Oral History with Paul Wythes

NVCA Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

Paul Wythes

Interview Conducted by
Mauree Jane Perry
May 8, 2006

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 Paul Wythes

With almost fifty years of business experience, Paul Wythes is one of America's most successful as well as one of its first venture capitalists. In 1964 he founded and helped build his firm, Sutter Hill Ventures, just five years after he graduated from the Stanford Business School. Sutter Hill Ventures today is the oldest venture firm on the west Coast and has nurtured many of the valley's most successful companies. Paul Wythes also helped found the National Venture Capital Association in 1972.

Mauree Jane Perry: *Today is Monday, May 8, 2006. My name is Mauree Jane Perry, Oral Historian. This is an interview with Paul Wythes in his office in Palo Alto, California. It's a pleasure to be with you, and I thank you in advance for your time.*

Paul Wythes: Thank you very much Mauree Jane.

MJP: *What I thought we would do is begin with your personal history: where and when you were born and a little bit about your childhood.*

PW: Okay. Well, let's see where to begin. I was born in 1933, June 23, to be exact, coming up shortly on my 73rd birthday, in a little town in Southern New Jersey. Actually, I was born in Camden, New Jersey, which is today a war zone. It is the only city in the state of New Jersey that is being run by the state, because they don't know how to run it locally. Well anyway, born there and grew up; I was raised in a little town called Haddonfield, New Jersey, which is about 15 miles due east of Philadelphia on the road to Ocean City, New Jersey. And it was a great town to grow up in. In fact, it's still pretty much the same. When I was growing up there were a lot of farms around the town. It's an old

Quaker town with a lot of American Revolutionary history to it. They still build the buildings in downtown with a reference to our architectural past. I remember when they built the A & P Supermarket, it was built in the colonial architectural style. Not a typical A & P store. George Washington went through there. The slave trade was going along through this town. There are some tunnels underneath the Old King's Highway, which is the main drag, where they moved slaves from one side to the other to hide them and so forth.

It was a great place to grow up. No crime. It still is a small town, but was then sort of a bedroom to some major companies that were primarily in Camden, New Jersey. There was RCA, which had its headquarters there and also the Campbell Soup Company. A lot of executives lived in Haddonfield. So it was by most standards a fairly affluent town, although we were not part of that affluence, because my father would spend his entire career in education.

I have two older brothers. They were both great partners to grow up with. We used to have our differences, but we also worked them out. We were known as the three "Wythes" men. Wise spelled differently! I went K through 12 in Haddonfield, all in the public system; and I did quite well in high school.

MJP: *Academically?*

PW: Academically. Pretty much all around. It was not a big high school. It was just shy of 200, I think, in the graduating class. And I graduated, I think number three in the class and was a member of the National Honor Society. But I was also president of the student body, co-editor of our high school year book, and captain of the basketball team, played football and baseball as well; although my dad told me when I was a freshman in high school that I had to drop one of those three sports, because he wanted me to focus on academics. I dropped football, but I played varsity baseball and basketball, and was co-editor of the newspaper. And then they have a big award they call the Childrey Award for the outstanding graduating senior, and I received that award my senior year at graduation.

MJP: *By your peers or—?*

PW: The faculty of the high school.

MJP: *What qualities were they recognizing?*

PW: Well, I think I never really understood what it was; I think it was a combination of academics and doing other things. I was on the debate team, and all that stuff helped, I am sure, to win it. And I don’t know whether I was a close first or a runaway, but at the time it was kind of a big deal.

MJP: *You said your father was in education. What did he do?*

PW: My father went to the University of Pennsylvania, and he got a master's at the University of Pennsylvania. He started out as a high school teacher in Camden, New Jersey, and then he was selected to become the first principal of a new high school called Woodrow Wilson High School. And that's kind of interesting, because that name comes around to Princeton at some point.

He was the principal at Woodrow Wilson High School, I don't remember how many years, but for quite awhile. And then he was asked to go up to Trenton as the number two guy in the state department of education for the state of New Jersey. I remember as a kid, I was afraid we were going to move to Trenton, or Princeton, or somewhere near Trenton. And he said, "No, no. I'm going to take this job and just commute myself." And in those days that was not an easy commute, because there wasn't a freeway. You had to go up U.S. 1, and it was probably at least an hour, maybe an hour and fifteen minutes each way. So his job change didn't require us to move, which was great for me at that particular age when I was in high school. He ended up dying at a very young age. He died at 57, in August of the summer I was heading into college. I had just graduated from high school. And that had a big impact on me because he was very interested in education; you could tell from his background. And he really instilled it in the three of us. My two older brothers also went to college. My next older brother went to Princeton. The class of '51, I was class of '55. And my oldest brother went to Colgate University up in Hamilton, New York, the Class of 1949. So we all went on to college. My father was the first in his family to go to college. And my mom didn't go at all. So this was kind of — you better get your act together and go to college. He had a brother, my Uncle Bob, who lived in Haddonfield as well, who didn't go to college, but he is the only person who will ever receive a fifty-year pin at RCA. He went to work there at age 15 and retired at age 65. The Child Labor laws will guarantee that, I think?

MJP: *So loyalty and commitment run in your blood.*

PW: He was a terrific guy, but he was not able to go to college, and my dad, his brother, well he wanted to make sure we all got to college. So, that's kind of a quick background. Haddonfield is still pretty much the same, although the fields around it have all been built on and the biggest town down in that area now is called Cherry Hill. Cherry Hill was just farmland when I was growing up. Kids would come in from these farms by buses to Haddonfield High School, and now they have their own high schools in Cherry Hill.

MJP: *Did your father and your mother let you know that they had expectations, specific expectations of you professionally?*

PW: No, I don't think they really got that specific. It was just a real focus on education. I decided, not in high school, but probably in college, that I didn't want to go into academics. I am not an academic; let's face it. But on the other hand, I did decide I wanted to go into business. You know we grew up, as I said, in a great town, but we lived in the less affluent side of town. We didn't have to worry about where the food came from, but on the other hand, as I still remind our kids from time to time, I got the socks from my brothers that were handed down, and they were darned.

MJP: *What do those childhood experiences and those values make you become, or help you become, do you think? What are you telling your children when you tell them that? What do you want them to understand and appreciate?*

PW: Well, I cut lawns; I had a paper route, all that stuff. We have one boy and two daughters, and our son has never cut a lawn in his life. He grew up, in that sense, privileged in my view, and I don't regret that, but on the other hand I keep telling him are other people working very hard and you better start to be aware of that, and so you ought to be working hard as well.

MJP: *Right.*

PW: How does it relate to what I have been doing for the last 42 years or so? I am proudly known as possibly the cheap guy in our office. The guy who doesn't want to pay a big value for a deal, you know, and I have always tried to tell everybody around here, "Keep your eye on the value price going in a project, because it makes a big difference as to the return you get coming out of the deal." But whether that was inculcated in me, or whether I based my growing up on not having a lot of money, I don't know.

MJP: *I was going to ask if you had any entrepreneurial interests when you were a teenager like a paper route or cutting lawns.*

PW: Oh yes. But that was more because I wanted some spending money. I didn't have an allowance to speak of if I wanted to have some money to buy toothpaste or gum or whatever. I liked sports so I didn't get into a lot of problems, because I didn't smoke. Haddonfield to this day is known as a dry town. You cannot buy a drink in Haddonfield. I think you can take a bottle of something to your restaurant. But I was either working on the yearbook or the newspaper or sports, or when I would come home I was tired. I would do my homework, go to bed, and start all over again the next day. I wasn't into a lot of, you know, here's the focus, here's where you want to go, and so forth. That did not exist in our family at that time. It was more about getting a good education.

MJP: *When you went to Princeton, you majored in engineering. How did you make that selection?*

PW: Mechanical engineering. Well I guess it was my senior year in high school, my dad said, "Why don't we go over and do something." I took some tests at the University of Pennsylvania, I recall, that were sort of aptitude tests. I was thinking at the time that maybe I wanted to be a dentist, and I don't know why. I have no idea why. It was mechanical, aptitude in mechanical things and so forth, and it seemed like in those days it was a really good profession. I'm glad I never did it; it's a profession where you get "bored to tears." Anyway, I took these tests and the aptitude said I would be okay and probably the best in engineering of some sort, but also, if I wanted to go into medicine or oral dentistry, I would have that as a backup if I didn't like the engineering. I wasn't focused on philosophy or history or that sort of thing. So that's what directed me towards the engineering.

Let me backup and just tell you how I almost didn't go to Princeton. There was a basketball coach at the Naval Academy in Annapolis Maryland, Ben Carnivale, who for some reason thought I was a pretty good basketball player. The Naval Academy was showing a great deal of interest in me, and I got an appointment through our state senator to go to the Naval Academy. That was appealing because it was for free. My dad died from cancer of the colon, and he knew he was dying. I'll never forget, he put me up in his bedroom one day and he said, "I have some money." My two older brothers were going to college, so that was a drain on his cash flow. But he said, "I have enough money to get you just through freshman year." I had received a scholarship and a loan and a job at Princeton as well. "And then you have to kick in some yourself," he said, adding: "I have enough to do that for the freshman year but after that you are on your own." Now the Academy was looking kind of attractive because it was for free. But to his credit, he said, "You know, if you want the University of Pennsylvania, Ivy League, that kind of thing, then you make up your own mind. But I think, even though the finances aren't here, you ought to go to Princeton if you like what you see up there." And so that's what sort of pointed me to Princeton, and what I ended up doing was going there, which was the smartest decision that I ever made.

MJP: *What a great gift.*

PW: Yes. My brother was in the class of '51 and I was class of '55. The Korean War was on at that time, and so when I got there in the fall of '51 my brother had been drafted by the army and he ended up in Korea. So he wasn't there, but he came back and finished up in '53, he had to finish his thesis. He hadn't finished his thesis when he was an undergraduate. And you might say he flunked out in a sense, because he could have finished it, but he didn't. He was madly in love with some lady up at Vassar, and he kept going up there, and she kept coming down to Princeton. So that slowed him down a little, but he came back and finished his thesis in 1953. So we overlapped for six months. He was there in '53 when he got out of Korea, and I was still there as a junior. We didn't really have much of an overlap. My older brother Jack was at Colgate. So I really didn't see much of Jack because he was a graduate of Colgate in '49. He went to college in 1945 and came out in 1949 at Colgate, so he just missed the Second World War. We were darn lucky in terms of when we were born. Jack was born just in time to miss the Second World War and I was born late enough to miss Korea; although I went into the ROTC at Princeton, but stayed at Princeton; but Dick because he was born in 1930, didn't miss it entirely.

MJP: *I read that when you were at Princeton, even though you majored in engineering, you knew you wanted to go into business. I found that interesting. How do you know that as a 20-year-old? What were you after?*

PW: Well, I think what got me thinking about not going into engineering is that I worked between my first and second year in Princeton for RCA in engineering, in summer jobs. I was on the drafting board, and I looked around RCA at that group I was with, and these were people that were engineers, they were, I don't know, 50- 55- 60-years-old, and they are still at the drafting board. And I said, I don't' think I want to do that. So that got me kind of thinking about going into management of engineers, or management in general. I think that was the thing that really got me off the idea of being a pure engineer. In hindsight, based on what I ended up doing here at Sutter Hill, I probably should have majored in electrical engineering. I liked electrical engineering, but I committed to mechanical and I stayed with it. That was not a disaster at all, but around here it is more electronics than it is engines.

I had no idea I was going to end up out here. So, I think that was probably what pulled me out of being an engineer. And then I always had a summer job and it was usually related to engineering. And at Princeton it was a great place for me because I also got a lot of history, psychology, etc. You name it. You can take liberal arts kinds of courses even though you are an engineer, which was terrific for me. But we worked a lot harder than the liberal arts guys. I can recall, we used to have a 7:40 AM class every Saturday morning. But they don't do that now. So you would have a date down from Vassar or Smith, and you're in class on Saturdays. So you take her maybe to class?

MJP: *You liked Princeton?*

PW: Yes. The answer is clearly yes. I am just trying to think of anything else before we left Haddonfield that you might want to know. In our high school, almost everybody went on to a four-year college. But not too many of them went on to the Ivy League, or Smith, or Vassar, or Wellesley. Some did. Our valedictorian, she was number one in the class, and she went on to a school I don't even remember. She could have gone anywhere. She was really a bright woman. But she went on to a school somewhere. So it was, you know, going on to an Ivy League school was kind of unique in those days.

MJP: *But you were unique. You were the president of this, and the captain of that, and third in your class.*

PW: But there were people like that the year in front of me and the year in front of them. So I wasn't all that unique.

MJP: *So it was your father's influence?*

PW: I think it was my father's influence.

MJP: *I'm curious. Did your mother give you any values that have stood the test of time well?*

PW: Well, she was always there. I mean she didn't work. She worked like heck around the house. But, I wouldn't point to any one or two values; she just would tow the mark. My dad was fairly autocratic. If he came home Friday night from work and the lawn was not cut, he would let you know it. It was supposed to be done Friday, not Saturday morning, or not Saturday afternoon. So I mean, for all three of us, not just me, but for all three of us, he had deadlines. Mom was much more go with the flow; a terrific woman, but she was much more relaxed, I think, than my dad, and of course, I only knew my dad through age 17. My mother died much later, when I was 47. She never remarried.

MJP: *But he influenced you significantly. His values more than his style seem to have resonated the most with you.*

PW: I would think so, yes.

MJP: *Now you served in the Navy for two years after college graduation, and then you decided to go to business school. How did you make that decision?*

PW: Do you want to do Princeton first? Do you want to go chronologically here or—

MJP: *Well if there are some things about Princeton you want to tell me, I would like to know.*

PW: Well, yes, because I made some decisions there that did really change my career.

MJP: *Yes, I am interested in that.*

PW: Our class, the class of 1955, occasionally gives an award to a classmate; they don't do it every year. I got the class award in 1995, and we had been out 40 years, but I think I was like the 17^{th} winner of the award. So I had to give an acceptance talk at the New York Stock Exchange, because one of our classmates, Mike Robins, held a seat on the New York Stock Exchange almost his entire business career. So we had cocktails down on the floor and then up to the boardroom for the dinner and the talk. Mike was our host that evening for a large gathering of classmates.

I gave the talk. And I have to tell you, if you have ever been there, it's very impressive. There is a big vase at the end of the board room given to the New York Stock Exchange by the Tsar of Russia, and it's a very impressive room. I talked about Princeton creating a lot of turns in the road and how it affected my career. The first "turn" happened because of a fellow by the name of Charles Cox. He was the class of '41 at Princeton, and he lived in Haddonfield, and he was the CEO of INA, Insurance Company of America, a big insurance company in Philadelphia. I'm not even sure it still exists. Anyway, I didn't really know him, my parents knew him a little bit. He read about my admission to Princeton in the local paper, and he called up and said, You know Princeton, even in those days, wasn't all that cheap to attend, and he knew about my dad's illness, and so he said, "If you need any financial help, let me know, I am here to help." So I thought that was kind of unusual and a terrific offer, which came totally out of the blue. My first impression of Princeton was a real positive one.

MJP: *Right.*

PW: But, I said no, I think we can get through that first year. So anyway, that was the first sort of Princeton touch, if you will, that affected me and my thinking. And then through Princeton, there was a turn in the road that helped me move away from the Naval Academy to Princeton. I had applied to other schools. My oldest brother wanted me to go to Colgate, and I got in there, and I got into some other schools, but I didn’t apply to any of the other Ivy League schools. I didn’t apply to the University of Pennsylvania, Harvard, or Yale. And in those days, I think people went to colleges closer to home than they do today. Princeton was the closest other than Penn, of the Ivy League schools, to our home. So Harvard and Yale seemed a long way away at the time. But anyway, at Princeton the end of my freshman year — they, the administration, knew my dad had died because there are things you fill out and so forth — and so I mentioned earlier that I had a scholarship, a loan and a job, that was the three legged stool that you got as a scholarship student. And Princeton, without my mother ever asking, increased my scholarship and reduced my loan. They had seen that my dad had died, and they figured economically it wasn’t going to be easy, and so that always impressed me about Princeton. They were ahead of the game, if you will. And so that helped me get through the rest of the three years because I had a scholarship, loan, and job all the way through.

My first job was working in the commons, and I waited on tables with a white jacket on and carried a tray around with food. My boss, a sophomore at the time and captain of our group in commons, was Don Rumsfeld [currently Secretary of Defense in the current George W. Bush administration.]. He was a tough taskmaster even in those days.

MJP: *How interesting.*

PW: And then I became a captain my sophomore year; and then you move out of there into the eating clubs your junior and senior year, and then my job was at the student refreshment agency, and I became president of that my senior year.

MJP: *Always a leader.*

PW: No, I sure needed the money, let's put it that way. It was a well paying job as an undergraduate.

MJP: *Before we leave that, since your life intersects with historical moments frequently, do you have any anecdotes about Rumsfeld as a college student that you want to share?*

PW: Not really. I knew him just from the job. Freshman weren't really hanging around with a lot of sophomores. I didn't live in the same dorm that he lived in. But I've known Don a little bit since just because he's been out here, and we have had him involved in some of our companies and on their boards. I don't remember him that much then, but I do remember him being a good "boss," demanding in a good sense. He was your boss, you knew it, and he told you what to do, and if you didn't do it, he would let you know. And that was about the way it was. He was demanding, but always fair.

MJP: *Right.*

PW: But I didn't regret it at all. It was fine. His [style] was somewhat like my dad's.

MJP: *Okay, so thank you for that. You were saying that you had experiences at Princeton that helped you make some turning points, some decisions.*

PW: While studying engineering, I played freshman basketball; I was also on the freshman crew, but I wasn't good enough to play varsity basketball or row on the Varsity Crew. Club sports were my junior and senior year extra career activities among other things. I was also sports manager of my club. But one of the things I was thinking all through this was that I would go on to business school because of what I had seen in the summer jobs. I didn't want to be a pure engineer. I was talking with Dean Howard Menand of the engineering school, maybe late in my junior year. I said, "You know, I think I'll probably want to go to business school. I had joined the NROTC on campus, because I wanted to stay out of the Korean War, and I was going to get a commission in the United States Navy when I graduated as an ensign. I knew I had two years to serve in the service, which by the way was terrific. I wish every kid coming out of college did that today. I mean it was just great. Then I wanted to go on after the Navy to get my MBA.

MJP: *It taught you what?*

PW: Oh, responsibility. I mean the responsibility they gave you at an early age was just tremendous. I could get into that a little later if you want. Maybe about the end of my junior year, I was thinking business school after the Navy. And so I talked to Howie

Menand, and he said, "The usual suspects are Harvard, Wharton, Tuck, Northwestern," and I'm probably going to miss one or two. He said, "There's a school out there on the West Coast called Stanford that you might want to look at, because they are coming along, they are getting better." They weren't in the top four or five at the time. And in the back of my mind, I had never been west of the Mississippi in my entire life at that point. Black and white television had come out, whenever it was, and I would watch the Rose Parade on January 1, in California, but I didn't know whether Stanford was right next to the Rose Bowl or not. But I knew it was in California. And I said, "Wow that's pretty good, that's nice weather in the middle of a New Jersey winter, and I'm sitting in Haddonfield, New Jersey or Princeton watching this stuff with snow all around." So, I applied, got in, and that was Howie Menand's suggestion. It was really what got me out here to the Stanford Business School.

When I graduated from Princeton, I did go in the Navy, I think it was two or three days after I graduated I had to report for duty in Athens, Georgia, which was the United States Naval Supply Corps School. I spent the summer there, and then got assigned—you get a choice when you come out of Supply Corps School to go foreign shore, aboard a ship, or U.S. shore. Those were the three choices. The guys that are in the NROTC, who were line officers, viewed the Supply Corps guys as second-class naval officers because they weren't steering a ship. By the way, that's all changed around now. The Supply Corps in the Navy today is viewed as a premier part of the Navy because of supply chain management. It would be like taking Baghdad in two or three weeks at the start of the

Iraqi War. The only way that could have worked was the supply chain stayed with the troops, and they had gotten so efficient, and an industry supply chain was very important. So now it's turned around a lot. We spent the summer in Athens, Georgia. I put in for Foreign Shore first, U.S. shore second, and sea duty third. And I didn't get foreign shore. I was hoping to go to either Naples, Italy or London, England, since I had never been out of the East basically. And I didn't get that, but I spent the next 18 months at Clarksville Base, Tennessee. And, it was interesting. I still hadn't gotten west of the Mississippi; Tennessee is not west of the Mississippi. So I still had my eye on Stanford after the Navy, because I wanted to go to Stanford. But Clarksville was an atomic bomb base. Everything I learned in Supply Corps School in Athens, Georgia was basically thrown out the window. We had our own supply regulations with what they called ASWAP, Armed Services Special Weapons, an organization within the military, and there were five bases. We were one; and there was one in Colleen, Texas, run by I think the Air Force; one outside of Las Vegas, Nevada, which was Air Force; we were Navy; and there were two others, and one was run by the Army I think. Anyway, that was kind of our group.

And so I ended up as a 21- 22-year-old Navy Ensign, Navy officer, with a lot of responsibility. I paid all the enlisted and officers on Clarksville Base, and we paid in cash. The commanding officer came through the pay line, and all the seamen would come through as well, and we knew exactly what they should be paid. I knew their pay scale, their pay group, and you would stand there and count out the money. Let's say the commanding officer was coming through and he got — let's say for some reason I got a little flustered by the fact that the C.O. was there and he is supposed to get — let's say, $500 a month. I remember I was making $308 a month at the time. Let's say I counted out $505 just by mistake; that $5 came out of my paycheck that month. So you really had a lot of responsibility, and the payroll for the entire base was quite large. And then another thing I had to do is run the officer's mess; and the C.O. wanted to get new silverware for the mess, and so I had to go out and find a way to do that. And we bought that for the officer's mess and all kinds of things. But more importantly, we ran an atomic bomb base; we were part of Fort Campbell, Kentucky, which was the 101st Airborne Division. They were learning how to parachute down, and so there were a couple of airfields there, and we were using those airfields to fly in planes that would take atomic bombs off to destinations unknown to me. My job was to get those bombs to the planes in a secure motor convoy over to the airfield. Here I am at age 22 with a 45 at my hip and looking around to make sure nobody like Al Qaeda was coming at us. And, we would take the bombs and put them on these planes and away they would fly. It was a lot of responsibility for a 22-year-old. And it was terrific, it really was. We were out in nowhere; that was a negative. For a weekend, we would get in our cars and another fellow I was rooming with from the University of North Carolina — we would drive up to Louisville to have a nice long weekend or into Nashville for a movie. It was not a great location; let me put it that way. But it was a lot of responsibility, and I spent 18 months there. Then I was honorably discharged out of the Navy as a Lieutenant Junior

Grade, after being promoted from an Ensign. I then drove out to California to enter Stanford.

MJP: *Had you applied to graduate school in college, and you just deferred it for two years?*

PW: No. I applied from the Navy. I applied to Stanford, and I applied to Harvard, and I applied to Northwestern, and I don't think I applied to Tuck. I don't know, there was something about coming back East, I just didn't want to do it. I was heading, in my mind, elsewhere. I had grown up in Haddonfield, New Jersey, and I had gone to school not far from there, and I thought, Well it's just time to see other parts of the U.S. I was single. And I thought it was maybe time to move on. So I came to California.

MJP*:* *Did you know anyone?*

PW: Well, you know that's a good question. I didn't. It was really interesting. My mom had never been West. I went back to New Jersey right after I got out of the Navy, and we ended up in the car; I bought a car, and we drove together to the West Coast sightseeing all the way.

MJP: *A Chevy?*

PW: It was a four door green 1955 Chevy. You got that right.

MJP: *Well it was the mid 50's.*

PW: And what a car that was. It looked pretty good. So I drove out with my mom, and we took a long couple weeks to come across country, and we stopped at all the national parks: Yellowstone, and Yosemite, and Lincoln's birthplace in Illinois. You know those kinds of things. I had an aunt and uncle that I always called aunt and uncle that lived in San Diego, they weren't legally my aunt and uncle, but my mother was close to them, and she wanted to go down and visit them. He was actually a retired admiral from the Navy at the time, and he was a dentist in the Navy. So she left Palo Alto, got on an airplane to fly down to Coronado, and at that moment, I knew no one here. I realized I knew no one. I ran into a couple of guys that had gone to Princeton with me that I didn't know were coming out here. I had lost track of them while I was in the Navy.

MJP: *It is interesting to me that this moment in your life is actually a microcosm of who you will become, in that, you were willing to take a risk, you were willing to enter uncharted territory for yourself, you were willing to take responsibility for your choices. You could have taken the "safer route" at an East Coast MBA school. But you chose the uncharted path, just as you have in venture capital.*

FIRST JOB AFTER STANFORD: HONEYWELL

PW: —Of those Stanford classmates, there was Dick Cole who signed up with a company called Fairchild Semiconductor, and nobody knew what it was. The company had just started, I think just before that they had spun out of Shockley transistor. Bill Shockley started that company. And that's another story I could tell you about later. But, Dick said one day, "I'm going to go to work for Fairchild Semiconductor." And everybody started to say, Who's that? And he said, "Well I think they make semiconductors." So most of us, and I was the classic example, interviewed with a number of big versus small companies. I got a job offer from a great company back in Indiana, Cummins Engine, in Columbus, Indiana. I remember flying back for an interview. You get off the plane in Indianapolis, and then you get a car and you drive through — I'll never figure out the time zones of Indiana. I think Indianapolis never goes on daylight savings. Well anyway, Columbus is south and they do, and I got there in time for the interview, but I said to myself, Do I want to as a bachelor, go to work here, and it's out in nowhere; at least in those days it was. So I turned that offer down and got a couple of others, but I got an offer from Honeywell, which was to go to work in their scientific instrument division. Now the thing on my office wall over there is the thermostat. Everybody knows Honeywell as the company that makes the thermostats. We had nothing to do with thermostats. We had a scientific instrument division headquartered in Denver and in Philadelphia. And so, I went to work for them, but I told them that I was not going to go to work until September, after I graduated from Stanford in June, because I wanted to go to Europe for the summer. And there was no problem with that. So, I graduated and then I basically got on a plane and flew to Europe and spent the summer traveling all around Europe and Eastern Europe.

MJP: *By yourself?*

PW: Well I was partly on my own. When I was at Stanford, at the business school, I was auditing a class at the undergraduate level in Russian History with Professor Anatole Mazur, who was Russian. He had escaped from Russia in 1921. He was a Jewish person who got out, and he ended up at Stanford as a professor, and he said one day, in class, he was going to take a group over to Russia, but we are going to travel around Europe first. Of the two and one-half months, we spent about three weeks in Russia, but we went all over as well. So I was with a group and that was terrific, and I came back and I had the job at Honeywell waiting for me. I moved in with some MBA classmates in an apartment in San Francisco, and that's a whole new chapter in my life, from that point forward, as I started to work for Honeywell in technical sales. I borrowed money to make this summer trip, and I used the savings from my Honeywell job to pay off the loan.

MJP: *You were a senior sales engineer in the industrial products group.*

PW: That's a fancy title for a salesman.

MJP: *What were you selling?*

PW: Well we were selling oscillographs, these are instruments that record vibrations or earthquakes. I was selling stuff to Lawrence Livermore Labs, and I was also selling Brown Instruments made in Philadelphia, a division of Honeywell. We sold a lot of recording devices, fundamentally industrial and scientific process control instrumentation.

MJP: *Did you like it?*

PW: Yes I liked it very much.

MJP: *You liked what part of it?*

PW: Well I liked getting out of the office. We had an office in San Francisco with the firm, but many days I would not be in there for maybe three days of the week and be out calling on customers.

MJP: *And what part was it that you liked, calling on customers?*

PW: Well it was the challenge of getting the order, I think. Because you would go in and see somebody and, you know, he'd say, "Well I got this technical problem here." And I said to myself, I have to somehow figure out what's going on in this process. It could be a chemical process, a military kind of process that they were trying to figure something out at the Lawrence Radiation Labs or Berkeley or at some Silicon Valley company. And so, it was the thrill of going after the order and helping them solve their problem. I did that from 1959 until 1963, four years. I was taught not to be a job hopper. I mean, I could have probably moved on sooner, but I didn't want to; I liked what I was doing.

MJP: *But then you did move to Beckman.*

PW: I was getting antsy because I was looking around the office at Honeywell and I was seeing guys that were twice my age that were still doing what I was doing. Perhaps I am a bit impatient?

MJP: *Just as at RCA.*

PW: Yes, exactly. And, that's not to say that I couldn't work my way up to a higher calling in the management of Honeywell, but if I do that then I'm going to end up in Minneapolis, and I didn't really want to do that. I liked California. And so, somebody, I don't know how they contacted me, but somebody by the name of Bob Brown called me from Beckman. I could tell you how that happened, but it ties in more to the Sutter Hill story. Why don't I come back to that later? And he says, "Why don't you come down here to Fullerton, California, and we will talk, and maybe I would want to go to work at Beckman, and you can get involved with working directly under the vice president of marketing, Bob Ward." Under Bob, there was a merger and acquisition activity, which I was part of, and we were to figure out what products we had to get rid of, what products we ought to get into by developing them in the back shop, or maybe we should go out and acquire somebody.

MJP: *Good training for what you later did.*

PERSONAL LIFE: MEETING MY WIFE

PW: Yes, and I had really liked it. Now I met my wife in San Francisco, when I got out of business school. I'm getting a little ahead of myself. But when I went up to San Francisco, I was renting with three other guys, and we had a great apartment on the corner of California and Gough. And one of my roommates was a classmate of mine who was dating this girl who lived across town. I was introduced to her roommate as a blind date. And when I was dating her, I met her other roommate who became my loving wife in 1961.

MJP: *Marcia.*

PW: Marcia. She was just coming back from Honolulu. She grew up in Honolulu. She was over there because her mother was quite ill. And so I ended up dating Marcia and not her other roommate.

MJP: *Was it love at first sight?*

PW: Well, you know, what happened was Jerry Baldridge, my roommate in San Francisco and classmate at Stanford, was dating Marcia's roommate, as I said, and the two of them were coming over, they were going to go throw the football around in the park, not too far from my apartment, and I was invited along.

MJP: *Lafayette Park?*

PW: It's on Gough.

MJP: *Yes.*

PW: Yes. And so he said why don't you come along because Marcia is coming as well. And so we started dating — that's not exactly love at first sight, I guess.

MJP: *You passed the ball back and forth.*

PW: What Marcia did do to me was kind of blow my "budgeting" three years of bachelorhood after getting out of business school. I would have been at that point, 29, because I was only 26 when I graduated. And I had only got through two years of bachelorhood when I got married in 1961 in Honolulu. And Jerry and his wife, Emmy-Lou, are still married and living in Dallas Texas.

MJP: *You were destined.*

PW: So two women and two men who met in the same two apartments and will have been married this year for 45 years. They got married a little before we did, but not much.

MJP: *Well, that's a treasured accomplishment.*

PW: Yes, I know.

MJP: *You were still at Honeywell.*

PW: We were still at Honeywell and Marcia was working for TWA, not as a stewardess, but she was working in their office on Union Square in San Francisco. So we were married in 1961, in November, in Honolulu, which is where she grew up. She, by the way, was born in China, in Shanghai in the 30's. And that is an interesting story in itself.

MJP: *Her parents were missionaries?*

PW: No. Her dad was laid off in 1930 or 1931 at the start of the Depression. He worked for — I think it was the Pacific Telephone Company in San Francisco and got laid off, and he and his wife, Gladys, sailed on a ship to China. Slow boat to China you might say! They got over there and he lands a job with a company which turned out to be General Telephone and Electronics. And he and another person were the two salesmen in Shanghai covering Asia, mostly China, at the time in the 1930's. They arrived in Shanghai in 1931, and Marcia was born there in 1936. It was a good life, from what I could tell, from watching some movies and hearing them talk about Shanghai life in the '30s.

MJP: *Before the war. Until the Japanese started bombing, it was phenomenal.*

PW: Well, the Japanese came in to Shanghai I think it was 1937. And Marcia and her mother got evacuated to Bogio in the Philippines, but all the men stayed. Then the Japanese left, and they came back to Shanghai from the Philippines. I don't know how long they were down there; they might have been down there for five or six months. The Japanese came in permanently in 1941. I think it was around April of 1941. And so the General Telephone Company, it was called the Gary Company in those days, had their Shanghai office.

Gary was headquartered out of Chicago. GTE bought them later. Jack Reed, my father in law, and this other guy got a telegram saying, Figure out between the two of you, but we want one of you to go to Manila and go into our office there. We don't know what we are going to do with the other guy. So they flipped a coin and the other guy won the flip and he goes to Manila, and at the very last minute Jack Reed, my father-in-law, was asked to go to Honolulu and open up a new office for GT&E in Honolulu, so that's what they did. They moved to Honolulu, and then of course the Japanese come in December of 1941, and they see the Japanese again in Hawaii. The interesting thing was, the man that won the flip was interned for the entire war. It was a flip of the coin proving if you win it, it's not always a win-win. And I never knew him, but I did briefly meet him in the late 50's or early 60's, and Jack Reed said he was never the same. He got out of the POW camp and he survived, but he was interned for the entire war. So you flip a coin, it's not necessarily a win even if you win the flip. So anyway, we ended up getting married in Honolulu in 1961 and then we honeymooned in the outer islands.

FROM HONEYWELL TO BECKMAN

And then when we came back to San Francisco I was getting a little antsy, this was early 1962, and then we moved to Beckman in 1963. I think it was around June or something like that. And, to be perfectly honest, I loved the job with Beckman, but living in southern California was not an "Aloha" place for either one of us. In those days the smog would come right out of LA down that Valley into Fullerton, and it was just terrible. I mean you were breathing this stuff everyday. And then our first child, Jennifer, was born down there, and so we were not really happy with the area. But I did like the job. And then the story of how I ended up here was really serendipitous.

MJP: *Before you start into that, you seem to have a wonderful balance in your life. You understand what's really important. It's not all work. I haven't heard you talk about money once, other than your accepting responsibility for taking care of your end of the bargain at college. There always seems to be a balance between the personal and the professional, between the academic and the social. Those are wonderful qualities to have especially when you end up with a very intense world of venture capital. So you bring with you a sense of, you know, I want a whole life.*

PW: Well, that's interesting you observe that. One thing I try to inculcate around Sutter Hill is that there ought to be a whole life and have some fun, do a good job, work hard, work smart, have some luck, have a good life. One of the things I am proud of, frankly, is that we have, knock on wood, we have never had anybody in a divorce situation here — of the professionals. We're traveling a lot at Sutter Hill, and we're gone, and you know, we work, I think, pretty hard, but nobody has seen fit to get a divorce. So, if somebody wants to take some time off and get their life together well, that's great, let's do it. And so, I think we've, at least up 'til now, have had a pretty good balance around Sutter Hill. But, having said that, I think, the money issue — remember I came from very little money, but I always viewed the money issue as something that just fell in place as a result of doing some other things well. All of us in the venture business want to make money. I think we are not being honest with ourselves if we aren't. I mean, I really do think that's the case. But some have no willingness to delay gratification. The people around here at Sutter Hill, and Bill Draper was a good example of that as well, seem to have a well-balanced view. But there are a lot of guys in this business today, or at least some of them, that don't have much deferred gratification. I think we have all had that. In other words, we expect if we do a good job, have some luck, work hard, that the money will come out of all that, and that's the deferred gratification. It's true with me, and I think it's true with the guys here today at Sutter Hill. Rather than, I want it all now. When I graduated from Business School, I made $500 month and received a company car when I started working for Honeywell. After an engineering degree from Princeton, two years in the United States Navy as an officer, and two years as an MBA from Stanford, I got $500 month and a company car. And I thought that was great.

But when we moved to Beckman I had to give up the company car, and I don't remember, but I probably went down to Beckman for $7K per year, or something like that in salary. And then I was there only a year. But we didn't have a car so we got a VW Bug, bought it second hand. That was our family car. I'll never forget we had to get around down there on the freeways, and a VW Bug is not what you want on those LA freeways. So, finally we saved enough money to buy a bigger car, a Pontiac, anyway bigger for safety. You know, people today want to start with a BMW as their first car or a Mercedes. They don't really have much in the way of deferred gratification. Money is there for doing a good job, and it's a fall-out for doing a good job, I don't view it as the ultimate goal. I would hope I would live better than I lived when I was a kid growing up, and I think that's the dream of everybody in this country. I have done much better economically than I ever thought I would do, which is a nice outcome, but it was not my primary objective or goal when I entered the VC profession.

MJP: *Right.*

PW: And that's great.

MENTORS

MJP: *Right, interesting. Before we go into Sutter Hill and that change, I wanted to ask to go back to graduate school. You have been quoted once or maybe you said it when we met the first time, that there were no great Doriots or luminaries in your life. And I wanted to go back to that. Did you have any mentors who were really helping you?*

PW: Well, there was one teacher, his name was Professor Ted Krebs. He was spectacular. I think a lot of people thought he was a communist. In fact he would sometimes say in class, "I think there is somebody in the back of the class probably checking up on me from the government." And he would play to the class with that kind of comment. I'll never forget, on the blackboard one day he was lecturing about politics and how it affected certain economic things, and he put up the letters, that SOB, thinking he was referring to some government official. He says, "Gentlemen, SOB stands for Senate Office Building." He had a lot of things like that, and he was a terrific teacher, but he wasn't one that I would turn to in order to help me in my career. I mean, he was just a fascinating professor, and he was maybe the Doriot of Stanford at the time, a very well-known professor and a terrific guy. I had the disadvantage of not having a father from high school on. So I didn't really have a person to really turn to for a lot of advice in a business sense. And my father was not a businessman. You know the one thing I really noticed when I came to Stanford Business School was that a lot of the people who were coming in with me as freshman had grown up around the kitchen table reading The *Wall Street Journal* in the morning. We never did that at our home. So I had a lot of catch up to do, in terms of starting to think business, because I was an engineer, a Navy Officer, didn't grow up in a business household; so I had a lot of catch up to do, and you know, find out what the *Wall Street Journal* was all about and start to get more involved with business thinking. There wasn't one person I called on when I worked at Beckman and was thinking about coming to Sutter Hill, but I did talk to a number of people. But these were people that I got to know through my father-in-law that were in business at the time.

MJP: *Mr. Reed.*

PW: Jack Reed. Yes, I talked to him, but he also had some friends: the CEO at Lenkurt at the time was a company up here owned by General Telephone and John Douglas was his name, and I talked to John at great lengths, and Bob Ward, who I mentioned earlier. who was the vice president of marketing at Beckman, had left, and he was running a company at the time in the Bay Area.

MJP: *So you had a network, but you didn't have a mentor.*

PW: Yes, and in a way I was sorry I didn't, frankly. It might have made it a little easier if I had somebody I really believed in and trusted.

MJP: *So what were you like when you were making this transition. Were you ambitious, were you hard driving, were you hungry to succeed, restless, scared?*

PW: All the above. Probably the person who could answer that best is my wife. Marcia, I think she would say I was ambitious. I would always bring work home at night, and at Beckman and Honeywell I would go in on Saturdays.

MJP: *That good Princeton training on Saturday morning at 7:40.*

PW: I wouldn't show up here at 7:40, but yeah, early on Bill [Draper] and I use to work every Saturday, just because we felt we had to. Nobody comes in here today on Saturdays, at least that I know of. So, things have changed like that. But I say all those things you mentioned were probably on the table. Making a ton of money was not one of my real priorities. I was in it to try and be successful economically, no question about it. And I think anybody who says they weren't, I don't think they are being honest. Because, why do we do this? We are working with other people's money, although I never looked it at that way. They put up the real money; we have a carry. It is a heck of a great business. We have a carry on other people's money, and it is up to us to make them and ourselves money. I cannot think of a better business to make some money if you do it right, if you work hard and have some luck.

MJP: *Well that is a huge responsibility.*

PW: Yes. But I think the bottom line is we are doing it partly for that, but only partly.

ENTERING THE VENTURE CAPITAL BUSINESS in the 1960's

MJP: *That is honest of you. So, is this a good time to ask you how you entered the venture capital world?*

PW: Yes sure.

MJP: *And can you set the stage, it is 1962-63, President Kennedy is leading the country. The United States is pretty strong in every way. We are young, energetic, educated.*

PW: I voted for him. I am a Republican. Then he was shot and killed in 1963, and that was when we were still in Fullerton. Now, I say I voted for him because I was young, excited about his energy and his view of things. Today, I don't think he was the greatest President we have ever had. His presidency was cut short, but things he did, like the Bay of Pigs that did not work out. But he did some things that were good too, like a major tax cut, but I don't want to get into the politics of things.

MJP: *But the context of coming into a new field, venture capital, the context of this country at that moment is high energy, full of hope.*

PW: Tax cuts had just occurred. The economy was doing great. The one thing you probably know already, but in 1958, which was just a few years before, I started in the venture capital business, they set up the Small Business Investment Company Act of 1958.

MJP: *Right.*

PW: See, the history of venture capital is – you know it better than I do!

MJP: *No, no, this is for future students. Assume I don't know anything and I would love to learn from you.*

PW: You know, the Rockefellers, the Whitneys, the Bessemers, were probably the three best-known families. Underline the word "family," who were the early venture capitalists in the U.S. They were doing deals and starting companies, mostly out of midtown New York. That was fine, and they got venture capital as an industry, in a way, started. Rockefeller started Eastern Airlines, and many other companies came out of all three of those entities. The SBIC Act of 1958 put venture capital on every corner, if you will. That act allowed venture capital to become more like Merrill Lynch, SBIC's were everywhere, and people applied for licenses. We had one here, and I will get into that in a minute. We got a license in 1962. When you got a license, you put up X amount of private money, and they would provide two times that on a long-term loan basis at low interest rates.

MJP: *The interest rate was about what, 4%, 5%?*

PW: You know, I don't remember, but I think you are close. It was pretty attractive. That opened up the business of venture capital to many people — and some people really messed it up who got SBIC licenses. Some of them I think basically were doing stuff they should not be investing in. Others would invest in, like high tech, which is great.

Others might invest in barbershops, and that didn't turn out too well. So the government had some write-offs of loans, but I think the concept of the SBIC Act was terrific. It got a lot of people aware of what venture capital was.

MJP: *And you knew about it, of course, at business school?*

PW: Not really, I was in the middle of business school at that time. I am not sure that — we never studied it as I recall. But I was aware of it later, and so many were formed from 1958 through probably 1972, there were a lot them. The partnership format, which most everybody today in the VC business uses, really did not catch on until the early 1970s. We were, I think, other than the Bessemers, Whitneys and the Rockefellers, the first partnership because we got ours started in 1970. AR & D was an SBIC in Boston, publicly traded. And that is not good by the way, in my view, being publicly traded. I don't think you want to be in the public limelight as venture capitalist.

MJP: *So I've heard, but tell me why, as an aside.*

PW: Well, as an aside, and you see it today in somewhat the same light, that this business should not — be transparent to the public. I mean, you want to be transparent to your partners, your limited partners who put up the money, who know what you are doing. The public has no idea how to value a privately held company in which they are a very minor owner. You see the problem today in the form of the San Jose Mercury News, for instance. I wrote a letter to the editor of the San Jose Mercury a year or so ago when they were suing — and maybe they still are — the University of California, Berkeley, to get access through their endowment to all the venture deals in their portfolios. U.C. Berkeley invests in venture firms as a limited partner.

MJP: *CalPERS?* [California Public Employees' Retirement System]

PW: CalPERS money. They have the money invested in quite a few public universities. The San Jose Mercury was suing to have access to the results of the venture funds which CalPERS was invested in. Well, why do they want that? They wanted to sell newspapers. They want to publish VC results in all these small, fragile companies. If we had CalPERS as a limited partner here, we would stop writing detailed reports to them as we do to our limited partners. We don't have them, but we would stop putting all the news about our little private companies in those reports because it will hurt them competitively if written up publicly in the San Jose Mercury. So, I wrote an editorial. I don't do this very often, but I did that, and to the San Jose Mercury's credit, they published my letter.

MJP: *So, this is helpful, you were describing the context of the venture capital world and you were giving me a little history from the Rockefellers in the 1940s and so on, to the 1958 SBIC Act, and there you are. So then, it is 1962.*

HOW PAUL WYTHES STARTED IN VENTURE CAPITAL

PW: Okay, you want to know how I got started in venture capital?

MJP: *Yes.*

PW: Well, let's go back. When I was in business school, a classmate of mine was Greg Peterson. Greg and I were classmates at Stanford. Greg grew up in Burlingame, went to SMU in Texas, and I think he was recruited as a football player. Greg decided he was not going to be a big time football player and he transferred to Stanford after his freshman year at SMU and then graduated from Stanford. He went on to business school. We were classmates. In 1963, while I'm still at Honeywell, he called and he said, "Why don't you come to Sutter Hill Co. to talk about a job here—" Well, let me back up. He was married while he was at the Stanford Business School. Being single myself at the time, we didn't hang around together, but we knew each other. The marrieds stayed pretty much together, and the bachelors stayed together, pretty much. After graduation he went to work for FMC Corporation in San Jose, [Food Machinery Corporation, which has since moved to Chicago]. Their headquarters used to be by the airport down in San Jose.

The fellow that I eventually went to work for at Beckman was working down there at the time, Bob Brown. And so in 1961, Greg left FMC and started a company with Frank Lodato — Sutter Hill Company. Greg and Frank were related. Frank had married Greg's sister at the time, so they were brothers-in-law. Frank was in the real estate business developing small strip malls and shopping centers in the south bay. Greg joined Frank to form Sutter Hill Company and make it a corporate entity. He called me in 1963, while I was at Honeywell and said, "Why don't you come down to Palo Alto, we are going to expand this real-estate business." I came down, and I heard the story, and they were good salesmen. When I said, "Look, I'm an engineer, I am in scientific sales, I am not a real estate guy." I said, "I don't think this is for me, and I am not the right person." He then went out and hired a great guy who was also in our class by the name of Wes Frye. Wes joined to get the Sutter Hill real estate operation organized with Greg and Frank focused on that.

So that was what happened in 1963. Bob Brown then leaves FMC, goes to Beckman, and he said something to Greg about hiring this guy Paul Wythes, who is a classmate of yours. He knew Greg from FMC days. This was in 1963 when I moved from Honeywell to Beckman. Anyway, Greg calls me in 1964 and said, "Look, Sutter Hill Company has this real estate leg; I want to get another leg and then a third leg so we have a stool that is steady. I want you to come here and start us in the venture capital business." I didn't know what that was. I'm not sure he knew what it was frankly, but he had bought an SBIC license, Sutter Hill Capital Corporation, in 1962.

MJP: *I see. That is why all the dates are different.*

PW: He and Frank started Sutter Hill Company in 1961. They got their SBIC going in 1962 and they needed somebody to run it. So, I came up in 1964, in August, to get the venture thing up and running full-time, because Greg was spending part time with his real love, which was real estate, and Frank's real love was real estate. Bob Brown was a little disappointed when I left there [Beckman] after only one year, to be perfectly honest. This was a long shot for me, because our first daughter was born while we were at Beckman. When she, Jennifer, was very young, like six-months-old, we moved to Sutter

Hill and Palo Alto—At the time, Marcia's mother was ill. She was dying of breast cancer in Honolulu. Marcia said she wanted to take Jennifer from Fullerton over to Honolulu so her mother could see our new baby, and then she would come up here. We had just bought a little house here in Palo Alto; it was the first house we ever bought. I said, okay, I'll come right up and get started at Sutter Hill while she took Jennifer to Honolulu. So she did, and we were basically broke because we had Marcia in Honolulu with Jennifer, and we had just bought this house in Palo Alto.

MJP: *Were you given any guarantees?*

PW: What, at Sutter Hill?

MJP: *Yes.*

PW: No, none whatsoever.

MJP: *So you left a secure position?*

PW: Yes, with good medical coverage etc.

MJP: *So what allowed you to do that?*

PW: Venture capital sounded exciting once it was explained to me.

MJP: *Who explained it?*

PW: Well, Greg did. He said, "Here's what we're going to do, and we've got some money to do it, — because of the leverage provided by Sutter Hill Capital's SBIC — and we can make investments up to $250K." That was the maximum at that time we could [invest] in any one company based on the rules of the SBIC program. And $250K in 1964 was a lot of money to invest in a start-up.

MJP: *What were your expectations? You had an engineering background. Were you going to knock on doors? Did you have connections?*

PW: No. I think Greg would say, if he were alive today, that he wanted somebody with knowledge of engineering. I would have been better if I had had an EE degree, but I got by OK. Greg knew I was an engineer from our days at Stanford and where I'd gone to college. He and Frank weren't engineers. Greg was a very organized guy, and he was a guy you believed in. I mean, he wasn't a super-pitch kind of guy; he was a guy you just believed in. And he worked hard. He was in here every Saturday as well. But he sold me. Unfortunately, he smoked a lot and died of esophageal cancer. He and Frank are both dead now. We have lost the two great founders of Sutter Hill Co.

MJP: *So what were your expectations?*

PW: Well, once I understood what venture capital was all about— We'd go to dinner parties and somebody would say, What do you do. And I'd tell them. And they'd say, What's that? You know, you'd have to spend half an hour explaining what venture capital is, and even then I probably didn't explain it all that well.

MJP: *Because you were just figuring it out yourself.*

PW: Yes. Exactly. At age 18 or 21, I was not thinking, I'm going to be a venture capitalist. I didn't know venture capital. It's serendipitous in that sense. But my expectation was to work hard. And I could see that if you did a good job you could create some companies that could create products that would be beneficial to mankind — that's certainly been the case with our industry; that jobs created by those companies would contribute to federal, state and local taxes — that's not a bad idea, helping the economy grow. And every day is different.

I'm not one to sit around in an office everyday and have a good time. I liked to get out, and I could see where that was going to be part of it. You'd meet a lot of interesting people who were smarter than you and very driven and entrepreneurial. That sounded great. At that time, I wasn't really thinking we were going to invest nationally, I was thinking we were only going to invest around here, maybe in southern California as well. But I wasn't thinking of doing a deal in Boston or Baltimore; it was focused here. And Silicon Valley was very different than it is today, but a great place to get started in the VC business.

MJP: *Describe it for me.*

PW: Well, it wasn't as dense as it is now in terms of buildings and so forth. So what I'd do is get in the car and drive down to Mountain View or Sunnyvale — not so much the East Bay in those days — and look for signs. The sign of the company would say, "Technology," and I stopped the car, go in and say to the lady in the lobby, "I'm so-and-so from Sutter Hill, here's my card, and I'd like to meet the CEO." And eight or nine out of ten times the CEO would come out and he'd say, Hi, who are you? And I'd tell him, and I'd ask if he had fifteen minutes or a-half-hour to let me tell him about Sutter Hill. The smart CEOs always spent the time with you because they were smart to realize that some day they may need venture capital.

MJP: *So, if you don't mind, if you can go back in your memory, give me the approach, give me the presentation you would make to a young scientists. You would introduce yourself—*

PW: Yes, you would introduce yourself. I wouldn't tell them where I went to school or any of that stuff, but I would just say: I am with Sutter Hill Capital Co. We are a firm, well capitalized; we are interested in becoming partners with companies that are in the high tech field. We like start ups, we love start ups, and you seem to be very early in your career as a company. We are long-term investors. We are not here to loan you money; we hope to buy equity ownership in your company and become partners with you. Check us out; we will give you references because partnerships are very important. We are not working for you and you are not working for us, we are partners. Let us know when you think you need some equity and we can invest up to $250,000; and by the way, we like to work with other VC partners. There were not too many venture firms around Silicon Valley in those days. There were only three at the time: Tommy Davis and Arthur Rock in San Francisco, and George Quist at the Bank of America, in San Francisco, and Draper & Johnson in Palo Alto.

MJP: *But at the time, there weren't any big firms.*

PW: You know, Whitney, Bessemer and Venrock are all in the east. And George Quist was running the Bank of America's SBIC. Tommy Davis and Art Rock were running a partnership. They were one of the very first partnerships and what a great partnership they were, because Art Rock was kind of a tough guy, he was not Mr. Personality. Tommy was a wonderful outgoing, wonderful guy, you just loved Tommy, and they made a great partnership. I will tell you a little bit later about when I went up with Dave Bossen to see Davis and Rock. We had to the raise the money for Measurex Corp—And anyway, they were up there in San Francisco. Bill and I are running around the Peninsula in our cars looking at deals while Davis and Rock and the B of A are up in San Francisco having lunch with their friends on Montgomery Street. We had the pick of the litter in a way, because the competition for deals then was nowhere near as intense as it is today. So that CEO I dropped in on, he might call six months later and say, "Yeah, I am ready to raise some money, will you come on down and we will talk about what we are doing."

MJP: *When you saw their sign, such and such technology, did you try to research what that technology was? You certainly couldn't Google it then.*

PW: No, because I never knew whether they would call back. I never knew it, so that was a waste of time for me; but when they called back, then I would get involved with finding out more about them. If I had spent time researching a company's technology before they called back, I would never have time to be in the car knocking on some other doors. But I've got to tell you, going around it was not as though it was four stops on one street — it was stop here, and then you might go over to Mountain View from Sunnyvale. It was not as dense in terms of having buildings with companies as it is now. There weren't many people running around in their cars doing that.

MJP: *You were in your Pontiac at that time.*

PW: Yes, I was. My blue, two-door Pontiac. Yes, we drove that up from Southern California.

MJP: *And there were apple orchards, or prune orchards there?*

PW: Yes. You know Fairchild was around—You see when we got started there were really only three big companies, in my view, in Silicon Valley. There was Hewlett Packard, Varian and Lockheed. Fairchild wasn't big yet. Intel wasn't really big; I don't even think Intel was started at that point. Oracle wasn't around. CISCO wasn't around. Ebay, Google and all the names you hear today were not around. Those were the three big ones, as I recall, and HP was, by the way at that time, neck and neck with Beckman. Those two were the big high tech companies on the West Coast, and they were about the same size. I think there maybe was $50 million each in annual revenues, whereas today their revenues are in the billions. I went with Beckman because it was scientific in nature. The instruments of HP were scientific, but not to the extent Beckman was. Beckman had a fundamental problem, which I realized later when people compared it to HP. Arnold Beckman is an unbelievably wonderful person and a very successful person, but he was a PhD from Cal Tech, and he ran the company, as did Varian, with PhDs. At Hewlett Packard you had MBAs, —Dave Packard — but no PhDs at the top. HP blew right by Beckman in size and success. Beckman was still around and doing great, but nowhere near as successful as Hewlett Packard.

MJP: *I am just fascinated by all the confluence of forces: you were dissatisfied living in Fullerton, you went to business school with these individuals who all connected at a certain point, the SBIC law, your experience in sales, your engineering background.*

PW: In that sense, I think I brought a good balance to Bill Draper when he joined us a year later, in 1965, because Pitch Johnson was an engineer, and Pitch wanted to go off on his own. So my engineering background possibly filled the void left by Pitch.

MJP: *Yes, and there was one other quality that I was just going to say: Your personality to take risks and lead a balanced life. I mean, it all fit that you were the man, at that moment, in this environment, to say okay I will try it.*

PW: Yes, I got lucky though — talking to Bob Ward and others, and my father-in-law Jack Reed. I mean, Jack Reed was a risk taker too. I was talking to the right kind of people to do that. There could have been people that said, No, you are crazy, you just had a baby, and you are going to give up a great career down the road at Beckman Instruments to go up there and have no luck in venture capital, and you will be out on the street in a year. Nobody said that. I didn't have my dad around, and he might have advised me otherwise. I just don't know?

MJP: *Interesting.*

PW: He was much more conservative than I am. My dad. He might have advised me to stay at Beckman, although, unfortunately he wasn't around. The other people I talked to were, "Go for it."

MJP: *And Marcia was supportive?*

PW: She was totally supportive. She was anxious to get out of Southern California too, to be perfectly honest. More so than I was, but I too was anxious to get out of there. I was breathing that stuff everyday, and I thought long-term this is not healthy. She had spent, let's say, two years in San Francisco, single. We were married in 1961, and we lived there until 1963, and we liked it. She would come down to the Peninsula with me for friends' parties, so she liked this area as well. That was the reason she came after college to San Francisco. She went to the University of Washington; she was the class of 1958. She went to Punaho in Honolulu. Then she went back to Honolulu and was working for the bank and got bored stiff with it. She took a risk. She picked up, and didn't know a lot of people, and came to San Francisco.

MJP: *So you all were a good team.*

PW: Yes.

MJP: *I think this may be a good time to end this interview. I know you have a commitment, and I want to always respect your time. It's 12:00.*

PW: Oh boy time is flying by.

MJP: *This is so rich and I do not want to rush these stories because they are just jewels.*

PW: Why don't we pick up with how Bill Draper came and we will get into Sutter Hill next time.

MJP: *Yes, perfect. Also I would like to talk about a couple companies that are your babies, your stars, and describe those in detail. So which companies do you think stand out at this point?*

PW: Well, you say your babies. I always felt that it is not my baby and it is not my partner Billy Younger's baby, whose office is next door here at Sutter Hill; it is "our" baby. The one thing I have tried to do over the years is get rid of the word "I." It is "we." We have a success. We succeeded. That is tougher to do today than it was when we got started. But I think Sutter Hill today works better with that thought than a lot of venture firms that I am aware of where — Oh, "I did this," and, "I'm on the board." People who take that view don't get into the partnership discussions—When you talk among your general partners, before you made the investment, did anybody ask a question that really made it a better investment? Of course they did. And do you take credit for the question? You can't, because somebody else made it. So it's a "we"; it's not just the self.

MJP: *How honorable.*

PW: It is not so much that way today in a lot of other places. We still are a collegial group. We purposely don't have this place running around with a lot of associates. I don't know how NEA kept it together with all the folks they have running around. [Dick] Kramlich and others have done a great job keeping it together because they have been very successful—But if somebody is in Texas looking at a deal on Monday morning, and somebody else is in Baltimore, and I am out in California, and they have a meeting on the phone—I just don't know. We have never done that. We have talked about opening up other offices, but we have never done it for that reason.

MJP: *Right. So if you were going to identify three or two companies that that tell the story of venture capital, that capture the passion.*

PW: Yes, I'll cover a couple.

MJP: *Okay, and maybe one or two that didn't work.*

PW: Oh, we have those too.

MJP: *And why and what is it like?*

PW: I have always said, “You are not in this business until you have had a write-off.” If I sat here and told you we had never had a write-off you would have to laugh at me because we are not in the business at that point, unless we have experienced and learned from a write-off.

MJP: *Right.*

PW: You have got to have a write-off. One thing around here we always say is that, You are only as good as your last investment, because the next one could be a write-off and sometimes it is.

MJP: *Thank you. We’ll pick up here at our next interview.*

Today is May 10, 2006. My name is Mauree Jane Perry, Oral Historian. This is the beginning of my second interview with Paul Wythes at his office in Palo Alto, California.

MJP: *Thank you again. We left off after a very thoughtful interview two days ago, and it's very, very rich with history. I think you're going to be excited. So, we left off with 1962, 1963; you had joined Sutter Capital Corporation.*

PW: Sutter Hill Capital Corporation-SBIC. We had gotten that license in 1962, so we were one of the early licenses—I don't know what number it was, but we were one of the early licenses. We kept the SBIC legally until about 1975; then we closed it down because we'd invested through the 1960s with the SBIC. Then in 1970, we did a deal with Genstar Corp, who became our sole limited partner in a partnership format. We kept the SBIC for five more years, but it was not needed because we had the partnership format for investing. We turned in our license in 1975.

MJP:: Okay. Now going back, let's pick up with 1963/64. You wanted to tell me about Mr. Sutter and Mr. Hill. I don't know if this is a good time.

PW: (Laugh) Yes, that's great. You saw their two pictures — photographic portraits — on the lobby wall on the way in — Henry J. Sutter and Horace C. Hill. I believe it was Alex Brown who would come in to Sutter Hill in the 1960s and look around, you know, to see if we had any potential IPOs, or if we wanted to sell one of our portfolio companies or do a merger, and could they get the business. And one of the things they always used to say — I'll never forget it — was: We're the oldest investment banking firm in the United

States. We got started way, way back in 1708, or whatever it was, and we funded the Baltimore & Ohio Railroad, and so forth and so on. So they were pitching, 'It's good to be old,' you know; they'd stuck around through all these cycles from the 1800s and the 1900s and so forth. So we went out to an antique store in Los Gatos and bought two antique pictures, framed 'em up, phonied up the names, and put the pictures on the wall. So next time anybody walked in here they knew that we were an old, old firm.(laughter) But they've endured for 40-some odd years, and they still hang proudly out in the lobby.

MJP:: How did you get the name Sutter Hill?

PW: It was created by Frank Lodato and Greg Peterson. Frank wanted something that sounded western, 'Sutter's Mill,' that sort of thing.

MJP:: Because of the Gold Rush days connection?

PW: I think Greg wanted two names, like a Dean Witter; I had nothing to do with it. They came up with Sutter Hill.

MJP:: So there's a touch of humor right at the beginning.(laughter) You joined in 1964?

PW: 1964. First there was Sutter Hill Company, which was started by Frank Lodato and Greg Peterson. Then they formed Sutter Hill Real Estate and Sutter Hill Capital Corporation as subsidiaries of Sutter Hill Company. And within Sutter Hill Capital Corporation was the SBIC. I think I told you at our last meeting how I was invited to join the real estate side, but then a great guy, Wes Frye, became the head of that. In fact I'm going to have dinner with him tonight. He now works for the Rockefellers in New York and has been there for many years.

MJP:: In their real estate?

PW: Well he worked directly for Laurance Rockefeller — who died about a year ago. Wes worked mostly in real estate. So that was the structure. And then at Draper and Johnson, Pitch [Franklin Pitcher Johnson] wanted to go off on his own. I think they had six companies in their portfolio at the time, and I spent, I don't know, maybe four to six months going out with Pitch and Bill [Draper] to see the companies. In effect, we at Sutter Hill were doing due diligence on the companies because Bill and Pitch wanted to sell the portfolio to somebody.

MJP:: Because they knew that Pitch wanted to move on?

PW: Yes, Pitch wanted to move on. So we would go look at deals together, and I think we ended up buying four of their six companies, and the other two stayed with them. But they left each other. Bill joined Sutter Hill Capital in 1965, about a year after I got here. And he brought those four companies with him. So then Bill and I ran Sutter Hill Capital from that point on until 1970. And that's when we sold the parent company, Sutter Hill Company. We all had stock in the parent company, but most of it was owned by Frank Lodato and Greg Peterson. We sold that stock on a stock transaction to a company called Genstar Corporation in Montreal, Canada. It worked great for everybody; it worked great for Bill, it worked great for Sutter Hill Capital, for me, and it worked great for Pitch.

SUTTER HILL CAPITAL IN THE 1960'S

MJP:: What happened with Sutter Hill Capital in the 1960s?

PW: I think Draper and Johnson's SBIC looked at a deal called Micro Magnetics–MMI. And I learned a big lesson from this one. Draper and Johnson didn't do [the deal], and they were probably smart not doing it. It was a dollar bill changer — you'd put a dollar bill in and change would come out. And they're pervasive today; they're all over the landscape. You see them in airports when you get those little carts for your bags. Well Sutter Hill did the deal. The guy that ran it was a fellow by the name of Jack Riddle. Jack had a really great résumé; he'd worked at Hewlett Packard and before that I think he'd been with Booz Allen — one of the leading consulting firms — he had a Harvard MBA, everything looked great on paper. And it was a fascinating product.

MJP:: Ahead of it's time.

PW: Yes, it really was. But what we did was really dumb, although I learned a lot from it. We bought a minority position in the ownership of MMI, but we did it by ourselves, we didn't go in with another venture capital firm. The result was that Jack Riddle personally owned over 50 % of the company. And here was a résumé that looked like this guy was going to be one of the great entrepreneurs and take his company to the moon. But what actually happened was, he turned from what I would call an "entrepreneur" into a "proprietor." He started paying himself a big salary. If you talked about an IPO or a merger, he was like, Forget it, I don't wanna talk about it; I'm not going to do that. And he controlled over 50 % of the company. So the company went nowhere to speak of.

The product worked pretty well, I mean, it spewed out money. Sometimes it spewed out a dollar-ten for a dollar.(laughs). But what I learned from it was, you never want to have one person, or in a sense one entity, whether it's Sutter Hill or not, own over 50 % of a company, because the mindset of that person — in this case Jack — didn't allow that company to grow. And when you'd talk to him, you know: Your salary's a little high, why don't we get some more people on the Board who think about growth? You know, all that, No! I don't wanna do that. All of a sudden, in my view, he became a "proprietor" instead of an "entrepreneur."

MJP:: Interesting. It speaks to the role of good management.

PW: Yes, exactly. And as I said, Sutter doesn't ever need to have 51% or more of a company, but if we go in with NEA or Kleiner, whoever, in a deal, and the two of us as entities own over 50%, I don't think the entrepreneur ought to be worried, because we're not in the hip pocket of another VC entity, and the other venture firm is not in our hip pocket.

MJP:: So you never made that mistake again.

KASPER INSTRUMENTS

PW: We never made that mistake again.(laugh) It was a big mistake. But anyway, throughout the 60s there were two deals that really caught fire for us. One was Kasper Instruments. George Kasper was a tool-and-die maker. He escaped via subway into West Germany from East Germany and eventually ended up in San Francisco with virtually no money in his pockets; he had nothing. He worked for Fairchild Semiconductor and was making instrumentation to help them manufacture semiconductors. I don't remember how we ran into him, but anyway he came in, and in 1967 we started a company around him. We started to make a mask aligner, which is used in making semiconductors. This thing was really sexy looking; it wasn't ahead of its time, but it was right on time. So we started the company, and having learned the lesson of not doing a deal by ourselves, we brought in Page Mill Associates, who were a bunch of guys at Hewlett Packard that formed a partnership among themselves to do venture deals with their own money. So we showed it to them and they liked it because they were interested in the semiconductor business, and we all invested. I think that was when I first met John Young who ultimately became CEO at Hewlett Packard. He and I were on the board of Kasper Instruments. So Kasper Instruments came along and did quite well and then — I'll never forget — George Kasper came in to see me at Sutter Hill and he said, "I want to sell my stock for a million dollars." And I said, "Oh really," (laughs). And he said, "Yes, because I've always dreamed of being a millionaire having come out of East Germany." And I said, "Well, George, I don't think you ought to sell it because it's going to be worth a lot more than a million dollars if we keep growing the way we have." But he couldn't be persuaded by me or anybody else — not John Young or anybody, not to sell. So he sells his stock to Sutter Hill for a million dollars. I think Page Mill Associates came into it as well. Anyway, long story short, the company grew in the 1960s and did very well, and we ultimately sold it to Cutler Hammer in Milwaukee for a big price. I don't remember the number, but it was a big win for us. It took a little longer, but in the 1970s we sold it for a lot more than what George Kasper wanted. He got his million. But the sad part about it was, he took the money and invested it in a hunting lodge in southern Germany, and it all went to nothing. He's since tried to start some companies here, but he's been unsuccessful in doing so.

MJP:: What's the lesson from that one?

PW: Well, I think if we'd listened to George we would have bailed out. If we thought there was no growth beyond where we were at the time he came in here, I think we probably all would have mounted a campaign to find a merger for the company, sell it to Fairchild or somebody. Fortunately, John and I decided no, we shouldn't do that, and kept it going. George was the CEO, we never really changed that, but we probably always needed a leader. Maybe what we should have learned was that we needed to bring in a professional to run the company.

MJP:: But if you were Kasper, the lesson I guess is to be disciplined.

MEASUREX

PW: And to have patience, a little more deferred gratification. We talked about that earlier. So Kasper was a big win in the 1960s and the other one was a company called Measurex. Dave Bossen was the founder and CEO of Measurex, and he came to our offices in 1968. He came out from a company in Ohio where he was a general manager. Great guy, MIT engineer. He wanted to do it on his own. He felt that Silicon Valley was coming into its own, so why not do it out here rather than in Ohio. I think we heard of him through a friend of Bill Draper's at an investment banking firm in Chicago who told Dave, "You ought to go out there and see these guys at Sutter Hill." And he came. His wife was still living in Ohio, so he would spend time getting out to meet people in Silicon Valley since he knew he wanted to start a company. We had a spare office, so we gave it to him and he started to write the business plan, but more importantly, to use it as a conversation to meet with people. I don't want to toot our horn too much, but I think we started a few things in the venture capital industry that caught on, one being the "in-house residence." They call it warehousing an entrepreneur today, or "entrepreneur in residence."

MJP:: You had never done that before?

PW: No, we were only–what?–four years old at that time as a Venture firm.

MJP:: So was it a generosity of spirit or was it a true vision? Or is it part of your own entrepreneurial spirit that says, yes, we can nurture this effort, this talent?

PW: It may be a combination of all those things, but maybe more importantly it was that Bill and I both thought he was a super guy. He'd been running a major company back in Ohio as a general manager, so we saw the operating experience. He was well educated — a MIT engineer. So I think it was all the things you mentioned earlier, but more importantly, this was a guy whose quality really rang true. That's why we did it.

MJP:: Did it cost you anything? I mean, were you paying him a salary or did you just give him space?

PW: Oh, no, we didn't pay him a salary. We gave him space, we gave him a telephone, we gave him a Xerox, we gave him secretarial support — all that cost us. But we had that in place anyway.

MJP:: Interesting.

PW: He'd made some money on his last job, so he was living off his own money. That is different today, in a sense, because I think all of these entrepreneurs-in-residence are getting some sort of support in terms of salary from the VC firm where they are in residence. Anyway, Dave gets out and he met a very nice, wonderful engineer from Lawrence Livermore Labs — I think his name was Bob Marshall; I'm not sure about that. So Dave was writing his business plan, and he was six months here, as I recall. And maybe five months into that Bill [Draper] decided that he wanted to run for Congress. Bill's always had an interest in politics, which I guess came through his father primarily. Anyway he wanted to run for Congress from this district, so he took a six-month leave-of-absence from Sutter Hill. He's out campaigning, raising money for his campaign, and Dave finally finishes his business plan. So he and I had to go out and raise $1.25 million based on the business plan, which was a lot of money in those days. I think I told you our SBIC had a limit of $250K. So we negotiated the deal with Dave and said, OK, $250K ought to buy X percent, and $1.25 million is going to buy X+ percent, and then the management will have the rest. And he bought into that, and we had the deal all pinned down, and we had the business plan. So we went out to raise the other million dollars we needed to get this company started. And I'll never forget, when the two of us went up to

Davis and Rock — they were up in the San Francisco — and we had a very nice meeting. Tommy Davis was just as friendly and hospitable as ever, and Art was there and didn't say too much. But at the end of the meeting after we made our pitch, Art turned to Tommy and said, "I don't have any more questions, do you?" And Tommy said, "No, I think I've got all my questions answered." So Dave and I left. And I think it was about a day later that they said, We're not interested.(laugh)

Measurex, was going to be making a sensor device that measured the basis weight, or water content, in paper as it was being produced or manufactured, and it was important to know how much water should be put into making paper, because that's cheap; on the other hand, you don't want to put in too much water because it's not going to produce quality paper. Measurex had a device that scanned across the paper mill and it was going to be a big-ticket device for a paper company to buy.

Then we went over to George Quist who was running Bank of America's SBIC, and he listened intently, and nothing came back right away from him one way or the other. But two or three weeks later he calls and says, "Paul, we're not interested." George Quist had a friend in the East Bay who worked for a paper company — I can't remember the name of the company — but he told George that, "this [sensor device] makes no sense whatsoever." So George called and said, "We're out."

So Dave and I got on a plane to New York, because that's what you did after you got through to the two sources in this area at the time; they were the only two venture firms around. We went to New York and we met a gentleman by the name of Jack Kelsey at Eastman Dillon, which was an investment banking firm in those days. It's since been acquired. But Jack listened intently, and we left. And we saw other people while we were there and nothing happened. So we still only have $250K raised out of the $1.25 million we needed. And we were still working when we came back from New York, you know, calling anybody we could think of. So about a month later, Jack calls me and he says, "Is there still any of that Measurex left?" And I said, "Well, yes. I think we can get you some, Jack." So he spoke up for X amount, and there was an SBIC in New York at the time that Eastman Dillon had a close relationship with, and Jack said, "I think I can bring them in as well." So I said, "OK, let's talk about that." One of Eastman Dillon's clients was International Paper, and he had called them and they thought this was a great idea. And that's what sprung it loose for Eastman Dillon and Jack Kelsey. He and his group came in for $500K and we had $250K, so all we needed was $500K to get to $1.25 million. So now we're on a roll. And in the meantime we'd been talking to Bessemer Securities in New York, which Pete Bancroft was running, and we were also talking to Ned Heiser who was running Allstate's venture capital firm in Chicago. And those were two big names in the business in those days. As I mentioned before, Bessemer was one of the "big three" in New York, along with the Rockefellers and J.H. Whitney. So I called them both, and I said, "You know, this thing is going pretty fast.(laugh) If you're interested, you'd better get it out of your inbox and into your action item box." And they both did, so there was basically a horse race to the finish line to see who would get there first.

MJP:: Nice to have a bidding war as it were.(laugh)

PW: That's exactly right. But Pete Bancroft won the race and said Bessemer would come in at $500K, and that's what happened. So we had our $1.25 million, and we got the company started. Long story short, the company did very well. Pete Bancroft joined the board, the company grew and went public and ultimately went on the NYSE, and finally was sold as a company to Honeywell, where I started in my first job out of Stanford. (laugh) What goes around comes around.

MJP:: How sweet it is.(laugh) For how much?

GENSTAR

PW: You know, Mauree Jane, I don't remember. I could probably go back and dig it out, but it was a big win for us. There were two big wins for us, the other being Kasper. Anyway, towards the end of 1969, we sat down to talk to Genstar, and I can tell you how that happened if you'd like.

MJP:: Yes, very much.

PW: We assessed Sutter Hill Capital Company in terms of its value so that Genstar would understand why we thought Sutter Hill Company, which included Sutter Hill Real Estate and Sutter Hill Capital Companies, was worth whatever it was worth. As I recall, I think we sold Sutter Hill Company, the parent company, for $10 million, and approximately $8 million of that value was in those two deals, Kasper and Measurex. The other $2 million was in the real estate company. So that was the deal we did, and we ended up with Genstar stock as a result.

MJP:: So this is a wonderful way of answering my original question: What was the end of the 1960s like? You made two significant choices in the 1960s.

1964 - 1970: HOW MANY NEW DEALS EACH YEAR

PW: Yes. There were other deals, obviously. In fact I can tell you the number of deals.

MJP:: Yes, tell me. You have such startling, innovative experiences to which to refer.

PW: Well just to give you an idea, we did four deals in ’64; we did eleven deals in ’65, including four that we bought from Draper and Johnson: Pacific Communications and Electronics, ICORE, Electroglas and R.O. Associates.

MJP:: You bought four?

PW: Yes, four. So that’s what we did in 1965. In ’66 we did three deals; 1967 we did four deals, including Kasper. In 1968 we actually did fourteen deals, including Measurex, which we ended up taking public. In 1969 we did nine deals, and in 1970 we did one. So those are the total number of deals in the 1960s. That was the velocity of deals we were doing in the 60s. And we did one more great deal in 1969 that didn’t show its promise until after 1970, and that was Xidex. There was also one other one in 1969, Diablo Systems, and in the 1970s those two deals became big wins for us as well.

MJP:: Why is it that 1968 was such a boom year with fourteen deals?

PW: I don't know.

MJP:: Is it that you had a reputation at that point? The network was working? You all were more aggressive?

PW: We were pretty much the only game in town, because the Kleiner Perkins and the Mayfields that came along all came in 1972-73. And in 1970, another thing we pioneered was the partnership agreement — only the New York firms were using them at the time — because we were an SBIC up until 1970. Maybe I could make a case that we only did one deal in 1970, because we were working so hard on doing deals in 1969 and also negotiating the partnership with Genstar; we were in negotiations with them for quite a while, about six months.

MJP:: Interesting. Well, this is so valuable. Would you be willing to let me have that piece of paper or is just listing it adequate for you.

PW: I can give you the names on it.

HOW THE NETWORK WORKED: CONNECTIONS AND RELATIONSHIPS

MJP:: Okay, we can do that later, unless you just want to read them into the tape now. Let's do it later as an addendum and you think about it. Now, there's one question I want to ask before we get to Genstar: How did the network work? You said you didn't remember how you met Kasper and how you met people, but how did the network work? How did you meet people?

PW: Well I think Bill met Bossen through this investment banker friend in Chicago who he knew in business school. I met George Kasper while knocking on doors, just going around. He was in a little office in either Santa Clara or Mountain View, working on a design of a new mask aligner. It was one of those things where I found him by knocking on doors.

MJP:: The way you told it was so great.

PW: Yes, that was how we met Kasper. I have a little side story, I don't know if it's worth much, but in the 1960s Bill and I both joined the Kiwanis and Rotary Clubs. We thought it would be great to go there and have lunch with local businessmen and we'd hear about deals. In hindsight — and I think Bill would agree with this — it was a great lunch (laugh] but not much in the way of deals, because a lot of these people were running non-technical businesses, barbershops, whatever. And I'll never forget: I was the program chairman for a month or two, and I thought it would be interesting to get this guy Bill Shockley who had come out from the East from Bell Labs and then started Shockley Labs in Palo Alto. And he brought all these guys: Gordon Moore, Bob Noyce, Jean Kleiner — from various places around the country to form Shockley Labs. The company was funded by Arnold Beckman of Beckman Instruments in Southern California. Beckman wanted Shockley to locate in Southern California, but Shockley said, “No, I want to be up here near my mother,” who was getting elderly. So anyway, I called him. He didn’t know me, I didn’t know him, but I said, ”Dr. Shockley, — he’s a Nobel Prize winner — I’m Paul Wythes. I’m program chairman this month for — whatever club it was — and I’d like you to come speak.” So he said, “What’s your phone number?” I said it’s such-and-such. And he said, “Well, I’m going to hang up. I’ll call you right back.” So he did, and I didn’t think anything of it at the time, but in hindsight, he was just checking me out. This guy was paranoid I think. He had some problems, because at the time all these guys, eight or nine of them, had left Shockley to form Fairchild, which was where Dick Cole from my class at Stanford had gone. So Shockley called back, and I told him what I was calling about again, and he said, “OK, yes, I’ll come.” So I thought this would be great. We’d talk about semiconductors and how he won the Nobel Prize at Bell Labs and so forth; I thought it’d be a terrific talk. Well he gets up, Mauree Jane, and starts talking about why blacks were inferior. And we had a couple blacks in the club, and, god, I was so embarrassed. But he gets into it: *I got data that proves that they don’t–can’t–measure up IQ-wise,* and all this, and it was one of the most embarrassing moments in my life. I didn’t know what I had walked into. I was probably too young to realize that could’ve happened, but anyway, that was a little sidebar.

MJP:: That’s historical documentation of the times.

PW: The guy was all wet. He'd lost it. I mean, the fact he called me back on the phone to check out who I was, and then he gets up and starts talking about that, which was ridiculous. But anyway, that did happen.

MJP:: The network.

PW: Well, the network, you know, once you do a deal—

MJP:: People know about you.

PW: They know about you. The CEO of a successful company refers you to other people that are thinking of starting companies, and [they refer you to] other companies, and the word gets out. And when it was a small community of venture capitalists, people would rather do a deal with a local venture capitalist than go to New York. It's was easier. And that taught me something else: When somebody comes here to Sutter Hill, say from Texas, with an oil deal, I get a little suspicious, because why would a good oil deal leave Texas? So why would a good high tech deal leave Silicon Valley to go to New York? Well, maybe because Sutter Hill, and Davis and Rock, and George Quist at Bank of America turned it down. Well, that's OK, you know, they turned down Measurex, but we still got it done. But it depends. Your antenna goes up a little more, I guess, when they're from out of the area, although that's less so today.

GENSTAR

MJP:: So, did you approach Genstar or did Genstar approach you?

PW: Well, that's another interesting story. The Measurex deal got us thinking another way. With Measurex we started out with $250K and ended up with a $1.25 million; we put it all together — we warehoused Dave Bossen and we helped him write the business plan. But we didn't increase the price others paid over the price we paid. So with Genstar we thought, why shouldn't we, having done all the work, be the Bessemer in this deal and put in $500K and be the big investor instead of being Sutter Hill at $250K? So we decided it would be neat to find a buyer for Sutter Hill Company — because that's where everybody had stock — and in the process put in major new money for venture capital. Then we hired Lehman Brothers in New York to try and find a buyer for us, and they came in with a couple of candidates. One of them was AR&D in Boston. We went back to see General [Georges] Doriot, and so forth, and we had some really interesting talks. They were the premiere firm, I think, at that time—

MJP:: They were one of the oldest.

PW: —and he was a terrific guy.

MJP:: This is Doriot?

PW: General Doriot, yes. And I think we were heading down the road to a deal, but we had some concerns, you know; He's going to run the show; he's back there in Boston; we're not going to move back there. And he also had concerns: They're out in California; they're probably a little wild; they do these things like warehousing entrepreneurs, who's ever heard of that? So long story short, he cut it off and we didn't do a deal. And that was the greatest thing that ever happened to us. AR&D was terrific; it was the premiere venture firm in many ways, but it was a publicly traded SBIC. And as I talked about in our last meeting, this business is not a public business. And when you've got Joe Blow who owns 100 shares of AR&D calling in, *What about this company over here called Digital Equipment Corporation* (laugh) — you know, during the earlier years — *Why isn't that doing better?* Well, that guy doesn't know he shouldn't really worry about it, that he should let the guys that are running AR&D worry about it. That is why it's my view that venture capital firms shouldn't be public. Anyway our deal got called off. And then Lehman Brothers found Genstar. We didn't know who Genstar was. They were in Montreal, Canada, and they were a publicly traded Canadian company. They made wallboard and cement and they had some real estate assets, so they had no real knowledge about high tech. However, they did have some knowledge about real estate, and we had a real estate subsidiary, Sutter Hill Real Estate. So I think that's what initially caught their attention. Then they saw Measurex and Kasper.

Long story short, we ended up with a deal. It took about six months to do it. We hired Cooley Godward in San Francisco, and there was a marvelous, probably the smartest lawyer I've ever met, Ed Huddleson, who was Cooley's senior partner. He had a real whiney voice and he said (imitating voice), "Bill, Paul, we have to structure the deal as a partnership. You can't make it a division of Genstar." That was the hang-up; Genstar didn't want us to have a partnership format; they wanted us to be down the hall from the chairman of the board of Genstar. And we didn't want that because we wanted to run our own show. So it took six months to negotiate a partnership.

MJP:: Did you have to give up a lot to get that parity?

PW: No, but I think they felt they gave up a lot because the valuation was set at about $10 million. They were going to give up $10 million of their stock for their ownership in Sutter Hill Company. But also, as part of the deal, they were committing $10 million of new, fresh cash to the venture capital operation called Sutter Hill Ventures, our new partnership format.

MJP:: And that's when you changed the name to Sutter Hill Ventures.

PW: Yes. So Bill and I were both founders of Sutter Hill Ventures, but not Sutter Hill Company.

MJP:: Got it.

PW: But they said they'd put in $6 million, I think it was, right away, and then another $4 million if we needed it later; but they committed to put the other $4 million in, so let's just say we got $10 million.

MJP:: So what did they get for giving up their superiority?

PW: They got 80% of the upside of Sutter Hill Ventures. It was a 20/80 deal, which later became a 25/75 split.

MJP:: Oh, because they put in $10 million to your $2 [million].

PW: Well, we didn't put in any money, because they put in $10 million; they committed $6 million with another commitment for $4 million. So they put in $10 million. The other $10 million for Sutter Hill Company was in Genstar stock that went to Frank, Bill, Paul, Greg and some others. So that stock took care of the Corp. Eighty percent of that value was attributed to the VC portfolio we had. So the real estate company became a division of Genstar, operating down here and reporting to their management. Bill and I became the general partners of an LLP reporting to them in a sense, but we didn't have to ask them to approve investments, we just did the investments, and that was the key decision. That's very common today, every venture firm today is a partnership; but you might say that was another pioneering thing. So that's what happened in 1970. It was really fun and interesting, but kind of — I don't want to say a waste of time, because we built a lot of trust with Genstar management. But we'd go up there every February, and it was colder than sin in Montreal, and they'd ask us to bring up our five-year plan, and we'd just finished our last-year's results, so we'd brought that with us with the calendar year results for the previous year. And then they'd want us to put the next five years together. Well, you can't plan a venture capital profit and loss statement over a 5-year period. It's a serendipitous thing. Things happen. So anyway, after a while we said, You know, we don't want to waste your time, and we don't think it's too productive to be doing this all the time — we must have done that from 1970 to 1977. But it did build trust between us; they knew what we were doing. So we'd go up there every February and present our five-year plan. That was the relationship with our limited partner. We had a sole limited partner, which was an institutional limited partner — Genstar Corporation — and Angus MacNaughton was the CEO, and their financial guy, and we basically reported to him. He's a great guy and we were able to develop a very strong and productive relationship with Angus — which lasts even until this day.

Then Genstar was acquired in 1986 by another Canadian company called Imasco Limited, and they were an unfriendly acquirer. By that time, Bill had been gone from Sutter Hill since 1981; he'd been here sixteen years. Imasco was a tobacco company that was 50% owned by British and American Tobacco. So they didn't know a darn thing about technology. Anyway, we were riding right along when the CEO of Imasco, Purdy Crawford, terrific guy, comes down to see me. I'd never met him before, and he says, "Hello, Paul. I'm your new limited partner. And by the way, I don't understand venture capital. We're in the cigarette business. I don't want to try and learn high tech, it's not my thing. Long term, we don't want to be your limited partner, but we're not going to try and sell you to somebody in a near term." So I said fine, and we kept on working. I can come back as to what happened afterward, but that was sort of the stage he set in 1986.

MJP:: Okay. Can't wait to come back.(laughter) Let's go back to Genstar and the formation of your partnership. One of the things that is unique about Sutter Hill Ventures is a particular partnership you had called an "Evergreen Fund." Will you describe that and why it's significant?

PW: I'll try. It is unique. More people are coming around to it now, not only in the venture business, but also the LBL business and other fields of investing. I think we're still the only venture firm in the U.S. that has this program. By that I mean, we formed a partnership in 1970 with Genstar as a limited partner, and we were capitalized at $10 million. We have never formed another fund since then. So we don't have Fund 2, Fund 3, Fund 5, Fund 9. NEA's got a ton of funds and they've all been great — well maybe not all of them (laughs) — but, we never had to go out and raise money a second time. Now why is that good? The answer is a little complicated, but it's fairly straightforward, and it is that from our point of view it's good because we don't have to spend time raising money. But it's also good for a couple of other reasons and these are more fundamental. One is, when we're dealing with an entrepreneur who gets money from us and from, let's say, NEA, I don't want to pick on NEA, this is just hypothetical. So we and maybe one or two other venture funds go into the deal together and we might have 55%, 60% of the ownership of the company between all of the VC investors and the rest is owned by management. Well, a year or two later, the CEO comes to the board meeting. All the investing firms are represented on the board, but the CEO says, "I want to raise money for a second round in my company and I want to do it six months from now; we're doing great." I've been in board meetings where if there were two other venture funds there with me, they put their hands up and said, We can't participate in that second round because we're forming a new fund — Fund 2 or Fund 3. And the new investors in Fund 2 or 3 at our firm don't want us putting money into the companies that we put in Fund 1 because that's a conflict. So all of a sudden Sutter Hill is left there by ourselves, supporting the company, and the entrepreneur is really ticked off, because, he says, If you two don't put up money, that's going to look bad when I go to raise the money. I mean, we might not want to participate in a second round in a company because it isn't doing well, but when it's doing well, and two others back out for internal reasons, it really hurts the company. We've seen that happen, so this way we avoid that problem. The second thing is we invest at a velocity at which we as general partners feel comfortable. A lot of VC complexes have three or four funds running at one time, because these funds have long tails and they all provide management fees to the general partners. The negative for us is, we have only one management fee; on the other hand, we don't feel the need to invest at a rapid pace because we're not looking to form another fund to get a second management fee.

MJP:: But what it requires you to do is manage that one fund exquisitely.

PW: Well, hopefully. I hate to come back to this deferred gratification thing, but what we're trying to do is build companies, not do financial transactions. There's a difference.

MJP:: Was that your philosophy from the beginning?

PW: Oh, yes. And it probably grew stronger as we got the partnership established. For example, say we've got $10 million. If we're going to go to a Fund 2 or Fund 3, and not be an evergreen fund, we would probably have said to ourselves, Let's go invest that $10 million ASAP, get it done. Let's throw a lot of things out there and hopefully they'll stick to the wall. If they do well, we'll look great; if they don't, not to worry, by the time we get the next fund done, we don't have to report back that these things fell off the wall. So we don't have that incentive with just one fund.

MJP:: Does having an evergreen fund put pressure on you in any way?

PW: I don't think so. I think that in many ways it takes the pressure off. Because we're truly on the same side as the limited partners in terms of investing for their benefit and ours. So you don't have the pressure to invest rapidly. I mean, if you think about it, you form a billion dollar fund, and you know you're going to have another fund after that, maybe a billion-five in size, you'd probably say I want to go out and invest that fast. So you put pressure on yourself and go out and invest in some dumb deals. We don't have that pressure.

MJP:: Interesting. Do you take other partnerships, other funds?

PW: No. We had one limited partner from 1970 to 1986, and that was Genstar. Terrific limited partner, great to work with.

MJP:: Now, in the early 70s, as it turned out, economic times were very tough. You didn't make any money as I understand. I mean, you've kept up and maybe you did better than other funds—

PW: Well, we didn't do a deal in 1974, as I remember, and that was a mistake. That was the nadir of those tough times.

MJP:: How many deals did you do in 1971?

PW: We did six.

MJP:: How about 1972?

PW: We did four; 1973 we did eight, 1974 we did zero, 1975 we did four.

MJP:: Wow.

PW: So that was kind of the speed of deals, but we didn't worry about how many deals we did, we worried about who we were backing; we were trying to keep the quality high in terms of the entrepreneurs and the management. And back then, we went out and found these people, like we did at Kasper for instance. Today, I think we all kind of rely more on people calling us and coming in. I don't think that's a good idea because we have a bigger reputation at stake today. But I still think getting out is important. When I come in — I hate to say this — but sometimes I count the cars of our partners that are sitting in the parking lot, and I hope I can't get past zero.

MJP:: Yes, because that's you're earliest experience and your philosophy: "Get out." It's the 2006 equivalent of what you did in 1964, that is, knock on some doors.

PW: Yes. And we have more feet on the ground today than we had than, so it's better to have more out. Because, you know, Mauree Jane, you learn things; you learn things if you have a dinner with somebody: Oh, by the way, Joe just left Fairchild. You get on the phone the next morning and track Joe down. And you wouldn't have learned that if you hadn't been out.

MJP:: You know what's interesting is that even though money was tight the first five years of the 70s and the business community was having a difficult time, science didn't stop and technology didn't stop.

PW: That's right.

MJP:: So what was it like in those years for you to see entrepreneurs want to develop new ideas but not be able to mesh with them financially?

PW: Well, we weren't the only ones. I think we all slowed down. And why did we slow down? The answer is pretty clear: we looked at the stock market and you could go out and buy a publicly traded company at six times next year's estimated earnings — earnings, not losses, earnings. So by and large, we as an industry said, why don't we do that instead of buying into a startup high tech company that we don't know if there'll ever be any earnings or if there are, it'll be after a long wait. Instead we could sell this six-times-publicly-traded company the next day if we want to or the next year when it's moved up 30%. There was a lot of that thinking going on and we got caught up in it, frankly, and I think it was a mistake.

NATIONAL VENTURE CAPITAL ASSOCIATION: 1972

MJP:: Let me focus on the early 1970s for another reason: the creation of the National Venture Capital Association, which occurred in 1972, and you were pivotal in it.

PW: Well, no. I was a founding director, I was not pivotal. Ned Heiser was the pivotal guy, he was the President.

MJP:: Well let's divide it into two parts then. First, can you give me any insight into its formation and the need for its formation? And the second part would be your role.

PW: Well, in those days I think we as an industry wanted to stay out of Washington and all the politics; we'd just do our thing and keep our noses to the grindstone and we'd do just fine, and we didn't need Washington telling us anything. That was the prevailing viewpoint in the venture capital industry. But when the NVCA got started, we thought maybe we ought to have a voice — a little voice. So as founding directors, we decided we did not want a Washington office, which is the antithesis of what's being done in the NVCA today. We were going to keep the overhead to a minimum. I think we met as a board on a quarterly basis; it wasn't every month or anything like that. And we'd move it around; we'd meet in different parts of the country. And I'll never forget — I think it was in San Diego — the Board was six or eight members, one being George Quist. And he said, "Have you guys ever heard of this company? It just started in Memphis, Tennessee, and they've got these little toy airplanes flying all over the country." That company became Fed Ex.(laugh) I'll never forget him calling them "toy airplanes." We were huddled around some table in San Diego.

MJP:: Why did you participate?

PW: Well, you know, I'd been in the business at that point, what, seven or eight years, and I thought it might be helpful for my career to get out, meet some other venture firms that I wouldn't have otherwise met who Sutter Hill might someday invite into one of our start-ups or vice versa.

MJP:: Because at this point new ones had started on the east coast, in the middle of the country, in Chicago.

PW: Yes.

MJP:: So who were your peers on the founding board at that time?

PW: Mauree Jane I don't remember everybody. I know Ned Heiser was the President; George Quist, myself — I'm going to miss Charlie Lea, etc— I've got to go back and—Is it in there? [Referring to the book Done Deals, edited by Udayan Gupta, Harvard Business School Press, September, 2000.]

MJP:: It's only a paragraph in the book. Warburg Pincus.

PW: Yes, out of New York. Lionel Pincus. Those are guys I didn't know until I got on the Board. I didn't know Ned Heiser all that well either, although we talked on the phone trying to get him in the Measurex deal. He was on the board of a company they'd started out here so I met him. But I didn't know Lionel Pincus well.

MJP:: *Can I read from this interview with Lionel Pincus in Done Deals and see if it stimulates your memory? And I should point out that there's also a wonderful, probably eight-page interview with you. Reading from Pincus' interview on page 119:*

> *In the early 1970s, there were a number of attempts to get all the existing venture capital firms together. There were a strong bunch of personalities here with all different backgrounds and focuses. While there was some suspicion among us –I suppose he's saying 'competition' – many common interests were emerging, such as ERISA, the Employee Retirement Income Security Act. Eventually, seventeen firms that managed a total of $500 million in capital got together and formed the National Venture Capital Association in 1972. Half of that capital was in the old family firms, like Bessemer and Venrock, and the rest was with new firms such as Heiser and Warburg Pincus. We hired as our Executive Director a guy named Stan Rubel, who also worked with the Small Business Administration, to represent our trade group in Washington.*

Now, were you involved in NVCA at this point?

PW: Yes,

MJP:: Continuing on: *On behalf of the NVCA, Charlie Lea–*

PW: Right; great guy, terrific guy.

MJP:: *—and l led the negotiation with the Labor Department of the Plan Asset rules in 1978 and ’79. That produced the Prudent Man Regulations and the Contemporary Venture Operating Company. These regulations made it possible for pension funds to invest directly in venture capital funds, opening a flood gate of new capital for our young industry.*

PW: Yes. Well, you’ve got to give Lionel and Charlie a lot of credit, but ERISA was so far from our minds. We didn’t want an ERISA limited partner; we didn’t want to have to deal with all that stuff with the government. But to Lionel and Charlie’s credit, they opened the floodgates, which was good. But we were not worried about all the government regulations.

MJP:: And you had your own Genstar.

PW: Yes. And we hadn’t closed our SBIC at that point, but we weren’t using it in 1972 — we closed it 1975.

MJP:: So you weren’t interested in being part of the trade group and lobbying Washington; your interest, personally, as a representative of your firm, was to network.

PW: Yes. We were in the other half of that $500 million or whatever it was. It came from the three or four mostly New York firms, and we were out here just trying to network.

MJP:: Why was it that you, and not Bill Draper, were on that founding board? He’s the one interested in Washington?(laughs)

PW: Well, I don't have the answer to that; I really don't remember why that was the case, other than maybe he didn't have an interest at that particular time. I don't remember. Somebody called me—Maybe it was Heiser that called me, because of the Measurex fundraising, come to think of it. I hadn't thought about that until just now.

MJP:: You know, it's like a tapestry, and you have a little piece of a deal that starts way back on the first row, and then weaving goes back-and-forth, and back-and-forth, and you get up a couple years later — or many deals later–and there's a thread that comes through again.

PW: Yes, it's interesting, because I remember — this is off the subject — but I was asked to join the board at T. Rowe Price in Baltimore, and I did it because I thought it would be a great experience. I think they asked me because they wanted to get a window on high tech deals that would be coming along for public offerings that they could invest in. Why did I do it? Because I wanted to learn more about what that business was like, and also, because there were some very smart people there. A guy that was doing their research at the time asked me to join. I served on the T. Rowe Price Board for 22 years.

MJP:: But you don't always know.

PW: You don't always know. So, I can't answer your question, other than to say that maybe Heiser called me. I'm not sure about that but I think that's probably what happened.

MJP:: That's interesting. Do any of those deals from 1970 through 1975 stand out?

XIDEX

PW: Oh, yes. One of them is Xidex. It was started in 1969, and it was an interesting deal. There were five guys who were breaking out of Memorex. They had this television commercial where Ella Fitzgerald would sing and she'd hit a high note and shatter a glass, all recorded on Memorex tape.

MJP:: Oh, yes.

PW: Well Memorex made audiotape and the sound quality of this audiotape was so pure that [Ella's recorded voice] could shatter glass. They also had a microfilm division. Anyway, five guys left Memorex and started Xidex. There was a gentleman by the name of Les Burns who was the founding CEO of Xidex. By the way, it was called Micrex when it got started, and I was on the board of Micrex, and Larry Spitters, who was president of Memorex at the time, came to me and he said, "We're going to sue you; these five guys have left and we don't like it, and they stole trade secrets." But we'd really been careful about the legal implications of financing a start-up out of Memorex. We used Jim Gaither, who was then with Cooley Godward, to make sure they left properly and didn't take anything with them — no papers or anything. So I didn't worry about it; on the other hand, they were going to sue us. They were big, we were a start-up. So I said to Larry, "Well if we change the name to something else, would you be OK with that?" And he said, "Yes, because Micrex starts with M and ends with E-X, and Memorex starts with M and ends with E-X." So we changed it to Xidex, —X-I-D-E-X — and they dropped the lawsuit.(laugh)

MJP:: That's a great story!

PW: (laugh) Larry's still around and I've since kidded with him about it.

MJP:: That says to me that you're an exquisite listener, that you really hear what people are meaning and wanting. And I think to be a good venture capitalist you have to hear what's going on between the lines.

PW: Well, thank you. I not sure it's true (laughs) but—

MJP:: It has to be true, you know. You really listen.

PW: Anyway, Xidex was going to start making microfilm and floppy disks. One of the five guys, B. J. Cassin, was VP of sales; Les Burns was the CEO, but he was a technologist. There was Gary Filler, who was the CFO. They all knew each other and that was a plus. So it got started in 1969, but three years later in 1972, Xidex was unraveling. I'm on the board, and one day I get a call from everybody but Les Burns. They're down in San Diego because we were doing a partnership arrangement deal with a company down there called General Dynamics. They really wanted microfilm, so they were going to put some more money into Xidex. But Les Burns wasn't leading very well, so they were having trouble with him as the CEO. Long story short, they said, We've got to change the CEO. *They* said that, and I thought, Oh my god, you know — here we go. I knew of a classmate of mine from Princeton, Les Colbert–this comes back with a Princeton tie too

— and Les was a really talented person, one of these guys who didn't really study all that much in college, but he was valedictorian of his high school class and went to Princeton. Didn't study much at all, frankly — at least I didn't think he did. He wasn't an engineer; I think he was a history major. But anyway, he's really smart, graduates Phi Beta Kappa from Princeton. His father was a lawyer who ended up being the CEO of Chrysler Corporation in Detroit. Les thought he wanted to be a lawyer because his father was a lawyer. So after Princeton, he joins the Navy — we were in the Navy Supply Corps together — and then he goes back to Harvard Law School and flunks out! And I thought, How could a guy that bright flunk out? Well, he hated law. So he goes across the river to Harvard Business School, enrolls, graduates, and then he goes to work for a company in New York called Reichold Chemical. Henry Reichold, a gentleman whom I never knew, ran this company and Les rose to the top under Reichold, and he concluded, I think rightly so, that Reichold was never going to retire. So I got on the phone with Les and I said, "Why don't you come out here and run this company, Xidex." And I guess he talked with some other folks and thought, I don't think Reichold's ever going to retire; this is my chance to run a company.

It didn't happen overnight, but he did accept my invitation and out he came in March of '72 — he was single — and became CEO of Xidex. He met these four other guys, and Les Burns 'retired'. To his credit, Les Burns never sold a share of his Xidex stock, which really was a smart move. You know, he was emotionally distraught and all that, having been fired, but he held on to his shares. Anyway, Les Colbert came to Sutter Hill — I'll never forget it — on a Thursday in the fall of ’72, to see me because I was on the board of Xidex, and he said, “Paul, we don’t have any money. We can’t meet the payroll tomorrow, Friday.” And I said, “Oh, really?” (laughs). You grow in this business, you know, so I just said, “We’ll loan you the money.” And he said, “Oh, thank you — very much.” And it was a fortuitous thing, because they did another round of financing in June of 1973, and that was at a price up from what we’d paid going in, in1969. In 1978 there were two investment bankers who were very interested in the company: Ralph De Nunzio, who was the CEO of Kidder Peabody at that time, a member of the Princeton Class of 1953; I knew Ralph at Princeton. The other was Bill Hambrecht who was the CEO of Hambrecht & Quist, Princeton Class of 1957. So here again it was a Princeton kind of thing. They took the company public in 1978. We’d done a private financing in June of 1973, and based on the price per share at that time, if you hadn’t sold a share until the IPO in 1978, you would’ve gotten a hundred times your money. Who did that? I don’t know. Obviously, we didn’t sell any in the IPO. I’ll wrap up the story, because I’m probably spending too much time on it.

MJP:: No. This is perfect; this is just what Chuck Newhall wants.

PW: Well, we sold the company for cash to a company out of Atlanta called Anacomp in 1988. I think the price was around $600 million; I can’t remember exactly, but it was something like that. And thank God we sold it for cash, because about two years later Anacomp went under. So Les Colbert was here all through that, and ultimately he moved back to New York and retired. He’d been a bachelor his entire career until I think around

1990, then he got married. He's been happily married to Linda, who's from England, ever since, so fifteen or sixteen years married now. But, boy she took a risk, I'll tell you.(laugh)

MJP:: What Chuck is after, and this Xidex story is a great way of talking about it, is the roller coaster ride in venture capital, the passion, the anxiety and the necessary optimism. Can you comment on how you, as an individual, interacted during these nineteen years of Xidex's history. What does it take to sustain that effort, that commitment, that passion?

PW: That's a good question. When Les came in and said, "We're out of money" — at that point, the simple answer is, you're not going to give up. Unless you just hated what was happening and you couldn't respect Les Colbert, whom I immensely respected; you're not going to walk away from it. If you look at this company from startup in 1969 until selling it in 1988, that's almost 20 years. And it was well worth it. As an industry though, we take a bum rap in terms of running or cutting from deals. As an industry, I don't think we do that as much as the press would have people believe. I think we stay with deals probably longer than we should. The younger folks that have only been in our business since 1990, and who lived through the 1990's, probably thought back then that you could start a company and sell if for millions, if not billions of dollars, three or four years later. But the idea that in one, two, three, or even four years you can build a company from startup and have a heyday return is fallacious. That's not this business. This business on average, I think, from startup until you achieve liquidity, either through an IPO or merging, takes probably seven or eight years, maybe even a little longer. Again, it isn’t instant gratification.

MJP:: So, are you an optimist in general?

PW: Yes, I think so. Yes, yes. But, you know there’re ups and downs; it’s a roller coaster ride with these companies. And I think you know after a couple of years working with a CEO whether or not he has the ability to take it to a wonderful conclusion. I could be wrong, but I think having lived it for a number of years you kind of get a feel for them. I mean, the Jack Riddles show up pretty fast, in a couple of years probably. But the ones who can do what Les Colbert and others whom we’ve been involved with, like Dave Bossen — you want to give them free reign, get out of their way and let them run their companies.

MJP:: You seem so even and so calm on the surface. Maybe today you do because you have this perspective of forty years in the business. Were you like that then?

PW: (Laugh) Well, you know, there’d be a lot of nights where you’d lie awake wondering what’s going to happen. I mean, I’ve got to tell you, when I got that phone call— One time, my wife and I were on vacation in Japan and I get a call: The CEO’s lost, we can’t find him, we don’t know where he is. He’s disappeared. I mean that’s the kind of thing that would happen. Another time, the CEO of another company was in trouble regarding one of the secretaries. On and on and on. That stuff creates, well they create anxiety, but also maybe ulcers.(laugh)

MJP:: Well that's honest.

PW: Yes. And maybe you're calm on the outside, but you're churning on the inside.

MJP:: And is that who you were — calm on the outside and churning on the inside?

PW: Yes, I think so. I think my wife, Marcia, would certainly agree with that.

MJP:: Did you ever get just taken away with excitement? Are you always pretty rational?

DIABLO SYSTEMS

PW: Well, my first real excitement was Diablo Systems, a company we started over in the East Bay. Diablo got started in 1969. We hired George Comstock and Andy Gabor, who was a world class Hungarian engineer. And then they hired a guy by the name of David Lee. They were all out of a company called Frieden that made calculators. I was on the board at Diablo, and we brought in another investor, Itel Corporation, in San Francisco. Itel resold and serviced IBM computers; Pete Redfield was the CEO. So they put in some money, and Pete joined me on the board. You know, the night before a board meeting I would try to have dinner with the CEO and CFO and maybe the VP of marketing. I wouldn't usually have dinner with the chief engineer because I couldn't understand what he was talking about. But I tried to get to know them and hear about some of their concerns at dinner; and then you have the formal meeting the next day; and then maybe hang around and walk around the plant a little, then go home. But that doesn't seem to happen as much today in venture deals. We're a little guilty of that today here at Sutter Hill, frankly. A lot of people in our business today will do board meetings over the telephone. You know, the meeting's in New York City, "*I don't want to fly*." Well, I think it's part of the business to physically be at the board meetings as much as you can. So anyway, I'm over there, and one day I walk in the back, walking around, and here's David Lee working on a new product. By the way, Diablo made disk drives, and they were selling them to the computer industry — that was the tie for Itel because they were in the computer business. So David Lee was working on what became known as the daisy wheel printer. Oh! Here's the daisy wheel, [pointing to an object on an end table in Paul's office] there it is, that's it. As you can see, it's plastic and very lightweight. It spins in both directions, high speed, and at the end of each of those petals is a character. When it got to the point that it was supposed to print, a hammer would hit the petal and it would print the next letter. For example, let's say you typed the word 'at'. If ' a' is at 12 o'clock and 't' is at 7 o'clock, on the daisy wheel, the wheel could go in either direction to get to and print the letter faster. So David Lee is working on this, and it's exciting because at the time IBM had a word processor that had a golf ball-like type head. You remember those?

MJP:: Yes, I do.

PW: And the golf ball printer was pretty slow relative to this daisy wheel. It turned out that Xerox had a new word processor coming out to compete with IBM's word processor, so they didn't want the IBM golf ball printer to be part of their Xerox word processor. We were going to incorporate the Diablo printer with the daisy print wheel, but we ended up selling the company to Xerox. David Lee stayed with Diablo for a time. He eventually left to start a new company, Qume, which was the first deal where Bill and I made some money. David knew me from the Diablo times, and he came in to see me with a guy by the name of Lon Israel. Lon was a Princeton graduate and a funny guy in the sense that he wasn't particularly logical in everything he did. He was more of a manufacturing kind of guy, not technology. I don't know why David brought Lon in, but he wanted to start a company around himself and Lon. So that's when we started Qume. We started it without a CEO. Neither Lon nor Dave were CEO types. Dave was a technologist. So one of the other things we pioneered was starting a company without a CEO. We left the position open with the idea that we didn't want to have somebody temporarily in that job. We then went out and found Bob Schroeder, who was with Cummins Engine, to be the CEO of Qume. And he, Lon, and David built a wonderful company.

MJP:: How long did you wait to find the CEO?

PW: Well this goes back to the early 1970s. We knew of a guy by the name of Len Baker who'd been working at Cummins Engine in Indiana. How we heard of him is a whole other story. But briefly: I had a friend, Art Hall, who tied with Len for being the top guy in their class at the Stanford Business School. And Art said, "You might want to talk to Len, he's a really sharp guy." So Bill and I went to talk to him about joining us. He was with, at the time, a small venture fund in Mississippi that was owned by Cummins Engine, and he said, no to joining us because he was going back to Indiana to work for a guy by the name of Bob Schroeder whom he really respected. So he did, and about two or three months later Bob Schroeder quit Cummins to come out here (laughs) to run

Qume. After that happened, we went back to Len and said, Well your Great Mentor has left. Why don't you come back and we'll offer you a job as an associate at Sutter Hill. And he joined us in 1973.

MJP:: I don't know how you slept at night with so much going on.

PW: Well there are a lot of deals here. But it's interesting, the deals that are doing well don't take nearly as much time as the ones that have a problem like Xidex had. Measurex had issues but it did really well. We had a bit of an issue with George Kasper, but he stayed. The deals that take a lot of time are the problematic ones: You've got to go find somebody to run a company after you discover that the guy who's running it isn't going to make it; there's no market for the product that you thought was going to be a big hit — that kind of thing.

MJP:: But when you're in the trenches you must be worrying–Oh my god! What are we going to do? We don't have the right CEO, we don't have enough money!–you must have something carrying you to get through the trenches. There must be an overriding drive, much less vision.

PW: Hope springeth eternal — you've got other companies in the portfolio, right? I'm glad I was in the venture business rather than the CEO of a company, because if a company made it, we made it. You could be known as a very successful venture capitalist even if a company didn't make it if a lot of other companies did. So you spread the risk.

MJP:: But you have to be a multi-tasker a million fold.

PW: Exactly.

MJP:: I know you have an appointment in a few minutes, so I think we will end this interview now. When we meet again, I'd like to go through the 1970s and the 1980s, the general growth of Sutter Hill Ventures, some deals we may have missed, and of course the euphoria of the 1990s. I know you officially retired in 1999. I'd like to get into how that came about a little bit, and then, your perspective on the bubble.

PW: Okay. We covered the pictures out front; we covered the structure we had here; Genstar; a couple of the stars of companies; the NVCA. I think that would cover most of it.

MJP:: Thank you for all your time and your stories and your insights. I am very appreciative.

Mauree Jane Perry: *Today is July 10, 2006. This is the third oral history interview with Paul Wythes. It's nice to see you and, again, thank you for making the time. I'd like to begin this interview by continuing to talk about the National Venture Capital Association. You received an award from the NVCA. Can you tell me about that moment?*

PW: —I remember looking out at the NVCA audience at the Waldorf Astoria Ballroom in New York and seeing this massive group of people. It's very Hollywood. Music comes up and then the presenter, in this case Howard Cox of Greylock Partners, presents me the NVCA Life Time Achievement Award. And (hushed tone) the lights go down and you walk up, and they put a spotlight on you. I thought, My god! This is not like the business I know! (laughter) Back in the 60s, there weren't three or four hundred venture capitalist people to put in a room, anywhere, let alone to receive an award.

MJP:: Well, that's why you're such a leader — you were there when it was all about vision, and hard work, and there weren't a lot of track records. You made the tracks.

PW: Yes. That's maybe true. I think I mentioned I was a founding member of the NVCA Board of Directors. We didn't want to have a Washington, D.C. headquarters, we wanted to keep it out of the eyes of the government. But that's all now changed. Each of the quarterly board meetings was held in a different U.S. location. We moved the meeting around the country every quarter.

MJP:: I think you said in the last interview that the meetings were an opportunity for networking and sharing ideas. There was no political agenda.

PW: Well, in defense of the NVCA, politics has become more important today in a way, unfortunately. Capital gains rates and stock options and all those issues we face as an industry today weren't so much of an issue in those days, so a lot of people just didn't want to get involved with the government in Washington, or even locally or state-wide.

MJP:: Let's go back to the early years again. You're a great storyteller. You zeroed in on a few of the companies you invested in the 70s and the personal stories behind them, the economic growth, the passion, the challenges. For the most part, the 70s were a good time for you, but the early 70s were a hard time.

PW: Oh, yes, early to mid-70s, actually, '74 in particular. The stock market in '74 was nowhere. In fact, I believe the stock market was flat for the decade of the 70s.

MJP:: Yes, zero investments. I'd like to pick up now with the end of the 70s, then go through the 80s, the 90s with the tech bubble, your retirement in '99, the implosion—

PW: That's a great term.

MJP:: —and finally, where you are now. At the end of the 70s, 1978, there was a cut in the capital gains tax, which unleashed "pent up capital" by raising effective rates of return on venture investments, which typically payoff through capital gains. I was wondering if therefore, at the end of the 70s your investments started to pick up. Maybe you can highlight some of companies you invested in, in the 80s.

PW: Well, there was a Congressman from Wisconsin, Bill — I can't remember his last name. No one really knew him, but he was a very good Congressman. He got on this capital gains tax rate issue and got it through Congress, which dropped the rate significantly. I'm trying to remember what it started at and dropped to. I believe it dropped from 55% to 35%. It was a huge drop and a big success. But I may be a little out of the mainstream in my thinking in that I never viewed capital gains rates as a big problem in the venture business.

MJP:: Why not?

PW: I wasn't focused on taxes. We were focused on trying to build companies — let the ball bounce where it would. The capital gains rate is even lower today, it's at 15%, and 15% on dividends as well, which it never was before. It's better at 15% than at 35%, obviously, but taxes were the last thing we thought about. We were focused on the issues of building values—As a result, you've got situations like with Microsoft, which was sitting on $60-80 billion dollars of cash — this was a couple of years ago. After the dividend tax rate was dropped to 15%, all of a sudden they decided they would have a $30 billion dollar dividend, just one time. The reason behind this was they had more cash than they needed to put toward good product development or work. So they said, Look, with this new low tax rate, why not put that money back into the economy. So, basically they gave it back to all the Microsoft stockholders through a one-time dividend. Bill

Gates, who is the biggest Microsoft stockholder, probably didn't like it — he didn't need the cash. But it was the right thing to do. So tax rates do affect the economy, and in the late 70s I think the capital gains reduction did put more money back into the economy. But I personally wasn't thinking about it to be perfectly honest. It was nice to have, but to go to a Congressman and spend six months trying to argue why it ought to be reduced from 50% to 35% — that was not high on my priority list.

MJP:: You were just consistently focused on building companies.

PW: More or less. And I learned long ago that you don't do something for tax reasons. You buy or sell based on economic reasons, not tax reasons — economic reasons meaning, how is the company doing, what are it's future projects and products looking like, and so forth.

MJP:: I note that Bill Draper left around 1980.

PW: Bill left in 1981 to go into government.

MJP:: Did his departure change Sutter Hill Ventures?

PW: Not really. Right after he left, I hired another Bill, Bill Younger, who is one of the two guys running the firm today, the other one being Tench Coxe, who was hired in 1987. Bill's leaving was not a big surprise because he was always interested in government — his father was very involved in government, as you know. While we missed having Bill around, it was the kind of thing where the momentum was there, and we kept it going throughout the 80s and 90s; we did 86 investments in the 80s. So, again, we missed Bill, but I don't think anything changed too much.

MJP:: You did *86* deals in the 80s.

PW: Well, that wasn't really a lot, about eight or nine a year, but it was a lot for us.

JP:: Did you invest in other types of companies?

PW: No, we stayed with the high tech startups. I looked up a few company names, (laugh) because I don't remember the names like I used to.

MJP:: But I'm impressed that you're always prepared.

PW: By the way, I found a speech I gave in the Board Room of the NYSE. I tied it to my experiences at Princeton and to some of my views on venture investing in terms of philosophy and things like that. I can get you a copy.

MJP:: I would love to read it.

PW: If you'd like now, we can go through some of the deals we did in the 80s.

MJP:: Please, that's just what I want.

PW: We did Apollo Computer in Boston, which was the first engineering workstation company started in the United States. It was started long before Sun Microsystems, which became the big player in the engineering workstation business. Sun blew past us because theirs was an open system while Apollo's was a closed system. But Apollo was a big win for us. Ultimately we sold the company to Hewlett Packard.

MJP:: How did you hear about it from here?

PW: Well, I'd developed a very close relationship with Greylock and Charlie Waite, who was one of the founders of Greylock. Charlie did a lot of deals out this way. I don't know the numbers, but I would say that Charlie Waite probably made more money for Greylock than any other partner there. I may be wrong on that, but he got them into a lot of things that they, otherwise, wouldn't have gotten into out this way. We worked together a lot. They were involved with Apollo, so we may have been introduced through them, but I am not sure of that. In fact, perhaps my partner Bill Draper heard of Apollo from Bill Poduska who was then the chief technical officer of Prime Computer in which we had an investment. Poduska became the founder of Apollo.

MJP:: So you gave Waite some deals, he gave you some deals, you worked together.

PW: Right. In fact we did a number of deals through the Greylock relationship. Greylock is a very fine firm in my view, and they're a group that sort of thinks like we do in terms of not pulling the plug too soon, trying to work through problems, trying to find good additions to the management team. And they didn't try to take advantage of other venture capital firms. Unfortunately, we've lost a little of that relationship. Charlie's retired, I've retired, and the younger guys at Sutter Hill and Greylock want to build their own relationships. Besides its office in Boston, Greylock used to be right below us here in this building. But when they moved to San Mateo, it was a little bit out of sight, out of mind, which was unfortunate because I think they were terrific. Anyway, that was one of the deals. Another big success for us was LifeScan. This company produced a handheld device for diabetics to monitor their blood sugar levels.

MJP:: Did LifeScan originate this type of device.

PW: Well, there was a device already out there, but it wasn't as good as ours. Ultimately, we sold LifeScan to Johnson & Johnson.

MJP:: Did that mark a departure from just technology to technology and healthcare?

PW: Oh, no, that was technology because it was a medical instrument, but I guess you could link it to healthcare as well.

MJP:: Was it your first medical instrument technology?

PW: No. It was just another high tech deal. It started out here and it was a big home run. It was a home run for us and Johnson & Johnson as well. Those are the best deals, the ones where both sides win. It wasn't one of those things where a big company acquires your little company and then two, three or four years later they write it off. That happens, but it was not the case here. Up until a few of years ago, LifeScan was the biggest division of Johnson & Johnson. Again, it was a big win for both sides. My partner Len Baker was on LifeScan's board representing Sutter Hill.

MJP:: Did you know it as soon as you invested, or did you have to nurture it along?

PW: No, it took a while. But good things take a while.

MJP:: That's the deferred gratification you always talk about. How long did it take?

PW: I don't recall the number of years we were involved, but I'm guessing it was four or five; it wasn't eight or ten, I know that. But in the end we sold it to Johnson & Johnson for cash.(laughs) I'll never forget this: Johnson & Johnson, which is headquartered in New Brunswick, N. J., found some little bank in New Jersey to write all of the checks for the LifeScan stockholders. So when the checks got to California, where the majority of the LifeScan stockholders were located, no local West Coast bank wanted to cash them, because they didn't know this New Jersey bank.(laugh) Johnson & Johnson did this to give themselves a little more float because of the big cash payout on the acquisition.(laughter)

MJP:: Very subtle.(laughs)

PW: Johnson & Johnson is a very well-run company — that little delayed payment is a good indication of that. Another deal was Quantum, a disc drive startup. It was an interesting deal for us because at the time we had already invested in Priam, which was another disc drive manufacturer. Charlie Waite and I were on Priam's Board of Directors, and we were doing all right there, it was coming along, but it wasn't a big success in the long run. Anyway, we knew of this group that was going to start another disc drive company. So I went to Bill Schrader, who was the CEO of Priam, and I said, "Sutter Hill is looking at this other company that's in the disc drive business. Would you mind if we went into that as well." And to his credit Bill said, "No, not at all as long as nobody from Sutter Hill goes on Quantum's board."

MJP:: What would you have done if he had said, "No, that isn't cricket; we want all of your support?"

PW: We wouldn't have done the deal. The best assets you have are the CEOs of the companies you invest in. If you go against them on certain things, it can poison the relationship. But Bill gave us the OK to do the deal, and we laid off 25% of the deal to Kleiner Perkins and a couple of other venture firms — we each took 25% of the deal. And we put Bob Schroeder, the CEO of Qume — we talked about Qume earlier–on the board at Quantum. So Bob was our proxy, if you will, and he didn't know what was going on at Priam, which is what Bill Schrader wanted, to preclude anything from leaking out to the Quantum people. So that was a very big deal for us in the 80s. Quantum ended up a big success and ultimately went public. Another one was Linear Technology. They make analog chips that go into telephones, wireless telephones and things of that sort. It's a super company today. After full taxes, they make about 35% profit. It's a publicly-traded company now.

MJP:: How did you get into that deal?

PW: Well, Bob Swanson was the founder, and we ran into Bob — I'm trying to remember where — and ended up being part of that investment.

MJP:: When you say you "ran into Bob," do you mean at a meeting or dinner—?

PW: Well, we knew him. We weren't the lead investor — it might have been Mayfield who was the lead investor.

MJP:: And they brought you along.

PW: Yes.

MJP:: So the network worked. The network in the 70s was strong and compatible. Would you say it was the same in the 80s or was it even better?

PW: I think it started to disappear in the early 80s. I say that because in 1981 we at Sutter Hill started an annual Christmas cocktail party for venture capitalists only. I won't mention who, but there were a couple of investment banking firms in San Francisco that were in the venture business, and they said, No, we're not going to share deals: we're going to do them ourselves; and when they're ready to go public, we'll take them public too. So others started saying the same thing. The idea of the cocktail party was to get all these guys together once a year in a relaxed setting. We started the party at a men's club here in Palo Alto called The Palo Alto Club. I thought it would be a good way to get the venture capitalists back together again. We still do the cocktail party today, so that's 26 years. And I'm told it's the best Christmas cocktail party out there. We have moved it to the Menlo Country Club since the turnout has become so big.

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MJP:: People probably crave an invitation.

PW: It's amazing! People come in from Boston. The Board of the NVCA is usually meeting out here at the time — they come. It's cocktails and a piano player, a lot of food. But there's no dancing or spouses. It's just for venture capitalists. We've broadened it little since we started. But the reason it got started was the deals were not being shared as much in the early 80s as they had been in the 60s and 70s.

MJP:: Is that because the investment bankers were starting to crowd you or take you over, or because the venture capitalists themselves were becoming selfish?

PW: I think it was probably a little of both. But the 80s were better than the 70s. When money starts flowing into an industry, and you've got more money in your jeans, you say, "I'm pretty smart; I'll just do this deal myself." Some of us weren't really happy about that. And some of those folks who got greedy ended up wishing that they'd laid off a little because the deals didn't all work out the way they thought they would.

MJP:: So here's why your perspective, having started in the 60s, is so valuable: By the time the 80s came around, you'd already been in business almost two decades.

PW: That's right.

MJP:: You had a history; your integrity was anchored to your soul, not just to successes of your business.

PW: Well, we'll get to that later, when we talk about the 90s. But I've got to tell you, it's tough to stay the course when you see your brethren, your friendly competitors, all around you doing things that you don't quite understand — or like the price paid for starting a company. I'm referring, of course, to the late 90s and the bubble. We avoided the dot-com blowup because we didn't do a lot of dot-com stuff in the late 90s, so the early 2000s were okay for us. But the other guys were making a lot of money, both on paper and in reality, in the late 90s. We did too, but not to the extent the momentum VC firms were making.

MJP:: I can't wait to get to it. But going back to the 80s, I just want to clarify one thing. At the point when Bill Draper left, even though you hired other very talented people, were you the managing partner, the head?

PW: Yes.

MJP:: So throughout the 80s and 90s you were leading Sutter Hill.

PW: Yes. But I knew that if I were going to keep the firm alive and well and, hopefully, going forever, I had to pare down my position to make room for others. And Tench joined us in the 1987, and we've since hired some others as well. That's the way you've got to play this game.

MJP:: Yes, if you're a generous soul–the cocktail party is very relevant. Now what was after Linear Technology?

PW: We got into Applied Materials, which is a semiconductor equipment company. It's since gone public and is now a publicly-traded company. That's an interesting story. A guy named Jim Morgan introduced us to the deal. I'm not quite sure when I met Jim, but he was with Dalmo Victor, a company in San Mateo, which was kind of a military products manufacturer. I'd somehow gotten to know Jim, and one day he came to our office and said, "I'd really like to get into the venture business." We weren't hiring at the time, so I introduced him to Bank of America. They hired him, but he didn't like it because he's an operations guy by background. As a venture capitalist you don't get to make decisions, you only get to recommend them. So after a few years, Jim left B of A and went to Applied Materials, ultimately becoming the CEO. And he built a marvelous company, the biggest company in the world in the semi-conductor equipment business. He's retired now. I think they brought in the VP of Marketing from Intel to run the company. Its stock has gone kind of sideways for the last three or fours years as has the stock of most high tech companies — none of the big names have moved much — but it's a great company.

PMC Sierra was another one, a company that makes semi-conductors. It's now headquartered in British Columbia, but it was started by a fellow here locally. We heard of that deal through Sequoia, so it was a shared deal. It's a successful company, publicly-traded now, although its stock has come way down. You know, we say these things are "a big success," but that depends on when you get out of them. When we have stock that's publicly-traded and free of restrictions, we distribute the stock out to our limited and general partners so they can make their own decisions as to whether or not they want to sell. I said earlier that the tax issue was not a big issue for me personally. But limited partnerships involving tax-paying institutions have tax issues. We have eight limited partnerships and they're all institutional. Some of them are taxpayers, so we let them make that tax decision individually by distributing it out rather than selling it within the partnership. So that distribution was a great run, and we all sold years ago. BioVest was a partnership started in San Diego to go out and start biotech companies. We were one of three limited partners, the others being Henry Hillman of Pittsburgh, Pa., and Stanford University. We didn't raise a lot of money; we just told the two BioVest founders to go find four or five companies. BioVest was headquartered in San Diego. And I think that if you really did the numbers, they may have been one the most successful venture firms in the history of this business. They got $5 million dollars from the three limited partners, and they started five companies. We didn't want them to put millions into these deals so on average they were putting in maybe 750K per deal. And I'll never forget: They talked a world-class biotech scientist into moving from England to San Diego. Little did he know there was only $600K dollars of equity in the deal. But all five of those companies were successful.

MJP:: To what do you attribute their success?

PW: They understood the technology. The guy who ran it — his name is Ted Green — was the former CEO of Hybritech, which was one of our companies. Hybritech developed the PSA test. Green ended up being a great scientific evaluator and also a terrific guy for raising money. So after they'd start these companies, they'd go out and raise money from other sources — we probably put in a little more ourselves. So I would say it was the two founders, they were so successful. And they went out to raise a second fund. We had committed, and I think Henry Hillman and Stanford had as well, and they were on their way to Yale to talk to them about becoming a limited partner. But here's the irony: They finally decided they couldn't work together anymore, they just were not compatible. So they aborted the second fund, and BioVest disappeared over time. It was amazing. I've never seen anything like that with such success the first time. That's why, today, most smart institutions, when they look at investing in a partnership, will look at whether the general partners know how to work together. And if there's a big turnover, they probably won't come in as investors. In 1986 we did a deal with Interventional Technologies in San Diego. This was a healthcare/medical products company, and they made what I'll call a "rotor rooter" that would go into your arteries and clean out the plaque.

MJP:: An angioplasty type thing without the balloon?

PW: Yes and no. It had the balloon, but it also had a cutter, that's what made it unique. The balloon would go in and open up the artery, and the cutter would be inserted inside the balloon. It had three blades that were 120º apart, and when they rotated they'd cut out the plaque. The benefit was, it reduced the rate of restenosis — that's when the artery occludes again, significantly. Bob Riese, the CEO, was an unbelievably interesting guy, but he was also somewhat difficult to work with. Bill Younger, my partner, went on the board and he was having some difficulty with Bob getting things done. So Bill said to me, "Why don't you join me on the board and help me on this one." So I went on the board and we still didn't get things done all that well. But to Bob's credit, he paid cash for every share of stock he had in that company. Most CEOs get options, but Bob said, no, he was going to buy the stock at the then fair market value, which we determined. He was his own man. I still think he was in the CIA, but he'd never admit it. He was a graduate of the General Motors Institute. He was a true entrepreneur and he just did his thing. He personally paid cash for his stock; he'd buy machinery for the manufacturing side of the company, which we never knew about even as board members, because he didn't think it was appropriate. The company should have bought it, but he did.

MJP:: So it wouldn't show up on the company's books?

PW: Yes, and the company wouldn't have to spend the cash.

MJP:: Was he reimbursed?

PW: Yes, once we found about it, but we didn't know for at least a year or two. One day Bill and I went down to San Diego for a board meeting, and we were walking around the factory before the meeting and we saw this big piece of equipment. Where did that come from? Bob says, "Oh, I just bought it and put it in here about a year ago." Oh, really. Maybe you should have told the board about it. So the company did reimburse him, but that was the kind of guy he was. Anyway, Bill and I stayed on the board until the end, but other venture firms that we brought in just couldn't wait that long and they got out.

Long story short, Bob ended up selling the company to Boston Scientific for a huge price, all cash. That was Bob, very much an independent entrepreneur. He died from cancer about two years ago, but his family is in great shape financially.

MJP:: As you've described each of these companies, it seems as though your ability, or someone's ability, to identify the right man for the right job is key.

PW: I would agree.

MJP:: Is that one of your particular strengths? This is sort of a loaded question, but—

PW: I don't think so. I always said to everybody around here, "We're only as good as our last investment." Don't think you're really great because the last investment was terrific; the next one could be a disaster if we select the wrong person or wait too long to make a change. We had a reputation for waiting too long, at the time.

MJP:: Because of your loyalty?

PW: Well, there's a well-known saying in venture capital: "Two birds in the bush are worth one in the hand."(laugh) You think the guy's going to make it happen, but you never know. So always making the right selection is not necessarily my strength.

MJP:: So what is your strength?

PW: Now that's a loaded question.(laughs) I don't know, Mauree Jane, I think I said it all during our first meeting. In this business you've got to do a lot of hard work, you've got to have some smarts, you've got to be a pretty good judge of character, and you've got to have some luck. Those are the four things that count most in this business. Luck isn't 80%, but it's certainly 10 or 20%. Hard work and good judgment about people are very important.

MJP:: What percentage—60 out of 100?

PW: Yes, it's pretty big.

MJP:: So that's leaves 30% for the other two qualities.

PW: Well, you're getting very precise here, like an engineer.(laughter) But I spoke of my relationship with Charlie Waite of Greylock. Charlie's a terrific guy. I don't know if you've met him.

MJP:: I haven't, but I've read about him.

PW: He's a fantastic people person, everybody loves Charlie. So dealing with people would be a big part of his 100%. I'm nowhere near as good with people as Charlie is; Charlie's just terrific. And he engendered a great deal of loyalty from a lot of people.

MJP:: I'm inferring that one of your strengths is to partner well, because you generally select the people who work around you.

PW: Yes, we like partners. In the 80s, and even today, we believe in partners, because two smart heads are better than one. No question about it. If you get a good partner with a smart head, it's only going to help.

MJP:: Whether it's inside the firm or outside.

PW: Well, I'm thinking of other firms. But we don't generally double up on board seats — Bill Younger and I did on Interventional, as I mentioned, but we don't do that very often because we only have so many partners, and by most standards Sutter Hill has fewer general partners than most other firms. And if you've got a board in New York, and two of you are flying there once a month or once a quarter, it gets a little crazy.

MJP:: Paul, if you look back at all the companies you invested in, in the 80s, is there one that you think, Wow! This was the most exciting, or That was a real loser and, boy! did I learn on that one?

PW: Well, another good one was Core Therapeutics, which was a biotech business started in South San Francisco. Bill Younger was on that board. That went public and then it was finally sold; it's a public company. That was a big success. I'm trying to think of any that weren't.

MJP:: You tend to put those outside.(laughter)

PW: Yes. Another one that was a good success was a company by the name of Molecular Devices, which was a scientific instrument developer.

MJP:: Do you have a health division, or did you?

PW: We don't have divisions. And in the 80s, we didn't really have anyone looking at that, although Bill Younger was migrating toward that direction more so than anyone else around here. However, we've since hired Jeff Byrd, who is a Ph.D., M.D. in oncology from Stanford. He also spent ten years with Gilead before he came to Sutter Hill. So while we don't have divisions as such, Jeff would be our healthcare guy today. So if a healthcare opportunity came up, it would likely go immediately to Jeff's desk. We hired Jeff in 2002.

MJP:: Back in the 80s you were in your 40s, 50s?

PW: In 1986 I was 53.

MJP:: That was such a peak time for everyone, as I recall.

PW: But we came out of the recession in the early 80s.

MJP:: So were you like a racehorse just raring to go? You had all this experience, and finally there was some money to invest, good technology—

PW: (laughs)I don't think a light bulb went on or anything, we just continued to plough ahead. I don't recall having any real change in thought or practice in the early 80s. You've got to remember — and this gets back to the tax issue— in the late 70s, under Jimmy Carter, we were going through stagflation. We had these ups and downs, but every up was higher in terms of inflation, and no down was as low as the last down.

MJP:: I remember that inflation was at 17% at one point under Carter.

PW: That's right. And it wasn't until Paul Volker, who was hired by Carter, came in as the new Chairman of the Federal Reserve and basically rang inflation out of the system. And I think we all were sort of thinking at the time, Well maybe we've got a more predictable economy in which to do deals. And Reagan came in after Carter and lowered the tax rate. In 1980, when Reagan came in, the ordinary income tax rate was 70%. You had to work until September each year before you got back any of your money because you were giving the rest to the Government. But the economy got a lot better. Until the recession in the early 90s, the 80s had been the best economy we'd had. The economy in the 90s was also terrific. I give Paul Volker a lot of credit; he's a Democrat, but he stayed through Reagan's administration. Then Greenspan came in under Bush, and Clinton kept him, which was smart. Now we've got Bernanke, who's a Princeton professor. But getting back to your question, a light didn't come on, it was just business as usual.

MJP:: In the 80s, Genstar was purchased by Imasco, correct?

PW: Yes, in 1986.

MJP:: Did that make a difference to Sutter Hill?

PW: It did for me, emotionally, because Genstar was a terrific limited partner, and it was the sole limited partner, and we'd been with them forever, and I had a great relationship with Angus McNaughton, who was the CEO. So when Purdy Crawford, who was the CEO of Imasco — I didn't know him from Adam — said, "Hello, I'm your new limited partner," it wasn't devastating. But—Purdy told me he didn't want to stay in the venture business forever, but that I didn't need to worry about it because he wasn't going to try and get Sutter Hill Ventures sold off to some other limited partner right away. And I didn't worry because I knew, based on our record, that we could easily find money to buy them out and bring in good partners, which is what we did by 1991. From 1986 through 1991, we brought in Power Corp, Sun Life, Princeton, Yale, MIT, Stanford, and the Irvine Foundation; we'd gradually selected the limited partners we felt to be the best candidates and brought them in.

I don't know if I told you this story, but we thought that having a scientific corporation as a limited partner would make some sense. So we talked to two companies, IBM and HP, which was right up the street and a great company. Nevertheless, there actually wasn't room in the deal for them. We'd decided that corporations were not the best limited partners, and that over the long haul, foundations and university endowments were. Anyway, about three months ago, I was at a dinner and a lady from HP was there. I don't remember her name,(laughs) but she remembered us and reminded me about the time we'd met. She's still with HP, by the way, and said that night at dinner HP still would like to be a limited partner of Sutter Hill's — if we ever expanded our partnership.

MJP:: Did you think that foundations and university endowments made better partners because they'd stay hands-off?

PW: Well that was part of the equation, but it was more about their long-term commitment to the asset class called VC. Since the 80s or early 90s, universities have been allocating a percentage of their assets to venture capital. There was a certain major university we didn't go to though, because we didn't like the guy who was running the endowment at the time in 1991.

MJP:: Who shall remain nameless—Let's see, who's missing here?(laughter)

PW: Well, let me be upfront. It was Harvard. We didn't think the person who was running it at the time was someone with whom we wanted to do business, but new people came in and now I understand they are O.K. to work with.

MJP:: So people really matter.

PW: Absolutely. Now, the first university to commit was Princeton, and with that Yale, MIT, and Stanford immediately came in. For that I'll forever be indebted to Randy Hack who was running the Princeton endowment at the time. Andy Golden is running it now, and our relationship with Princeton is still very strong.

MJP:: How did you divide your time between getting new venture capital deals and managing the business of Sutter Hill Ventures?

PW: Well, that's a good question. I would say I spent less than 50 % of the time managing the place. With Tench and Bill running it together now, Bill spends more time with the limiteds than Tench. Tench is probably spending little time on management and much more on deals. I was spending time on both. The fact that it's been separated a little bit is probably a plus because things get done on time; reports get sent out to the limited partners very efficiently. I was doing all that, but it was a lot more work.

MJP:: And you were doing it by yourself because it evolved that way?

PW: Yes.

MJP:: And you liked that control?

PW: I don't think it was about liking control, it was just part of the job. I'd rather do deals than paperwork, but you've got to do both. When you've got major money from so few limited partners, they want to know what's going on. We still send out quarterly reports to the limited partners, and we have an annual meeting here at Sutter Hill. And since I turned things over to Bill and Tench, they've added another meeting for Friends of the Firm; they hold that meeting at the Ritz-Carlton in Half Moon Bay. It's a one-day event. We invite people who we'd like to come on boards, or people that are on boards of various companies, or people who might give us leads on deals. We try not to bring in

CEOs of technology companies but people who are a tier below the V.P. level who may leave or know of someone who's leaving a high tech company.

MJP:: I know you didn't initiate that, but it seems like something you would have done — you did do it with your cocktail party.

PW: Yes, and it's a good idea, but Bill and Tench get all the credit, they did it. And in conjunction with that, they also set up a fund whereby we peeled off a certain percentage of the carry for "A Friends" fund group. We didn't do it earlier because we'd always felt that when you do this you bring in people who will, I hate to say it but, atrophy on you. They'll be in the fund, but you can't get rid of them because they retire or whatever. They benefit from being in the fund, but they just don't seem to do you much good. So when Bill and Tench set up this fund, they informed these guys: We have the right to exit you at any time. So they all knew that coming in.

MJP:: Is that different from other "Friends" funds?"

PW: I think so, because we did talk with other venture firms about it, and we decided we didn't want to do it if we couldn't exit the guys that went to sleep on us.

MJP:: Were there any deals in the 80s that just didn't work, that kept you up all night, that you died over?

PW: (laughs) Well, sure.

MJP:: I don't mean in terms of the companies involved, but that portray how you handled it, your style, your drive.

PW: Well, Priam for one. Charlie Waite and I struggled with that one for years. Bill Schrader was a smart guy — I don't know where he went to college, but he was a Harvard Business School Baker Scholar. He was a terrific guy, but Baker Scholars in my view — and I think Charlie would agree with this — are Baker Scholars because they love to debate. So we had a lot of debates (laughter), and it took a lot of time. We'd lie awake thinking about it a lot. And it was not a big success when it could have been. As a company, I think we made some fundamental mistakes. For example, we built our entire production facility here in Silicon Valley when we probably should have built it in Asia somewhere, because the cost of doing business here is really high, and we knew that.

MJP:: So what do you do when things don't work? Do you get depressed? Do you ever think, Why am I doing this?

PW: No, it never gets to that point. But you worry about it. And I find that as you get older it's even tougher to sleep and even little things—I'll wake up in the middle of the night thinking about some idiotic thing that I want to get done the next day that has nothing to do with the success of that day. But this is a business that you take home at night. I always took paperwork home at night. It may have been a business related rag sheet or whatever, but I always took something home and dealt with it after dinner. I don't do that anymore; now I have a chance to do a little non-business reading, which I'm enjoying a lot. But even if you don't take it home, you're thinking about it.

MJP:: Are you the kind of person who has big highs and big lows?

PW: No, uh-uh.

MJP:: So, although you might worry, it's within a comfortable range.

PW: Yes. My highs are not really high and my lows are not really low. I think most people would agree with that about me; certainly, Marcia, my wife, would agree.

MJP:: That's a nice quality to have, both personally and professionally.

PW: Well, it may be better to be a little higher or a little lower in this business, I don't know, but that's just not the way I am.

MJP:: Nor did you need to be.

PW: Well as I look around this office today, I'm sure there are some who have higher highs and lower lows than I do, and that's OK, they're doing great. But it's a partnership. So if you've got a high, high guy and a low, low guy, the three or four other guys in between — I was one of those who balance things out, I guess?

MJP:: Chuck Newhall has an interesting theory: Most people in venture capital are what he calls "hypomanic." They're so intense that they're either completely optimistic or completely down, and they tend to swing back and forth. Do you find that to be true?

PW: No. No. I'm much more optimistic than down. So in that sense, if something isn't going well, I'm kind of, well OK, let's move on. The first deal we ever made any money on was Qume, and I was pretty high that night when I got the phone call from — I think it was David Lee saying that we signed the deal. Everybody had done the math, so that was a high. But I didn't go out the next day and spend it. I'm just not that kind of guy. It went in the bank, so to speak.

MJP:: Very steady.

PW: Yes. Chuck's probably more a high/low guy than I am. There are probably others that are just like Chuck, and there are probably a few like me as well. One of the things that I'm really proud of here, knock on wood, is that we all work pretty hard and put a lot of hours on the road, but there haven't been any divorces.

MJP:: Yes, that's very impressive. That means there is a lot of maturity and some good luck.

PW: Good luck and a lot of understanding spouses!(laughter) Anyway, that was the 80s. Relative to management of the firm, the big things that happened were: Bill Draper left in '81, Bill Younger was hired in '81, and Tench Coxe was hired in '87.

MJP:: You hired Tench?

PW: Yes. Did I tell you the story about that?

MJP:: No.

PW: (laughs) Well, Cohesive Networks was a company we started here on the West Coast. I was on the board and it was going OK, but we had problems with the CEO. Here again, we waited a long time, but in our view he was not going to make it to take the company public — he was dealing with some personal issues. Anyway, Tench was working for a company in Atlanta, Georgia, after he'd gotten out of Harvard Business School. He'd also graduated from Dartmouth, in 1982, I think. Then, I believe he went to work for a while for one of the Wall Street firms, Lehman Bros., before going back to the Harvard Business School. And from there he went to work in marketing for the company in Atlanta. Long story short, I negotiated the merger of Cohesive with the CEO of that company. Frankly, it was a heck of a good deal for us. About two or three months after the merger, there was a product trade show in Washington, D.C. So, I go hoping to see any of my old buddies from Cohesive. Cohesive Network was showing in a booth as a new acquisition, and there's this young man standing there with a portable microphone, right on the edge of the booth, talking about the new product that the company was developing. He was really enthusiastic, but not many people were stopping.(laugh) I stopped and introduced myself to him, I said, "Hi, I'm looking for so-and-so, but who are you?" And he said, "I'm Tench Coxe, I've just been moved out to the West Coast as the marketing director of the Cohesive acquisition." So I told him we ought to get to know each other better, and long story short, six months later we hired him. I don't know whether or not you've met Tench, but he's very enthusiastic–smart guy, hard working. But it was a tough sell around here to get him hired as a potential partner, to be perfectly honest, because we don't hire anybody in directly as a partner. We hire them, we get to know them, they get to know us, and maybe a year or two later we make them a partner. So it was a hard sell, because he's so different. And he's been terrific; he's been a big money maker for us.

MJP:: And you knew that instinctively?

PW: Well he presented well. He'd gone to Dartmouth and Harvard Business School; he'd worked on Wall Street; he had operating experience, which he'd gotten with the company in Atlanta; he just sort of fit when you got to know him. He wasn't married then, and he was out here so we were able to spend a lot of time together. He's since gotten married and has three kids.

MJP:: How old is Tench?

PW: I'd say he was out of Dartmouth in '82, so 46? Something like that. I try to hire people of different age ranges. I think Bill Younger is 53 right now; Tench is 46.

MJP:: Well, that's another sign of true leadership — preparing to let go the reins.

PW: Yes. If you want your business to continue on long after you've gone—You'll notice we don't have our names on the front of the door.

MJP:: Sutter Hill.

PW: Yes. It's a created name and I think that helps in a small way to keep the business going. And I hope it continues well past 2080 (laughs) or whatever the year.

MJP:: It's your legacy.

PW: Well, not just mine, but I do hope it lasts.

MJP:: Now, let's move into the 90s.

PW: Well, I think I mentioned that we did 82 deals in the 90s; fewer than the 80s, but not much less.

MJP:: And the 90s was the period of the expanded bubble.

PW: Yes. We tried to keep our cool in the 90s. We did more deals in 1999 and 2000, per year, than any other time in the history of this firm. We did 15 deals in '99 and 17 in 2000. That probably doesn't sound like a lot by NEA standards, but it was for us.

MJP:: It was double what you had been doing.

PW: Yes. And we avoided the dot-com problems.

MJP:: That's interesting. Did you completely avoid them?

PW: Well, we had two dot-com deals; one we wrote off, and the other one is still around. But we didn't have to work through the issues associated with dot-coms in years 2001 through 2004; we just continued to do deals.

MJP:: Well, let me ask you, because there could be a hundred reasons: Why didn't you get caught up in it?

PW: I touched on this earlier. You know, you see your friends in the venture business doing these deals and they're making a lot of money—In fact one venture capitalists who was quoted in the papers said, "This is the greatest legal money-making machine in the history of mankind."

MJP:: Who said that?

PW: John Doerr at Kleiner Perkins. And it was huge. Although I don't know the exact numbers, I do remember what we all at Sutter Hill were worth in 2000. But the NASDAQ went down 75%. It was around 5000 and dropped to about 1000; it's currently a little above 2000. But March 10, 2001 — I'll never forget the date — it peaked around 5000. That was a huge number — but it wasn't a real number.

MJP:: What kept you from being seduced as your peers had been?

PW: Well, I'll just pick out one company; although there were a lot of companies being funded this way: Webvan.com, for example. The theory, if you will, was pump millions of dollars into these companies because they were mega ideas, and as a company they are going to be worth $5 billion dollars after we pump all this money in. Well, Sutter Hill looked at it and asked how many companies over the past 30 years that had been backed by venture capitalists had become worth $5 billion dollars within 5 years? The answer was zero.

MJP:: Was George Shaheen involved with Webvan at that time?

PW: Not then, but venture capitalists had put major money into Webvan. We had a really smart guy take a look at it for us; his name is Stephen Mandel. He now runs a very successful hedge fund in Connecticut. Steve identified some things that just didn't make any sense in the business plan. For instance, so many trucks would go out with food between 8 am and noon; then trucks would go out between noon and 4 pm, then again between 4 and 8 p.m. And he said, "You know, basically working women wanted to use the service so that the food is there when they come home from work. So where were these trucks going to deliver stuff between 8 and noon? Nobody's home, (laugh), they'd be working. By the way, Webvan was going to conquer New York City, too; many of those people would be living in high-rise apartment buildings. So you're going to have your webvan.com truck driver deliver food up to the 22nd floor, the only delivery that day in that building, and then go on to the next high-rise? It wouldn't work." But they were focused on how to make it all automated. Bechtel was hired to build five mega distribution centers. It was all mega — mega venture capital, mega-value company. We just didn't buy into it.

MJP:: Based on facts.

PW: And on philosophy, too, I think. Back in the early days, Sutter Hill would invest $2.5 million dollars, which would buy 30-40% of a start-up company; then we'd invite another firm to join, they'd put in $2.5 million and buy 30 or 40%; so together we'd own 60% of the company for $5 million with a return of $50-100 million dollars in five years, which wasn't peanuts. We grew our business on that philosophy and we’ve pretty much stayed with it, and we’ve done extremely well.

MJP:: How would you summarize your philosophy?

PW: You pass on deals that are priced too high. Webvan.com was too expensive a deal to begin with, because it was based on the mega-billions they we’re going to be worth at the end of the day. They were selling stock, and Louis Borders, of Borders Books, was raising the money, and George Shaheen joined later. I know George quite well, and he’s a great guy, but he’d have to tell you why he joined. At the time, he was running Anderson Consulting worldwide; he lived here, but he was on a plane eight days a week flying all over the world. Anderson was a very successful company under his leadership. But there were people under George who were leaving and going with these high tech startups like Webvan. And I think if you asked George he’d say he was getting tired of traveling, he saw a deal that looked really terrific; it was locally based, and he was going to go run it, get a big slug of the equity. And he did. Unfortunately, it didn’t work out and ultimately, it was worthless.

MJP:: So, philosophy first, fact-finding second?

PW: Well the facts of a business plan revealed a lot of flaws.

MJP:: So the choice to make was obvious.

PW: Yet, all around us other deals were being done, and people were cashing in, and you ask yourself, What are we missing? Are we really on the right track? That was the conflict before us and we dealt with it. In 1997 we started a company in Virginia Beach, Virginia, called Amerigroup. It was an HMO for Medicaid recipients. We knew that if Medicaid could get continuous funding through the federal and state governments it could be quite a business. Long story short, that happened and Amerigroup has been a huge success — it's got a couple billion dollars in revenue and strong profits and it's now on the NYSE.

MJP:: Did you invest in it?

PW: We started it. We've since sold our stock, but it's a company that was a big success for us. Even though there were questions as to whether the government would support that industry, to the extent that it has, it was a business. And Jeff McWaters who's been running it from the start is terrific. So we try to look at a business and say, does it make sense. We've just gone into Shutterfly. But we went into it at a much different price than they wanted, and we brought in a new CEO as a condition of the deal. There are basically three companies in the business: HP, Kodak, and Shutterfly; however, we're the only independent. Incidentally, Shutterfly was started by the same guy that started webvan.com, Jim Clark.

MJP:: Jim started Silicon Graphics.

PW: That's right. It's struggling, but Clark's got a great way of seeing the next big thing — he also started My CFO and Web MD — and that was kind of the philosophy of the late 90s: The Next Big Thing.

MJP:: Could you have gone into Shutterfly — when was it — six or seven years ago?

PW: No.

MJP:: He wasn't taking in new investors then?

PW: Oh, yes, he brought in a number of people; I can't remember who.

MJP:: Probably John Doerr for one.

PW: Yes, and they've had big problems with that level of investing as to price. These are all companies that have taken way more money than any of the investors thought it would ever take, but they have not been big successes financially. We wouldn't have gone into Shutterfly in those days.

MJP:: Because it didn't make sense?

PW: Because the prices didn't make sense, and the management needed strengthening.

MJP:: Well, you explained to me — I can't remember if it was during the first or second interview — that you're known as "the cheap guy," which is something to be proud of. (laugh)

PW: As a firm, we're known for not paying the biggest price. And that turns off some entrepreneurs. They wouldn't even come in here because they know going in that they won't get the big price from Sutter Hill. On the other hand, it turns on some entrepreneurs, because they say we want be with somebody who's trying to build a business rather than do financial transactions. So you lose some, you win some. I think Kleiner Perkins has done a magnificent job of marketing their firm to the entrepreneur, and they've been very successful. We're just not like that as a firm, and you can't be what you're not. And we don't try to be.

MJP:: Good leadership.

PW: Well there's more than one way to skin a cat. I don't know whether or not I mentioned this to you before, but I went back and looked at the IRR — the internal rate of return — of Sutter Hill from 1970 to 2005.

MJP:: No, you didn't mention it.

PW: Well, that's a 35-year period. And I don't believe in IRRs that only go back one to five years, maybe even ten years. Because you can do some great deals within the first couple of years and ride that success, and perhaps you'll have a great IRR in the seventh or tenth year when you do the calculations, but it is hard to have an outstanding IRR for the limited partners over thirty-five years. IRR is the return to the limited partners after the management fee and the carry. Sutter Hill has been able to generate a 36% IRR per year for the last 35 years.

MJP:: Thirty-six percent per year?

PW: Yes. That's what keeps the limited partners very happy. And that's the key in this business–you've got to keep your limited partners really happy. If they're happy, you're happy. We have eight limited partners, all institutional. Since 1991, we had only seven — up until a few years ago, when we added Investor AB, which is the Wollenberg family in Sweden. We added them because they can open a lot of big, European company doors for our little companies. So if we want to have a marketing arrangement or some sort of a partnership with a big company in Europe, they are a huge help for us to get in and see that big company, rather than have Sutter Hill or one of our little companies come calling independently.

MJP:: You could do that in the 60s when you were just knocking on doors, but it's a different world now.

PW: Yes, and we weren't doing as much internationally as we are now. We weren't thinking about our little companies doing anything with Europe. And we've since invested in three venture firms in Asia — one in India and two in China; we've just recently started a second firm in India as well in 2006.

MJP:: This is since 2000?

PW: We did the first India one in the 90s, and we did the Chinese ones in 2000 and the second in 2005. The first India fund wasn't a home run; it returned about 12- or 13% after all fees to the limited partners of Sutter Hill. It's too early to know about the other Indian fund or the two Chinese funds. But the point is, we're international as a business today. But we haven't bet the ranch on any of these deals in India or China. If they work out, great.

MJP:: How did you start thinking about India in the 90s?

PW: Well, through a company we invested in here locally, we met a man who was the CEO of Hindustan Lever, which is the largest company in India. Unilever in Amsterdam and London owns Hindustan Lever and other Levers around the world. And this man, T. Thomas is his name—

MJP:: He's British.

PW: No, he's a Christian Indian from Goa. And he's the only Indian who has ever gone on the Unilever parent company board in England and Amsterdam. He lived in England and Amsterdam over a ten-year period after he ran Hindustan Lever and became a non-resident Indian. Anyway, he wanted to return to India and he started a venture fund. That's when we invested with him as did the Singapore government and a group in Tokyo.

MJP:: Partnership again.

PW: Yes. We went into that deal in 1996. We weren't a big investor, but we went into it. My partners told me I had to be the first one to go over and see what he was doing. When I did, I found that he'd invested mostly in nontechnical things because of his background

— Unilever was primarily a soap company. So there was a paper manufacturing company, a company that made shirts, things of that nature; there was only one software company. In hindsight, however, if he'd gone more into the software business, we would have done better. So the new Indian VC deal we're going into is also a venture fund run by Indians, and they're going to do more scientific stuff. This is a personal opinion, but as we sit here today in 2006, I think that in the long-run we may do better in India than in China. But most people would say that China's the place to be.

MJP:: Just because of the sheer volume.

PW: Well, yes. China's economy has grown roughly 10% per year for a long while; that's a big number. But I think India's got some things going for it that China doesn't.

MJP:: Such as?

PW: Well, it's a democracy. Number one, it isn't a Communist country, as is China, so the government is a little more beholding to the people. For example, China has recently stated that they will control who reports publicly on any major disaster that might occur there. Well, they don't do that in India. That's just a difference in the two governments. Another thing is China doesn't have a capital market system; India has a stock market. More English is spoken in India than in China. And the Indians are just as entrepreneurial as the Chinese. So those are all good reasons. One negative in both countries, however, is the high level of corruption. So the numbers you see may not be the real numbers, that kind of thing. But with T. Thomas — we felt very comfortable with the honesty of that gentleman. Everything he said turned out to be true. And we hope it will be the same with the new Indian venture firm and the two new Chinese venture firms as well.

MJP:: Interesting. It's a different world now.

PW: Yes. But back to our original thought, I guess we're more global today than we were then.

MJP:: Paul, how did it come about that you officially retired in 1999?

PW: Well, I was 66-years-old in 1999. And, to be perfectly honest, I was getting tired of going to the Monday morning staff meetings. If you don't go to those meetings, you don't have carry in the on-going partnership, but I was willing to give that up because I'd been around for 35 years. And, you know, when you get right down to it, it's a younger man's business, and at sixty-six I wasn't as technically sharp at looking at deals; I really felt that I was slipping in that regard. And you know, you do retire from whatever you're doing at some point, and I felt that sixty-five was probably the appropriate time. I would rather do deals than manage paperwork - as I believe I said earlier

MJP:: Was it a decision that came suddenly or had you been thinking about it?

PW: Well, I thought about it.

MJP:: And when you say you were "slipping," how were you slipping?

PW: Technically. I wasn't as current on technical issues.

MJP:: So that made it more difficult to evaluate the companies.

PW: Yes. And I think that happens to most anybody, really. One exception, probably, is Dick Kramlich.

MJP:: Yes, Dick is pretty special.

PW: I think he's still out there doing deals.

MJP:: Yes. He tried to cut back, but decided, nope, it's too much fun and he can do it. His network is extraordinary.

PW: Yes, he knows a lot of folks. But most of the older players in the venture business — Don Ackerman, Bill Draper, Reid Dennis — have retired. Frank Bonsal's basically retired (laughs), and, I don't know, I think it's just appropriate for we older venture capitalists to just fade away

MJP:: So it was an easy decision for you.

PW: Well, easy in the sense that it should happen, but not easy in the sense that you sort of miss something. Today, I don't miss it, but I did when I was sixty-seven or so, doing the deals and all that.

MJP:: Did your decision have anything to do with seeing the way the business was going?

PW: In terms of Sutter Hill?

MJP:: Yes, but also venture capital in general. Because there was a lot of hype then, and your philosophy was diverging.

PW: Well, no. No. It was more that it was time to move on. I mean, if you're going to keep the firm going, at some point you've got to keep the younger guys fed with carry. So I was working my way down through the latter years, and the carry really wasn't sufficient motivation to stay on — I'd done very well in the business. But would Tench Coxe and Bill Younger be here today if they hadn't had a chance to run the firm? Maybe not, but they're here today, and they're excited and happy and working hard.

MJP:: So how did you come into your partnership and say, "You know, the time has come." Was it six months from now, or a year from now, or tomorrow — how did that work?

PW: It was a gradual thing. But the idea of turning the company over to someone younger is standard in our business. Look at Greylock as an example: Charlie Waite turned it over to Henry McCance, and I think Henry's turned it over now to Bill Helman. But do you do it at age forty? No. Do you do it at age eighty? No. You do it somewhere between age forty and eighty, I guess.(laugh)

MJP:: But you're still here, so what are you doing with your time? Your desk looks pretty full. I see four stacks almost a foot-high each.

PW: Oh, I have to get rid of that, clean it up. I've been told that many times. Anyway, my assets were high tech stocks. So what I'm doing, and I have been really doing since '99, is diversifying those assets out of high tech into things I know nothing about. And that can be investing in things like timber, oil and gas — investing as a limited partner in non-technical partnerships.

MJP:: These are your personal investments?

PW: Yes. I'm spending maybe 20% or so of my time looking for those opportunities. So I'm still investing, but I'm just doing it in a different mode and I don't have to go on any board. I have more time to go to Europe, which I just did for a month. I'd never done that before.

MJP:: And you went to China for a month last October.

PW: Yes. So we're traveling more. And I'm reading stuff I wouldn't otherwise be reading, and totally unrelated to business.

MJP:: Like what?

PW: Well, I like to read nonfiction. I'm reading a book on Mao right now, after my trip to China, and it's a tough read because it's about 900 pages. I'd never read The African Queen, I just finished reading it, by CS Forester. And I read a book on the life of Lou Gehrig not too long ago. I like baseball a lot, and I go to baseball games now. I never used to do that. And I like to play golf. I'm not getting much better, but I do like to play. And I'm still on a couple of boards.

MJP:: And are these things that you didn't have time for twenty, thirty, even ten years ago?

PW: Yes. I had no time for golf because, you know, it eats up most of a day, so I really didn't have much time for that. I was on four boards that were not related to Sutter Hill. Well, one was kind of related but not directly. And I've stepped down from two of them and will soon step down from a third.

MJP:: Do you mean Princeton?

PW: Well, I was on the Princeton board for fourteen years and that was fun and a labor of love. For the last four or five years of that time I was the Vice Chairman of the Board Executive Committee, which meant going back there every six weeks. That's gone now, but I'm still involved with Princeton. I've gone off the T. Rowe Price Board, which was an age-related thing. I went off that board at age 70 after 22 years, and I really enjoyed that board a lot. It was somewhat serendipitous, by the way, that all the mutual fund industry problems with Sarbanes-Oxley happened after I went off the board. But T. Rowe Price is squeaky clean; I mean they're terrific people, very transparent. When I was on the board there, I served through two major management changes due to people retiring. Cub Harvey retired, then Jim Riepe, Dave Testa, and George Roach came in. I know all those folks and they did a good job of it, they really did. And now they're all retiring and a new group's coming in. But I'm not on that board anymore. I'm still on the Hoover Institution Board.

MJP:: Oh, you are. Fine, fine institution.

PW: Yes, I enjoy it a lot. And I'm on the board of the California Academy of Sciences in San Francisco. You've probably noticed they're both on the West Coast. (laugh)

MJP:: And they're both involved with developing ideas, providing information and promoting access to that information.

PW: Yes. As I've gotten older, I've gotten much more interested in geopolitical stuff rather than the latest cutting-edge technology. That's probably a peculiar thing to hear from an engineer, but I'm very interested in what's going on, on a global front. For instance, the idea that six-party talks — hopefully — are going on about North Korea, rather than two-party talks, fascinates me as opposed to the latest etching lift on a semiconductor. So I developed more interest in that area. And the Academy is a very different science than what I've previously invested in because it's got a lot more to do with natural history, you know, what's going on with fish and what's going on with ants, but also what's going on with the entity itself–they're constructing a brand new building.

MJP:: Oh, I know; it's very exciting.

PW: Yes, it should really be something. Renzo Piano designed the new Academy building. So those are some of the things that I'm doing more now. The footprint of the new Academy building is bigger then The British Museum in London.

MJP:: That you never could have done before, like T. Rowe Price.

PW: Well, T. Rowe Price had a relationship to what we do here. Why did I go on that board twenty-two years ago? Because they thought I could be helpful to them, particularly on the West Coast. They could say, Here's a private company that Sutter Hill or NEA or somebody else is invested in that's probably going to go public; so they could, therefore, consider the company even before it went public as a possible investment for one of their funds later on.

MJP:: So that was good for them. What was in it for you?

PW: Well, I learned a lot about the mutual fund industry.

MJP:: Do you invest in mutual funds now?

PW: I did, but I knew nothing about the mutual fund industry except how it invests and its thought process. Now, the mutual fund industry keeps score based on how well it does relative to the Lipper Service. Well, over time, I grew not to like that as much as absolute return investing.(laugh) I mean, if you're down four percent and Lipper is down six, the mutual fund industry says you're doing great. I'm saying, I don't want to be down at all.(laugh)

MJP:: Do you think you're competitive?

PW: Yes. I'd think most people would say I am pretty competitive. I hope in a good sense. But, yes, I am. When I golf, I like to keep score and I like to beat the guy I'm playing with, in a nice a way.

MJP:: And how does that competitive spirit work?

PW: How does it work? Well, when I play golf with someone better than myself, I play better golf. I want to be as good as that person is on that day. So that competitive spirit works to bring me up to a higher level, hopefully. On the other hand, if my competitor isn't as good as I, maybe it brings him up. But the competitive nature of things dictates that when you're down, if you don't get too down it brings everybody up — a rising tide raises all ships.

MJP:: Is that true within the venture capital business? Was it true?

PW: Yes, yes. A lot of people in the business are clearly better than I am. But longevity really helps you, you learn a lot by hanging around for a while. And hopefully, those who are not as good as you hang around long enough to learn something from you too. Competition is wonderful when you think about it. Let's say you lived in Russia or somewhere that everybody gets to buy the same car, no competition, well why build a car better than the one you bought? I can't think of anything worse.

MJP:: I wonder why there aren't more women in the venture capital business. I know that historically, in the 50s and 60s, they weren't as educated in the sciences or in business, but what about today.

PW: But there are a lot more today.

MJP:: Yes, but there is nowhere near the parity that now exists in the medical schools or the law schools and other professional services.

PW: Well, it's a good question. I don't know whether a lot of venture firms would say, Well we want to hire somebody with a technical degree. We certainly don't push that, but we like it. Bill Younger, an engineer from Michigan; Dave Anderson, an engineer from MIT; Len Baker is a math major from Yale; I'm an engineer from Princeton, on and on around here. Unfortunately, women have not gone into technology and the sciences to the same extent, although that's changing more and more today. I know at Princeton, they're really trying to recruit women into the sciences, math, engineering and economics. I think that speaks to a changing tide, but perhaps it is taking too long.

But it is happening. I know a number of women in the business and I think they're doing great. Some have come in and then disappeared, but that's true of men as well. Maybe the idea of raising a family makes them take a hiatus. But it's tough to come back to this business because there's a lot of value in the continuity of it, networking and all that.

MJP:: You keep coming back to that, so it's clearly a key part of the business. Now, let me ask you, after you retired you were still involved, in part, because you cared; obviously, you still do care. Then on March 10, 2001, the tech bubble burst. Did you see it coming?

PW: No, at least not to the extent that it burst. I probably should have, but like everybody else, I was caught up in the euphoria of the time. I'm pretty confident about what I buy, but I'm terrible about when to sell a stock. I'll never forget, we were in India in the late 90s, '97 or '98 — whatever it was — we went through Bangkok, Thailand where we spent a few days before we flew home. There were all these hi-rise buildings all around Bangkok, and they were all empty — see-through buildings. They were over building. It never even crossed my mind that there would be this "Asian contagion," [The Asian financial crisis that started in July 1997 in Thailand, and affected currencies, stock markets, and other asset prices of several Asian countries, many part of the East Asian Tigers. It is also commonly referred to as the Asian currency crisis.] which happened maybe six or eight months later. There's a one hundred year history, at least in the stock market that I grew up with, that if a stock is selling at 20 times next year's earnings, that's probably a good time to sell, and if it's selling at 10 times next year's earnings, you might want to buy. Well, 20 was far below what was going on in the late 90s, and even now. But at that time, companies were selling at 84 times next year's earnings.

MJP:: So what did you think was going on?

PW: I just didn't realize what was going on otherwise I would have sold a lot of stuff. Whatever I was worth in '99 went down by 75%. [Laughing] I wish it hadn't, and I'll never forget the 20/10 price earnings rule.

MJP:: Since the excesses of the bubble and the passing of the Sarbanes-Oxley legislation, how do you think it affects your business today?

PW: I think Sarbanes-Oxley is a huge negative in the venture investing business. And I know Paul Sarbanes personally. He and I were trustees at Princeton at the same time. We're not of the same political persuasion, but I do like him, he's a nice guy. But I think they over-reacted. Remember how right after 9/11 they enacted the USA PATRIOT Act; that legislation was passed very quickly. And now they're going back and tweaking it, which is probably appropriate. Well, I think Sarbanes-Oxley was the same type of thing, and our little companies are spending millions of dollars in audits as a result. Granted, they had to do something because ENRON and Tyco and a few other big companies were disasters. I'm guessing that 85-90% of the laws were on the books already, but they weren't being enforced. I mean, the idea of backdating stock options, you don't do that kind of stuff. In fact there are over one hundred high tech companies in Silicon Valley today that are being called on the carpet for backdating stock options. And I think that either the CEOs of these companies gave the go-ahead to do it, in which case they ought to be held accountable; or the lawyers representing these companies are going to get hammered for not advising their clients about these issues, which the lawyers should know about. We'll see what happens. And there were other issues.

This goes back a couple of years, but we had a company that had been publicly traded for three or four years, audited by one of the Big Five, now Big Four auditing firms. And right in the middle of the fiscal year the audit firm told the company, We're dumping you as a client. Their reason was they didn't have the staff to handle the little companies; they had to get to work on the big companies because of Sarbanes-Oxley. Well that left our little company in a tenuous position. If you change auditors in the middle of the year, the financial markets get very, very queasy. Needless to say, we aren't particularly happy with that auditing firm, who shall remain nameless. But fortunately, we hired one of the other Big Four audit firms to complete the audit.

MJP:: Are we down to 4 now?

PW: Yes, we are, due in part to Sarbanes-Oxley. So at some point it's got to get tweaked a little.

MJP:: I'm sure the NVCA is working on it. Are you currently active in the association?

PW: Not really. Of course, I went to their annual award ceremony the year I was a recipient, and I've gone to one since. But I'm not really active anymore.

MJP:: Well, you don't need to network, and also it's become a lobbying group, albeit an honorable one.

PW: An honorable one and probably much needed today.

MJP:: But that's never been your interest. Can I ask you a few more reflective kinds of questions?

PW: Yes.

MJP:: You've described several businesses and deals that vividly portrayed the challenge, excitement, and passion that you felt. If you had to name one thing that you absolutely loved about venture capital, what would it be?

PW: Well, I'll tell you, I think it's well-documented in the speech I gave on the floor of the New York Stock Exchange, so why don't I give you a copy of it. When I was asked to give that speech, I was to speak to what I'd done for the public good, and I was having a hard time figuring that out, you know, as a venture capitalist. However, when I thought about it, we help create jobs which subsequently generated taxes that are being paid at the federal, state and local levels that, otherwise, would not have been paid; hopefully, we created companies that create products that improve mankind's quality of life. All that stuff was the most rewarding.

MJP:: What about on a personal level? Obviously, when you got up in the morning, you weren't thinking about the taxes that would result from these honorable pursuits.

PW: No. The most rewarding thing on a personal level was dealing with wonderfully diverse and interesting people — the CEOs, the VPs of this and that company. These are uniquely interesting, bright, hard-working, God-fearing people who are very different from me. I really loved interacting with them, getting to know them, and many of them have become my friends. It really wasn't about making money, money was a result of doing a good job in the business. Of course, had I not prospered in that way, I probably would not be sitting here talking to you today, because I wouldn't have been considered one of the more successful venture capitalists. And we don't have retirement plans like big companies do, so you'd better do well if you're going to be in this business.

MJP:: And the way you networked was probably your strength.

PW: It helped.

MJP:: And you knew how to buy.

PW: Yes, I was clearly a better buyer than seller. Clearly.

MJP:: And you had a great engineering background that allowed you to grow with the technology as it changed.

PW: I was a mechanical engineer at Princeton, and I think if I had it to do over again, perhaps I would have majored in electrical engineering. That was probably more appropriate for what we did here. But mechanical engineering was fine, it got me through a few tough questions from an entrepreneur.(laughter) I didn't talk too much about an adiobatic heat transfer; I talked about molecules being moved through a wire.(laugh)

MJP:: It got you to the next level. And what would be your most enduring accomplishment. Would that be described in the Princeton speech?

PW: Relative to the business? No, I didn't talk too much about building a firm and all that. That's a big part of my accomplishments.

MJP:: Yes. Would you like to talk about it now?

PW: Well, the idea of hiring people, and keeping the place going, doing well, lasting for a very long time, that's part of it. I think Sutter Hill is viewed out there today in the business as a good firm, not one that imploded or that doesn't deal fairly. We work pretty hard and we have a good reputation. That means a lot to me. I think I said this before, but when people visit us here — entrepreneurs, you, anybody who doesn't work here — we want them to remember the people, not the furniture. And we feel the same way about our portfolio companies. We want them to be the heroes and the stars, not the venture capitalists behind them. That's a big difference between us and other venture firms. Kleiner Perkins' does a great job of becoming the big name behind whatever company, and that's fine, but we're just not that kind of firm. We try to make the companies the success. A partner who may have contributed a great deal to the success of a company might never go on the board, and except for a few people around here, no one knows what an integral part that individual played. Sure, everyone knows Sutter Hill was in it, but they probably don't know who the partner was. This business isn't one person, it's a team. What's discussed in the partners meetings in terms of deciding whether to invest is a team effort, you know, Did you check with so-and-so? or Did you think about this?

MJP:: That's an honorable legacy, very modest.

PW: It is a team effort around here, as I think it is at most venture firms. We talked a little bit about this, but Sutter Hill has pioneered a few things in this industry.

MJP:: Yes, summarize them.

PW: Well, for one, we're the only firm that I know of that is an evergreen firm. We clearly pioneered that, and I'm hearing now that more funds want to do that.

MJP:: Are there any out there that are doing it?

PW: None that I know of in the venture business. I do know of some LBO firms that are doing it; they've been in here to talk about it.

MJP:: Why don't more companies do it?

PW: I don't know for sure, but likely because you don't a get a multiplicity of management fees. Generally, if you have four or five funds running at different times, and if after eight or ten years each one is still alive, you continue to receive a management fee even though you may not be doing anything with that fund. We don't have that luxury, we only get one management fee. But that hasn't been a big problem for us.

MJP:: How do you get new monies to invest continually? Do your limited partners keep providing more dollars through the years? They don't just take it out of their profits.

PW: Well, we've only had one limited partnership. We pay distributions to them in fully unrestricted stock or in cash; in either case that's when the 36% carry comes into play. On the other hand, they can opt to retain their percentage ownership as the fund continues to grow. What they've done in the past is said, OK, we'll put something back in to cover whatever you need to invest for the next four years, or whatever the case may be. The fund started at $10 million dollars and it's currently around $600 million dollars. We don't generally publish that though, but for historical purposes we'll leave it in here.

MJP:: But how do you keep the percentage ownership even? Say, someone says, "Hmm, I want to put back only 50% of what I got."

PW: We've never had that problem. Generally, they all want to put back more than they have in order to increase their percentages, but we haven't allowed them to do that. When the four universities came in, one had a lesser percentage than the other three, so we allowed the one university to contribute more so it would be on par with the other three; now they're all the same size.

MJP:: As an aside, I'd be curious as to why the business media hasn't picked up on it.

PW: Well, we don't talk about it a lot to be perfectly honest. But if you go talk to Chuck or Dick, they know that we're an evergreen fund.

MJP:: But even in lay books, like Done Deals, you've talked about it, and I've read about it in some of my research.

PW: Maybe it's this management fee thing, I just don't know. There have been a couple of partnerships that have come in here recently on LBOs, but they're raising $1.8 billion dollars. So if you have a 2.5% management fee on $1.8 billion, that's going to keep you happy for a long while. And they're talking about evergreen funds. That's why they're raising a billion, they won't ever need to raise money again.

MJP:: So that's another legacy you may have left.

PW: I think so, we'll see. But I don't really know why more companies don't start evergreen funds. It really puts you on the same side of the table as the entrepreneur. When it's time for another round of fundraising and the CEO of the company says, "I need to raise another $3 million a year from now." We'll participate with our pro rata share to help him, because if we back out it sends a very negative signal to the financial markets. But I've been on boards where there has been another venture firm or two partnering with us on a deal and they've said, We can't participate because we're going to raise a new fund, and they won't let us put the new fund into old deals. Well that really upsets the entrepreneur. So, again, it [evergreen funds] keeps us on the same side of the table as the entrepreneur. It also allows us to invest at our own pace; we don't have an incentive to race out and do crazy deals just to get another management fee. We also have the right to invest personally on every deal; we can't pick and choose, but we can, and do, personally put up 25% of every deal. And all of this puts us on same side of the table as the limited partners as well.

MJP:: Interesting. That's a unique concept.

PW: There are a couple of other things we pioneered: We were the first firm to start a company without a CEO. Qume would be a good example of that. We purposely left that slot open because David Lee was not a CEO. We knew it and he knew it too. And we didn't make him the acting CEO because once you become an acting CEO you get to like it and you want to be the permanent CEO. We've found that out the hard way. So we kept it open and went out and found Bob Schroeder, who was a CEO, to come in from Cummins Engine to run Qume. David Lee was a great guy and he's a good friend of mine and of the firm today. As a matter of fact, we were with him on the trip to China last fall. We also pioneered the LBO industry. We did a deal that was outside of our sweet spot, but we liked Ralph Miller who had a company up in Portland, Oregon, called Pierce Pacific; they sold scrap iron. So we loaned them $9 for every dollar we invested in equity. Ralph eventually paid off all the notes, and then he sold the company to another Portland-based steel company for a big price. And each dollar we invested in equity was worth a lot of money. And they gave us all cash. Ralph Miller was a great entrepreneur. By the way, I've learned that cash isn't all bad.(laugh)

MJP:: How long did it take you to learn that? When was that deal? Just the general dates.

PW: We did it in 1976. The company was originally called Manufacturing Management, then the name was changed to Pierce Pacific. So that was an LBO in 1976; that's thirty years ago in the venture industry.

MJP:: And you also pioneered warehousing of entrepreneurs.

PW: Yes, we started that with Dave Bossen in 1968, when we did Measurex. So we pioneered a few things along the way.

MJP:: The first evergreen fund, the first to start a company without a CEO, the first LBO, the first to warehouse entrepreneurs. So that's four. Wow!

PW: Now, deals we missed—Well, you didn't ask about that. I hate even to talk about them. But, I just remembered that you said you wanted to talk about it.

MJP:: Yes.

PW: We missed Cisco.

MJP:: (Gasps)

PW: Tench Coxe and I went over to Bohanan Industrial Park in Menlo Park to look at it; we turned it down for all the right reasons. It was a husband and wife team, both former Stanford professors. They didn't know what they were doing in a business sense, so we passed. Sequoia went into it and did very well with it, obviously, and they brought a guy in to baby sit for a while until they could find John Morgridge to run it. And essentially, John built it into what it is today; John Chambers runs it now. But we missed that one for the right reasons. Another one we missed was Apple. We looked at it and it was valued at $65 million. We didn't want to pay that price — at the time — it was too rich.(laugh)

MJP:: Was that for the right reason?

PW: Well, in hindsight it was the wrong reason.

MJP:: At what point did you miss Apple? When was it offered to you?

PW: I don't truly remember the time, but I do remember it was offered at a value of $65 million dollars.

MJP:: So that was after the fact a little bit.

PW: Yes, it wasn't a startup. Cisco was kind of a startup, and we were one of the first to look at it. But we didn't do it. We missed Tandem Computer, which was sold eventually to Compaq. And Siebel Systems we missed, we could have been in Siebel Systems.

MJP:: As a startup?

PW: Yes.

MJP:: Well, did you lose sleep? (laugh)

PW: Yes. I mean, you'd like to kiss all the girls, right.(laughter)

MJP:: But did you learn from it? That's the key. A lot of those were early on.

PW: Yes, I hope we have. But what do you learn? Cisco is the one that really stands out because we missed the idea that it was going to be a big market. It wasn't the price; this thing was a disaster as a business-no management at the time. The husband and wife were running around and they were arguing in the halls and all the rest, and there just wasn't any management. And that's what you look for in this business. And we didn't spend time to go out and see if we could find somebody to baby sit it, to hold it together until we could find a guy to run it.

MJP:: Which is what Sequoia ended up doing.

PW: Yes, to their credit, they did. So I think this was the other thing that you wanted to talk a little bit about. A dollar bill?

MJP:: There's a dollar bill attached.

PW: Oh, I forgot to tell you about that!

MJP:: Is that the dollar bill changer?

PW: No. No. You know what it is? We started a company in Southern California called Duplicon. There was a guy out of Xerox that was going to make a better Xerox copy machine. This was a sexy product, but in those days all the Xerox machines had a built in fire extinguisher in case anything caught on fire — you could just reach in, grab the extinguisher, and put it out. So our machine also had an extinguisher built into it. At that point, we'd brought Genstar, who was our sole limited partner, to see it, and I put a dollar bill in the machine to show that it could be copied — I don't know whether that was legal or not, but anyway, our copier caught fire and it burned up the dollar bill.(laugh) Duplicon wasn't a big success for us; we ended up selling it to ABDick. But Angus McNaughton, who was the CEO of Genstar at the time, said, "Here's another dollar," because his $1 dollar burned up. Later he sent me the $1 bill you see here.

MJP:: The note says, 'Dear Paul, I love losing this sort of bet. Congratulations on the Kasper deal. I have more one dollar bets if you have more deals like this one. Regards, Angus,' dated May 9, 1975. And you kept this, just as it is! What did it mean to you?

PW: Well, that Angus had a good sense of humor.(laugh) Seriously, what it meant to me was we had a limited partner — our only limited partner —who had real confidence in us. He knew we were doing OK with everything else, including Kasper, and he knew enough about our business to know that you could have write-offs.

MJP:: That was just part of the game.

PW: Yes.

MJP:: And he even wrote on the dollar bill, Paul, congratulations. You win the Kasper bet. Angus. That's great, that's really great. Are you sentimental?

PW: Yes, I think so. My wife might not think so (laughs), but I think I am.

MJP:: I'll be thinking of you on her birthday, [Paul was planning a surprise 70th birthday party for his wife that would be taking place at the end of July] especially because it's a surprise. You're a good man.

PW: Well, why don't I get this copied for you? [referring to his acceptance speech at an awards ceremony].

MJP:: That would be great. By the way, [looking at Paul's curriculum vitae] what does the M in your name stand for?

PW: Morrison. It's a family name.

MJP: Does it go back to the Revolution? Wasn't there a general named Morrison?

PW: I don't know. Les Cobert, the CEO of Xidex, at age sixty, for the first time, married a wonderful woman by the name of Linda, who is from England. And each year she goes over at Christmastime to be with her parents. And two years ago when she was there, she went to this cemetery right near her home up in the Midlands area and found this tombstone that had the Wythes name on it — William Wythes I think it was, which was my father's name, and it went back to circa 1690. And I thought, Boy! Linda, you've got better things to do at Christmastime than that. But I was really appreciative of that. I thought Wythes was Welsh, but it's not, it's English. As a result, Morrison is also an English family name.

MJP:: Thank you. And thank you again for these wonderful interviews.

EDIT COMPLETE - CK