lot of fun because I've come to know two generations of skiers pretty well who have competed in the Olympics and the World Cup. I think that we've really made a difference in their lives.

I've had a couple side investments related to outdoor sports following my prior involvement at J.H. Whitney with The North Face and Brooks Sports. I now have a private investment in Ibex, an outdoor clothing company that specializes in merino wool apparel, and they make fabulous products but have similar challenges to any venture-backed startup.

So I am doing a lot. In venture capital there is no convenient point when you can say, "Okay, I'm done." Because when you say you're done, you've still got a couple more years of having to finalize things. So I've really tried to be disciplined and say, "Okay, unless I really love something, I'm not going to do it." I would hope to have a pretty clean slate in another year or two. Maybe then I can go back fishing in New Zealand for a couple of months.

CK: *Fishing wasn't on your list.*

MB: It should have been. I do not fish nearly as frequently as I would like. As they say, nowhere is prettier than where a trout lives.

CK: *In terms of the personal rewards from this business— It probably could be pulled out from everything you've said.*

MB: You take pride in things that you've done well, particularly in an industry where it's very remunerative if you do it right, and if you have partners you respect and like to be with. I have a lot of pride about the team that I built at J.H. Whitney in the 1990s, and we worked

very well together. We each learned a lot from each other. I have stayed in touch with a couple of them and they have done very well. From that standpoint, I think the psychic income is a big part of the reward. It's being able to have made a difference. If I had the expertise and the knowledge of Tony Evnin's space — which I don't — it is an area that I would have wanted to pursue, as it really captures the essence of venture capital. Developing a drug that's going to save millions of lives or change the quality of life for those who are suffering — there is no higher calling. That's creating absolutely whole cloth out of nothing. Information technology involves incremental improvements. Not so with medicine.

Clean energy is also interesting, but it is not my space. In fact, it is questionable if it is a viable venture opportunity given the massive capital requirements. We might be able to figure out a way to be effective at it as we are with biopharmaceuticals, but it requires so much capital, just as the pharmaceutical companies do. We've been able to excel in healthcare at Venrock, so perhaps we can pull it off in clean energy.

CK: *You might not be saving lives directly, but you're certainly affecting—*

MB: Information technology enables corporations to be more efficient, the Web and its social networking applications allows for more personal interaction and enables advertisers to target more precisely, but the benefits are just not as visible as with health care investing, if you're right, or ensuring that we don't destroy the environment for the next generation.

CK: *Would you say you've made a contribution to this economy?*

MB: The economy, sure.

CK: *Or to the country's economic system?*

MB: Absolutely. We lead the world in IT, we still do, and I think that a lot of the strength of what this country does is the way we innovate and bring new products to the market — CAD/CAM systems did that, computer processing did that, software tools and solutions did that. All those things have made the U.S. more competitive in the world and enabled us to enjoy a higher quality of life. But it's not as direct as saying I'm going to cure your sickness, or develop the batteries in the electric buses in New York City that help reduce air pollution. From that standpoint, I think the cause and effect is a lot more linked. There are a lot of wonderful things about the venture business. We certainly have created a lot of jobs, but that might not provide as much psychic income as curing cancer.

CK: *OK. I think that's key: It's when you say that it's psychically different, it's less direct. But when you're impacting a lot of lives, you don't know where it ends; the message gets passed on.*

MB: That's probably true. But put it this way: I feel that I've had a lot more direct impact and a more positive impact than if I'd been an investment banker at Morgan Stanley for the last three decades. Building companies is a lot more satisfying than securitizing mortgage pools.

CK: *I want to thank you for your time.*

MB: I hope it's been helpful.

CK: *Most helpful. And of course I want to thank you for Chuck, who has really spearheaded this project.*

MB: Please give Chuck my best and express my appreciation for inspiring this important project for our industry. As a concluding comment, I would certainly urge you to also speak with Henry Hillman. He was there at the beginning of the venture capital business and can provide a really unique and valuable perspective on this industry, an industry in which I have been enormously lucky to be a participant.