Oral History with Peter J. Barris

NVCA-Venture Forward Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

PETER J. BARRIS

Interview Conducted by
Mauree Jane Perry
Carole Kolker, PhD
December, 2006 and June, 2011

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 or her formative years, 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 relatively 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 representing just 0.2 percent of U.S. GDP have fueled the creation of 12.1 million American jobs and $2.9 trillion in sales**.** Yet even 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 the 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.

I'd like to extend a special note of gratitude to each interviewee for generously contributing time to this initiative and for candidly sharing 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 2014

VENTURE CAPITAL GREATS

A Conversation with Peter J. Barris

Peter Barris joined New Enterprise Associates in 1992 and has been the managing general partner since 1999. Peters specializes in information technology companies and has guided NEA's investments in many successful ventures, including UUNET Technologies, described as the backbone of the Internet , CareerBuilder, Data Domain, Diapers.com, Groupon, Juniper Networks, Macromedia, Playdom, Salesforce.com, and TiVo.

Peter has been named to the Forbes Midas List several times, having personally led investments in over two dozen technology companies that have successfully completed public offerings or mergers. Peter is currently a director of several private companies including Groupon, Hillcrest, JobFox, MediaBank, SnagFilms, and Sprout Social. He also serves on the board of public companies Echo Global Logistics, InnerWorkings, Neutral Tandem, and Vonage.

Prior to joining NEA, Peter was President and Chief Operating Officer of Legent Corporation and Senior Vice President of the Systems Software Division of UCCEL Corporation. Earlier, Peter spent almost a decade at General Electric Company in a variety of management positions, including Vice President and General Manager at GE Information Services.

In addition to serving currently on nine NEA-related technology boards, Peter He previously served on the board of the National Venture Capital Association and was also a founding member Venture Philanthropy Partners, a philanthropic organization in the Washington D.C. area. Peter is a member of the Board of Trustees, Northwestern University; Board of Overseers, Tuck School at Dartmouth College; Board of Advisors, Tuck's Center for Private Equity and Entrepreneurship at Dartmouth. Peter received an MBA from the Tuck School, Dartmouth College, and a BS in Electrical Engineering from Northwestern University.

Today is Monday, December 13, 2006. This following interview with Peter Barris is taking place in San Francisco, California. My name is Mauree Jane Perry, oral historian. This interview continues on December 14, 2006. A follow-up interview took place on June 23, 2011, in Chevy Chase, Maryland, by Carole Kolker.

Mauree Jane Perry: *Thank you, Peter, for agreeing to this interview. I'd like to begin with your earliest years. You were born November 27, 1951, in Chicago, Illinois. Can you tell me about your childhood and early family life?*

Peter Barris: Well, I grew up on the north side of the city of Chicago in, I guess you'd call it, a duplex apartment building, top floor in the apartment, small apartment by today's standards, two bedrooms, one bathroom. My father was a structural civil engineer and headed up the engineering department of a consulting firm, and my mother worked outside of the house in secretarial positions. I had a great childhood in the kind of typical inner city neighborhood with children from diverse ethnic backgrounds. Unlike today, we'd say goodbye in the morning in the summer, and go outside, and come back at night for dinner. Played baseball in the alley and did things that kids did in those days. A lot of independence. Very close family. My parents are both of Greek heritage. My grandparents came here from Greece, on both sides of my family. And so Greeks by nature have close family units, and I spent a lot of time with cousins and aunts and uncles and grandparents. And every Sunday we had the same ritual. We'd go to church in the morning, we'd go to my grandparents' house on my mother's side. She had an apartment full of family, and we'd eat together and spend the whole day there until late in the evening, and then we'd go home. So, my one cousin, who was born exactly three weeks after I was born, and I were very close. I had an older sister, four years older than me, who was my only sibling. So he was my brother, if you will.

What more can I say? We were a close family, extended family. I think normal. I went to public schools. I was a minority, in the sense that my school was 99 percent Jewish, and I wasn't. So, on Jewish holidays I was one of the very few people still at my school that went to school. (laughs) But then as I got older I started taking Jewish holidays off. When I say I was a minority, it was an interesting environment because although I was accepted, I wasn't really accepted because I was a little different. And that was actually a good lesson for me in terms of understanding what it's like, at least some aspect of what it's like to be a minority, in a sense. It's not the same as being an African American in a white world, and I don't pretend it to be the same, but I think I learned some lessons, and learned to appreciate when you're not in the majority, what it's like for the other side, if you will.

MJP: *So, you learned empathy.*

PB: I learned some empathy, I think. I went to high school through my freshman year in a school that was, I guess in today's terminology you'd call a magnet school. It was a public high school, but the district was half the city of Chicago. So, you had to apply and get accepted. It was a very large school, it was five thousand boys, called Lane Technical High School. I had to take two city buses to get there. And I learned then, in that experience, even though the kids were, I'd say above average in general because it encompassed so much of Chicago, you got kids from very different socioeconomic backgrounds. And so I got exposed to true minorities and interface with them in a way I hadn't before. And being in an all-male, pretty high-pressure environment, it was a very different experience for me, where it was a very competitive environment, and you had to work at it. It was a delete "a"? hard, stressful, get up early, take public transportation to get to school, stay late.

MJP: *Why did you go there?*

PB: Good question. Mainly because I had, in all the testing I had done, I had a strong aptitude in math and science, and this was a— I'm a pretty competitive person, as I learned, and this was a school that was a notch above. Even though the public high school in my district was one of the better ones, this was a notch above. So I just strived for that.

MJP: *From both your father and mother, whom you said were your first mentors, you learned the importance of a strong work ethic and an emphasis on achievement. How did they teach you those values?*

PB: By example. I think my mother was and is to this day — bless her heart, she's eighty-five years old, very involved in activities, a lot of it around our church, but mostly philanthropic activities. She worked and she still raised her two children, was a great mother that way, and made sure we had home-cooked meals and all that. And she would work from the moment she got home until late at night. She was the kind of person that had — nothing was ever out of place, she was a great homemaker as well as working outside of the house. And then she was president of PTA, president of the Women's Philanthropic Organization. She took leadership roles in a multitude of different things. And so she probably [influenced me,] more than my father, in that sense. My father was a hard worker, he went to work, worked hard, and would come home and work. So, he was very dedicated, very focused and accomplished, and an interesting person because he was accomplished in a number of things. He played a mandolin and he was quite good at it.

Even though he was an engineer, he was an author, and he wrote articles that he submitted, fiction that he would submit to magazines. He was a bit eclectic that way. And so just through observing my parents, who were hardworking people that dedicated themselves to a variety of different things, and were achievement-oriented in their own right, I guess through osmosis I learned that that's, or I thought that's what you needed to do. I don't know that I questioned it that much, quite frankly.

MJP: *Did they have high expectations of you professionally? Did they let you know that?*

PB: My father did more so than my mother. My mother never went to college, and my father, as I said, was an engineer by background. He pushed me pretty hard; he was very focused on what grades I got and did I get involved in extracurricular activities? So, he would push me pretty hard that way. But not so much my mother. My mother didn't need to. My father did all of it.(laughs) He had very high expectations of me.

MJP: And you knew that.

PB: Oh, I knew that, yeah. I mean, it's the age-old question, could I live up to his expectations?

MJP: Was he too tough?

PB: No, I don't think so, not in retrospect. He ended up influencing me ultimately in ways that I wish he hadn't, in retrospect, and he knows it, and I've told him, the most important being he kind of directed me into an engineering curriculum in college, that if I had it to do all over again, I would never do. But he was well meaning. I'd do liberal arts of some sort. I'd enjoy my college experience more by exploring more. Engineering is so regimented, and you didn't have that many electives, and you couldn't explore. If you were going to get a degree, you had to punch these tickets, and a lot of them were tickets I didn't want to punch.

MJP: But you did well.

PB: I did well, I did fine, but it wasn't what I enjoyed doing. It was not a labor of love. I was with a bunch of fraternity brothers this past weekend. A fraternity brother of mine that lives in Santa Barbara now, but had gone to Georgetown Day in the Washington area, was back in town. So, a few of us that live in the area got together. And somehow the topic, because we all have kids that are either in college or entering college— And somebody said, "Well, this was the right school for my daughter," and everybody went around and said, "Well, listen" — we all went to Northwestern — "Was that the right school for you?" And I said, "It was the right school, it was the wrong major." And so if I had it to do all over again, I would do it differently. I'm not sorry I did what I did in the sense that it taught me some things I'm not sure I would've learned otherwise, and it certainly gave me some advantages, I think, and some opportunities I wouldn't have otherwise had. So, I don't know that I'm that adamant about rewriting that book. But if you gave me that choice today, I think I'd make some different choices. And so my father kind of directed me in that direction.

My plan was to be a lawyer, actually, and because he was an engineer and he knew I had an aptitude for math and science, he created this plan that I bought into, which was go be a patent attorney. So, you get an engineering degree, and then you get your law degree, and now you're differentiated from the masses, if you will, because there aren't that many people that are going to go get engineering degrees, and then law degrees. And so it kind of made sense, and I said, "But that's going to be kind of hard, isn't it?" (laughs) "Wow, that sounds tough, do I really want to—" "Yes, yeah," he kept pushing. (laughs) He definitely drove me into engineering. I probably wouldn't have gone that way.

MJP: You wrote that in high school you were on the debate team, and you had a coach, Mr. Dykins, who taught you how to articulate concepts and beliefs. How do you think this experience influenced your later success in venture capital?

PB: You know, I'm on the Board of Overseers at Tuck School, and we had a meeting about a month ago. We were talking amongst ourselves, this is about a group of twenty-five people. And one gentleman, who had previously been one of the top executives at Morgan Stanley, said, "How are we teaching our students to sell themselves?" And by that he meant, he said, "To stand in front of people, sit in front of people and articulate concepts, sell concepts." Because, he said, "That is the single most important ingredient to success in whatever walk of life you're in. If you can express yourself and sell yourself to other people." So it's not just venture capital, it's anything you do, it's not just business.

It's when you're talking to people and trying to influence people, influence events, you have to be able to express yourself. And sometimes that can be in the written word, it doesn't have to be verbally, but more often than not, that's how we communicate — verbally. And so the lessons I learned in terms of being able to put thoughts together in a logical fashion and communicate them, I think, have served me well in my business life and my personal life.

We were talking at dinner about our daughters and our children, and talking to them about what they do in their lives. You have to be able to express yourself, and you have to be able to influence. Now, particularly in venture capital, I stress the word influence, because we don't have our hands on the levers. We're typically on the boards of companies that we have a significant ownership in, but not a majority ownership in. We can't dictate what these companies do. So we have to influence. That's our stock in trade, and the way we get things done is by influencing other board members and influencing management to buy into our ideas.

And so that's not all verbal communications, but it's largely verbal communications. So, one's ability to do that— It's more than just communications. It's relationships you build, it's a lot of things. But your ability to sit in a room, call it a board meeting or wherever, and express yourself in a way that's convincing to other people, so that they either follow your lead or embrace your concept or however you want to describe it, is to me a critical ingredient in success. It's not the only one, but it's a critical one.

MJP: Also, what I'm hearing, though, is that before you can even articulate something, you have to be clear within yourself. If you can know how to think clearly, then you can—

PB: Organize your thoughts so that you can communicate them. The other thing that debate experience gave me was confidence, confidence to get new concepts and quickly formulate a position. In that case, it was an argument, but I was on the negative side of the debate. So, every debate tournament that I went to, which was every week we would have three debates on three different— It was the same topic, but the affirmative side of the debate, which was another school, always had a different argument. So, you had to deal with these different arguments, and you were hearing them for the first time, and as soon as they were done, you had to get up in front of a panel of judges and argue the negative side of that new position that you had just heard. So, you had to learn to think on your feet and express yourself, and in doing that you also gained confidence in yourself, because now you're in front of people, you're being judged, and it's a competition, if you will. There's a winner and a loser, and you're judged and you get the instantaneous results. Our team did quite well. Although we didn't win the state championship, we went very far in the state championship. You build confidence.

MJP: How many years were you on the debate team?

PB: I went to Ohio in my sophomore year, and I actually started out in the speech team, as they called it, was a big deal there, and I started out in what was called extemporaneous speaking, extemporaneous competition, which actually is what I just described in??as?? debate on steroids, because there you'd go to a tournament, and you'd be given a current events topic that you draw from a hat. It might've been on Vietnam, it might've been on the economy. You'd draw out three topics, and you'd get to choose one, and you had half an hour to put together a half-hour speech, and then you'd stand in front of judges. And you did that three times in the course of an afternoon. That was my first exposure. And then I got drafted to get into the debate group, which I did at the end of my sophomore year, and then I did it for a full year in my junior and senior year, so a little over two years debating. It was three years of speech experience, if you will. If I have to think back, it's ironic, but you think back and you say, "Well, that high school experience had a pretty significant impact on me in a lot of ways." It gave me confidence, it taught me how to formulate ideas and to create, to express myself, which I'm not doing a very good job of right now. (laughs)

MJP: Actually you're being logical and sequential; you're doing great.

PB: That was a great experience. And it was thought of highly enough in our school that, on a Saturday evening, you'd go to the basketball game, and they'd come over the PA system and the crowd, and they'd say, "And the results for today's debate and speech tournament was Boardman" — Boardman High School is the high school I went to. It was a big deal in our school. Our speech team was the state champion. Our speech team was, as a whole — there were lots of different aspects, lots of different divisions, if you will. So it was a great experience.

MJP: So, when you stand up at the NEA meetings, the investment committee meetings, et cetera, and you seem so relaxed and so—

PB: High school. (laughs) It's high school. (laughs) I learned some lessons then. It's served me well.

MJP: The third mentor during your early years, when I asked you to list them, was your parish priest, Father Isaiah. You said your relationship with him gave you a moral center, a grounding. I want to apply this "moral center" to the business world. My question is, how has it influenced how you behave as a professional in the venture capital business?

PB: Let me back up from the venture capital business for a bit, because I learned this about myself. I spent nine plus years at General Electric. When you get in a big organization, a big company like that, which was a great experience, it's a great learning environment, and it's a terrifically run and managed company. I learned fabulous lessons. But I also made a lot of observations. When you get in an organization like that, you see politics. I was fortunate enough early in my career, well, my first job out of business school, to work on the staff of Jack Welch, who went on after that to become CEO of GE, and a fairly legendary guy.

There I made observations that people throughout the company would try to ingratiate themselves with him. And they'd go to great ends to do that. So, call that politics or call that whatever you want, "brown-nosing" is what some people would say. I don't know if this speaks directly to what you're saying about integrity. But I had a set of principles, and my principles included being myself, and not being phony in any way, and not playing games, and shooting straight. And I didn't see that in people. So, I'd go to rooms where people — if you went to a cocktail party at GE — everybody would go where Jack Welch was, and I'd go to the other side of the room.

One of the best compliments I've gotten was fairly recently. Dick Kramlich had an opportunity to talk to Jack Welch, and he said, "You know, a guy with our firm, a guy that actually is the managing partner, used to work with you." I worked on his staff in 1977, thirty years ago. And he brought up my name, and [Dick] told me later, "Jack said you were a really good guy, and you always shot straight, you never bullshitted him, and that's what he remembers thirty years later."

And I said, "You know what? That's about the best compliment one could pay me," because to me that is integrity. That's integrity of your ideas, that's integrity of your relationships with people. I'm going to tell you what I think, and, you know, I'm going to try to do it in a respectful way, but you're going to know what I think, and I'm not going to play games and I'm not going to play politics, and if my performance isn't enough, then that's too bad.

So, as the years went by and I got promoted up the ladder at GE, I realized I was now at the level where, if I wanted to get ahead, I had to play politics. That there, performance alone wouldn't do it. And that's when I made the decision to leave GE.

MJP: That was going to be one of my later questions, but it speaks to the issue of having a moral center.

PB: So, back to how does it affect me in venture capital? I think that in any business, you're faced from time to time with hard decisions. There are tough calls. And sometimes a lot of those calls are against your self interest. To me, it's a question of integrity. Do you have the backbone to make a decision that's against your self interest, but it's the right thing to do? I have trouble right now coming up with a lot of examples, but I know I've been faced with several of those situations through the years. To me, if you're a principled person, you're going to let principles drive you. You're not going to do the convenient, easy thing, necessarily. Too often, people take shortcuts.

I don't know if this is a good example, but it's a recent example: One of our CEOs was in the middle of a very difficult situation, he had a lot of things in the air, a lot of big deals, a lot of tough challenges from strategic partners, where they wanted him to be responsive, he and the company. And this is a strong CEO, where he drives the company. He got ill. He got a bacterial infection, and it was serious, and he got put on heavy antibiotics. I was talking to him on the phone, and I said, "You've got to take care of this." He says, "I don't have time, I've got to do XYZ." And I said to him, "I'm telling you this as a friend: You have got to go home." He says, "I can't do it." I said, "No, so let me give you the business argument: If you don't go home, this problem you're having is going to linger, and in the long term the company's not going to be as well off." But I was worried, as he clearly was, about if he went home, what was going to happen to the business, because we had some near-term issues, and he was critical to them.

And I said, "Okay, here's the deal: I'm not asking you. As your largest shareholder and board member, I'm demanding you, you must go home, and if you don't go home, you are going to be fired." And I hung up with him, and I called his wife, and I said, "Here's the deal: I want you to take care of your husband, get him well, and he cannot go back to work because if he does we're going to see that he's fired, because that's what it's going to take for him to get better." Only that threat. And so I'm doing it because I'm his friend, and it's the right thing to do, but I knew in my heart, in the short term we were going to pay a price from a business standpoint.

MJP: What kind of price?

PB: The price would be that we had a significant issue where we stood the chance of losing a critical strategic partner. He was critical to finding the solution. He felt that if he weren't involved we would lose the strategic partner, and if you wanted to carry it out in a negative thought pattern, that could spell doom for the company. I mean, there's no way to predict, but that possibility was there, that it was irreparable damage to the business.

But my principles said, Guess what? His health and well-being are more important than this company, and if the end result is the company goes down the tubes and we lose all our money, so be it. This is the call one has to make right now. When I made the initial statement I was confident that the other board members would back me up. I immediately phoned each of them and got their support for my position.

MJP: That was easy for you?

PB: It was easy for me because I knew what was right. I believed strongly that that was the right thing to do. I saw the guy. I know we're going to talk about UUNET, but John Sidgmore passed away because he had an infection of the pancreas that got out of control. That weighed on me. We're human, and we're vulnerable, and sometimes people don't—John worked himself, you know, he worked extraordinarily hard, and he let the stresses of his job, I think, compromise his immune system, and I didn't want [this CEO] to do the same thing. I don't know if that's a really good example, but it's a recent one.

MJP: It is. What was Father Isaiah like?

PB: He was a cool priest. Greek Orthodox. In our religion, you can marry, but he was unmarried. You can marry and be a priest, but you can't become a hierarch, a bishop, unless you're celibate. And today he is what we call a metropolitan, which is like a cardinal in the Catholic Church. But he was a guy who rode a motorcycle and he had a suped-up Chevy, he wore Beatle boots, and he had long hair and a beard. And so to an impressionable teenager, he was cool; he was approachable, he was a friendly guy, and he was cool. He didn't take himself too seriously. He had a great sense of humor, but he was deeply religious. So, here was this guy who you could speak to on a human level. He wouldn't preach to you, he'd talk to you.

And yet he had incredible faith. I was so impressed by this cool guy who wasn't off in a corner, some untouchable, unapproachable guy. He was okay, you felt comfortable with him as a teenager, sitting around and, excuse the language, shooting the shit, and asking tough questions about religion and faith, and getting honest, balanced responses that were understandable, things that you could accept, that weren't absolutes all the time. You could see that he was thoughtful about things and didn't have all the answers. But I just built up a great relationship with him.

MJP: What does it mean to have a moral center?

PB: That's a good question. You have a sense of right and wrong, I think, is where it starts, you have a sense of right and wrong. It's an important part of who you are. So, again, whether it's a good example or not, in that example I just gave you, I had my sense of what was the right thing to do and the wrong thing to do, and it would've been very easy to compromise it because my business interest said I wanted him to be at the office. And he was making it easy for me because he said he needed to be at the office, and he was willing to be at the office. I knew that was the wrong thing for his health, and I knew he was the kind of the guy, he's so driven that he needed a slap across the face to do what was in his own interest physically, from a health standpoint. And no one was going to do it for him unless I did it for him. So if you're not centered on whatever your principles are, you take shortcuts. So when I think of having a moral center, it's having a set of principles that you live by.

MJP: You're lucky.

PB: You can sleep at night, because, you know, you just say, What's the worst that can happen? If I lose all my net worth or these bad things happen as a result of this company going out of business, I'll feel good about myself because I made the right decision, I didn't make a compromise for that short-term gain, that in the whole scheme of things, really isn't that important. That's what I mean by moral center.

MJP: It's a very thoughtful answer. I can see how it all fits together.

PB: Telling people what you— I don't know if morally centered, but this gets back to one of the things I learned from Jack Welch and talking to people about themselves and counseling people and giving performance reviews. Most managers, most people, don't like to be confrontational, generally speaking, and they don't like to deliver bad news to other human beings. And as a manager, what I learned from Welch, from GE in general, but Welch in particular, was you're copping out if you don't shoot straight with an individual about how they're doing, and you're doing them a disservice, and you should feel bad about yourself for doing them a disservice because you don't have the guts to tell them the truth.

When I sit down with employees, some people will say I'm direct, but I've fired people that have, in my career, that circuitously have ended up recommending me for jobs. The reason, I'm told, is even though I fired them, they thought I was fair and I shot straight with them, and they appreciated that, and so they didn't hold it against me. And that's why people don't want to give people bad news, because they're afraid it's going to be held against them or they're going to think badly of them, et cetera. But what you're doing is you're doing it for yourself, not for them. I don't know that that gets to being morally centered, but it's a set of principles that says, Are you doing right by that individual? By that individual, are you doing right by them? Oftentimes that means making hard decisions, and sometimes delivering tough messages that are either unpleasant or awkward or whatever to deliver, but you're doing what's in their best interest if you do it.

MJP: You were taught well. In fact, a gentleman named Gregory Liemandt became your business mentor. He taught you much of what you know about business management. When did you meet him?

PB: I said I worked on Welch's staff. Liemandt hired me out of business school. At the time Jack Welch ran what was called the Components and Materials Group, which was a $2 billion group of businesses. He ran it in a kind of maverick style. Most people at his level in the company were at the corporate headquarters, but he grew up the plastics business in Pittsfield, Massachusetts, and he set up a little office in an office building in Pittsfield, Massachusetts, with eight people in it. From there, he ran a $2 billion group of businesses. His head of strategic planning was Greg Liemandt, and Greg hired me out of business school into this staff position. They had created a program where they hired one guy every year out of business school into this program, spent a year in this job, and then shot him out to operations after that.

But where he figured heavily into it is, he then went on to run the Battery Business Department; I then went to the Battery Business Department. He then went on to run GE Information Services; I ultimately followed him to GE Information Services. He then left GE and went to run UCCEL. Ultimately, he seduced me out of GE right about the time I was saying, “I need to make a change,” and he seduced me into this company in Dallas, Texas. So he figured heavily into my career.

MJP: During college, in the summer before you went to business school at Dartmouth, you worked as a design engineer, and later an electrical engineer at [Doyen] and Associates. What were your professional goals at that point? Were you thinking you were going to be your father’s person, this engineer?

PB: No. Doyen, in the interest of full disclosure, was my godfather. (laughs) So I was on a work-study program.

MJP: Technically and literally.

PB: Right. (laughs) I was on a work-study program when I was at Northwestern, which meant that we took a four-year degree and stretched it out into five years, and worked summers and the equivalent of one school year, interspersed, in jobs that were relevant to what we were studying, engineering-related. My first co-op job was in a totally different company, it was a company that made dental x-ray tubes, actually. And then my godfather said, "Why don't you come work in my company?" Which I did. He had two daughters, neither of whom were engineers, and so he had this consulting engineering company that, it was implied, I would one day inherit. I realized I didn't want to be an engineer, and I also recognized that getting this very practical experience was important and would be helpful to me. But I ultimately had to make a decision that was contrary to what he wanted me to do and what my parents wanted me to do. So that was maybe the first really grown-up decision I had to make.

MJP: You had to rely on your moral center for that.

PB: Yes, I really did. It was, okay, I had a godfather who was, by economic standards, very well off. And here it is on a silver platter, godson. "You can someday take over my company." And I said, "You know, I don't think I'm going to be a good engineer," because one critical ingredient to being good at something is loving what you're doing, and I don't love this. And if I don't love it, I don't think I can be good at it. And if I can't be good at it, why am I— I'm never going to be happy with myself, even though I'll be financially secure and all that. My parents thought I was nuts. I was pleasing everybody but myselfsense??. So that was maybe, I'd have to think about it, the first big grown-up decision I had to make. So, I'm going to go off to business school.

MJP: Was business school a way out for you, or you really thought, "You know, I want to do that"?

PB: It was a little of both. My initial career objective was to be an attorney because that seemed to be a natural extension to my love of debate. My father steered me toward patent law , and I had all these grand visions of standing before juries arguing big patent infringement cases. And that was very appealing to me.

And then when I was in engineering school at Northwestern, I took a course, one of my electives, I think it was called engineering law or something like that, half the course was taught by a patent attorney. So, that was my junior year, and I started asking him about patent law. This is the first time I really understood what it was. I had these visions. And basically he said, "Son, before you're standing in front of juries arguing big patent infringement cases, you're going to be spending years in patent libraries doing research." And I was like, What? (laughs) What's this all about? And I went, Oh, no, no, I'm not doing that. So, all of a sudden the concept of becoming a lawyer took on a different definition. I wasn't sure I wanted to do that. I didn't give up on the dream. I went and took my LSATs, and MBAs were kind of in fashion at the time. They were popular. And I thought, Okay, what I don't like about engineering school is the regimented, structured nature of it, and the tedium of the study.

As my roommate would read a novel in bed, sitting on his bed listening to music on his earphones, reading a novel, I'd be struggling over some vector calculus formula. And I know I don't like this, I want to be doing what he's doing. And I thought of law school as more of the same, just instead of numbers, words, or spending all my time on a paragraph, wordsmithing it like a mathematical formula, as opposed to less structure, more free thought and exploration. And what I liked about the concept of business school was case study and all that. And then I also had a very practical problem. If I'm not going to be an engineer and I have an engineering degree, how do I leverage it into something else? So, business school was kind of a natural. I wasn't sure, but it seemed appealing.

MJP: Did you like business school?

PB: I loved it.

MJP: Did you think at that time that you were entrepreneurial?

PB: No. I didn't know what entrepreneurial was, to be honest with you. It was actually while I was at Doyen and Associates, I took a seminar at General Electric in Cleveland, and I came away so impressed with the company that it influenced my job decision coming out of business school.

MJP: Here we are, it's 1977 and you're interviewing, and you meet, you were plucked, right, by GE?

PB: It was an interesting way I got this job. GE came into campus like every company does, interviews on campus. But this job was a notice on the bulletin board that described a job called "analyst strategy development." That was, I think, the title, analyst strategy development for the Plastics Division of GE, which was in Pittsfield, Massachusetts. One of the things I had come up with, I wanted to leverage my engineering degree. After I had gone through all this pain, I figured how do I leverage this, right? Into the business world. So, I liked marketing, and I thought, Okay, I want to go into marketing, but rather than consumer marketing and toothpaste and whatnot, I want to go into the industrial world or into an engineering-oriented company where I could leverage my technical background and engineering degree. So I interviewed companies like General Electric. I don't remember exactly how this job was described, but it sounded appealing. And it got more appealing when they drove a limousine up from Pittsfield, Massachusetts, to pick three people up from Tuck and drive them down to Pittsfield for a battery of interviews, a full day of interviews, and one of us was going to get the job offer for the Plastics Division.

Well, as it turned out, it came down to two of us, and the hiring manager, a guy by the name of Norm Blake, liked us both, but the other guy had a chemical engineering degree, and I had an electrical engineering degree, and plastics is chemically related, so he had an edge. And right about that time, the guy that was doing the interviewing, was doing this in five different divisions of GE that were all divisions of Welch's Components and Materials Group. Welch had started this program where he hired an MBA every year, two years prior, and he had hired guys out of Harvard Business School, and then he decided, "Okay, we're going to expand the program. We're going to go to Tuck for plastics, we're going to go to Northwestern for one of the other divisions, we're going to go to Wharton for another division, University of Chicago" — there were five schools. Welch had interviewed and Greg Liemandt had interviewed eight guys out of Harvard Business School, and they all struck out. So, this guy said, "Well, you need to talk to this guy Barris," so I went and interviewed at the group level. It was kind of serendipity that I got plucked out of plastics, if you will, into the group level, and I got hired there. So, I was lucky. I was lucky that they didn't fill that job.

MJP: But you had the background you did, and you—

PB: Right, and I went through an intimidating set of interviews.

MJP: At that point were you thinking, “I’m with a big company, I can blend all parts of my background, and I have a place?”

PB: Yes.

MJP: Did you think you might stay there forever?

PB: Yes.

MJP: As I look at your rise, in just eight years, you make remarkable progress. You started out in Components and Materials Group, and then you went to the Battery Business Department as a program manager. Then as sales manager in the eastern region. Then you went to GE Information Services Company as the manager of venture marketing.

PB: That was my first introduction to the start-up world. My job was to start up new businesses under the corporate umbrella, if you will, within GE, within that division, within GE Information Services, come up with new business areas and get the businesses started.

MJP: Was that a natural for you?

PB: I found I loved it, and I was good at it, but when I took the job I had no idea, to be honest. The reason I took that job — and this gets back to kind of having a center, this was a little serendipitous, too. I knew Greg Liemandt, he had hired me out of business school, he was my hiring manager, I had worked in his business at Battery Business Department, not directly for him. And then he went to GE Information Services. Well, I happened to have a Battery client in Rockville, Maryland, where GE Information Services was headquartered. And the human resource guy, whom I knew from Battery, had been moved to GE Information Services, and I had lunch with him. And he says, "Well, why don't you come back, and let's go see some people you know?" Well, I'm walking down the hall, I was going to go see Greg Liemandt. I'm walking down the hall, and there's Art Marks. Now, Art was one of my clients when I was in my first GE job at the group level.

MJP: Analyst strategy development?

PB: Exactly, he was at the medical systems division, and I did one of my projects for the medical systems division. So, he was my client. Well, Art was the newly hired vice president of marketing working for Greg Liemandt. So, he pulls me into his office, we're talking, he says, "I got this job, venture development. How do you like this job?" And I said, "Well, it sounds really interesting, but I'm on my way to talk to Greg Liemandt." Greg Liemandt says, "I got a job for you. The job is corporate development, doing acquisitions, I've got all these plans to do all these acquisitions, you'll be on my staff, reporting to me." I said, "Well, you know, Art— I just talked to Art about this other job." And one thing leads to another. Greg was a guy who shot straight, too, he was very objective. I said, "Okay, Greg, here's what" — this is after a couple of discussions. I said, "Here's what I want to do." They had a structure where they had program managers that had all the profit and loss. I said, "I want to be a P&L [profit and loss]?? is this a standard abbreviation in the field? manager."

MJP: You wanted that responsibility.

PB: That's what I wanted. "Not today, that's what I'm striving for. Which job best prepares me for that? The job working for Art, venture development, or the job working for you, doing acquisitions?" He said, "The job working for me will give you access to more important people. You'll be working with people at corporate, you'll be doing big deals, but the job working for him, even though it's at a lower level in the corporation, will be better training for you to ultimately be a P&L manager." And I said, "That's the job I want." So, I passed up the politically advantageous job, if you will, to take the job that would ground me better and teach me the lessons. And so, you know, again, that's kind of like right/wrong, what's the most important thing? The cosmetics and whom you get to know, or actually learning the fundamentals? And I chose: I'm going to learn the fundamentals, because I'll worry about that stuff later, because if that makes me a better manager, that's what I want to do, I want to learn the right lessons, not politic my way into positions.

MJP: What gave you that courage?

PB: I have no idea. (laughs) That would be too— I don't know that I could analyze myself. I honestly don't know.

MJP: Did you have to think about it? Did you talk to Adrienne about it?

PB: I definitely had to think about it. When the president of a major division, and a real up-and-comer in the company, says, "Come work for me," you have to give it serious thought. It was quite a compliment and not an easy offer to turn down. I was also concerned about offending him. But he made it easy for me because when I asked him which job best prepared me to become a P&L manager, he shot straight with me. It was an example of him doing what was not in his best self interest but what was best for my career. Besides appreciating his objective counsel, it served as a great lesson in management.

MJP: This is wonderful. It is one of the best stories I've ever heard.

PB: Really?

MJP: When you can operate from that kind of core, you know, life works, no matter what happens.

PB: And if things don't roll your way, you don't feel bad about yourself. You say, "I made the right decisions."

MJP: Your parents must have loved you a lot. They believed in you.

PB: Yes. Well, we have a great relationship. There was a lot of love in our home, there's no doubt about that.

MJP: This is just a wonderful story.

PB: Thank you. What question was I answering? How I got that first job.

MJP: Right.

PB: You were asking me about Greg Liemandt. He hired me—

MJP: He was one of your mentors, he taught you what you know about business management.

PB: Here's another guy who was— When you're talking about Jack Welch and Greg Liemandt, Jack was Greg's mentor. Greg was a golden boy within GE. When Jack became CEO, most people thought Greg was in line to be the next CEO of GE, ultimately, after Jack Welch. He was the golden boy. So, when he left GE to go take this turnaround situation called UCCEL, that was a shock wave through the General Electric Corporation. An absolute shock wave that Greg Liemandt, the golden boy, would leave all that to go take over this troubled public company in Dallas, Texas. And the reason he did that is because he was well centered on what was important to him. Strong faith, strong Catholic, he and his wife both. And even though he had, he could've done just about anything at General Electric Corporation, he knew that that wasn't the best environment for him at that point in time, and he left to go in a totally different direction. And that was a real eye-opener to me, that this guy, who, in the corporate pecking order and climbing the ladder world, had everything going for him. That was a real eye-opener. I learned a lot of personal lessons out of that, quite frankly. Priorities in life. That gave me the confidence to say, Okay, am I getting on a treadmill, am I climbing the ladder just because there's another rung to climb, and I'm a competitive guy and I'm ambitious? Am I doing it for the right reasons? And ultimately I concluded, No, I'm not, I don't really need this to be happy in my life. Within GE, a level 13 going to a level 15, Greg said to me, "You know, this is our world, but no one outside of GE knows what a level 15 is or cares." We'd have these kinds of discussions, and I'd go, "You're right. It's like I think about it, and I want to get from level 13 to level 15, because once I'm a level 15 then I get all these other perks that I don't have today." And then he'd sit down and say, "Who cares? You're caught up in it like I'm caught up in it." So, he was actually more than a business mentor, he was a life mentor.

MJP: And as you said, he convinced you, as it were, in 1985 to go with him.

PB: Right.

MJP: Because by then you'd figured it out. You'd had enough successes—

PB: I'd figured it out. I'd decided, actually— Well, I woke up one morning. Everything was going well, my business unit that I was running was doing very well, and what really spurred it was Liemandt had left a year and a half earlier to go to this company in Dallas. We had another president of GE Information Services, and he decided to reorganize the company. I didn't understand what he was doing, I didn't agree with the reorganization. And they said, "Peter, you've got a new job. It's a promotion, it's another level, and it's back in Rockville, Maryland," which was the headquarters of GE Information Services. I looked at it, and I said, "Well, I understand it's a promotion, but I've done all these things. What am I going to learn in this job?" Getting back to, Am I going to learn something? I concluded I wasn't going to learn anything.

And I was going to go work for another high flyer, a guy who today is CEO of Boeing Corp., and was one of the three guys in line to replace Welch ultimately. But I looked at it and I said, "I don't think I'm going to learn anything. So, thank you, but no thank you." They went, "What? What are you doing to do? Your job is going away in Chicago." I was a little ticked off, quite frankly. Really, I'll tell you what, now that I think about it, what prompted it was this: One of Welch's axioms, which if you go to any of the books he's written, is "control your own destiny." Control your own destiny.

So, we were back in Chicago, our hometown. We had our first child. I knew, because I was in the highest position in my business in Chicago, that ultimately I'd be moved. But for the moment we were really enjoying it. We had grandparents around, our newborn child, we were loving it. And I wake up one morning, and some guy in Rockville, Maryland, tells me that my world has changed. Never asked me, told me my world has changed. And I said, You know what? I'm not controlling my own destiny. Somebody else is controlling it, and if he were making a decision I agreed with, I might be able to live with it. But now he's upsetting my little lifestyle for a decision I didn't agree with. I didn't think he was making the right decisions, and he was screwing up my life in the process.

And I said, Peter, time to get control of your destiny. That was the deciding point. Now, GE went out of its way to try to keep me in the family, and they paraded a number of other jobs in front of me in other divisions that, some of which were very attractive, and that's when I had to make the hard decision. Because one of them was to go run the silicones business, and I said, Well, now I'm going to go into a new industry, I'm going to be in a very high-level job in a new industry, but I've got to learn a new industry. I really like this computer-related stuff at GE Information Services. So, do I dedicate myself to the industry, or to the company?

And that's when I said, You know, I'm just going to be the new guy, it'll be an important position and a responsible position, but it's a new industry, and it's important to GE, but I really like the industry I'm in. So I made that fundamental decision, I was going to stay in that industry. So, I started looking at other jobs, and I had actually a very attractive opportunity at a high-profile startup here in the valley, versus Greg Liemandt and the company in Dallas. That was a hard choice, because these were a couple of high-profile guys in the valley, successful before. I got the "Come out to my house in Atherton and have a great bottle of wine." It was my first introduction, really, to California, San Francisco in the eighties, it was very cool. But ultimately — and to some of this it might've been even some conservatism in me. I looked at the situation in Dallas, and it was comfortable. I knew the guy, it was GE-like, even though it was a public stand-alone company, it was the GE professionalism. And I said, If I'm going to transition out of GE, do I want to make this leap into the total unknown or do this? So, it was probably, I'm going to say somewhat risk-averse, but I loved the guy, too. I mean, that was the real draw.

I loved Greg Liemandt. You know, he was a make-it-happen, incredible operator, and I would continue to learn from him. And in this case, now it was, it was a problem job because he said, "I want you to come in and be my right-hand guy, and first we're going to need to, I want to acquire a lot of companies." So, it sounded a little bit like this first job at GE Information Services, but this was a more senior position, in a very visible public entity. He says, "I want you to do that," and I said, "But Greg, I like being an operator. I don't want to be in a staff job." He said, "Well, do this for me for a while, because this is the most important thing in the company, and then we'll get you your operating job, just trust me."

And so that was the leap I took. I trusted him, and we had a great relationship, and I went in and said, "We shouldn't be acquiring companies, we should be divesting businesses first, because we've got a lot of stuff here that we shouldn't have." And I did the old GE thing on it. If you're not basically number one or number two, get rid of it. It wasn't quite that simple, but that's fundamentally what it was. So, we sold off a lot of businesses and narrowed it down to two businesses, the biggest of which was systems software. And as soon as I did that, he put me in charge of that division, which was 85 percent of the company.

MJP: Were you getting further away from venture?

PB: In doing all that? Well, my job was I divested businesses, and then we acquired a bunch of businesses, small companies. So, they were all small start-ups, even when I went in to run system software— And what I didn't explain— In my GE job I acquired a lot of small companies, and some of which, for some period of time, I actually had a big hand in running.

MJP: Perfect background.

PB: So I got a real sense as to what made these things tick. Because when you're going to integrate a small company into a large company, you really have to understand what makes them tick, because to do that successfully in some ways is harder than running it autonomously, because you're a clash of cultures, keeping them motivated, keeping the entrepreneurial spirit, really kind of forces you to understand what makes it tick.

MJP: How do you do that? You look at the numbers, you talk to the people, you—

PB: Yes, it's all of the above, but it's mostly talking to the people. I mean, to understand what drives them and motivates them, and what's going to continue, you know, what's the essence of why they're successful? You have to ask yourself that question.

MJP: Perfect background.

PB: Yes. And so every company, it's different. And now the question is how, in the GE or UCCEL umbrella, do I preserve the essence of what's made them successful to date? And yet, you know, make them toe the line and get in line with the overall corporate goals. That's the challenge, and every situation is a different answer.

So, I really enjoyed working with these small companies, and I enjoyed working with the founders, the management teams. And in some ways, my role as the operating manager that they reported in to wasn't that different than my role as a venture capitalist. I had to make the decision to acquire them, just like I had to make the decision to invest. After the fact, now, as an operating manager I could tell them what to do, but I didn't. That wasn't my management style. I managed through influence, not any different, really. So, there are a lot of parallels. To me, it was a natural. The venture capital business wasn't that dissimilar than a lot of the things I had done in my corporate experience. I couldn't convince Chuck [Newhall] of that, but that was when I was interviewing with NEA — "You have no experience investing." I go, "Well, actually I do. I bought all these companies. That's an investment." (laughs)

MJP: You left UCCEL and you went in ’88 to LEGENT.

PB: Yes, we sold UCCEL, actually. The company got sold to Computer Associates. Or I should say they acquired us. Because we weren’t for sale. They came and made an offer that we really couldn’t refuse. So, we sold the company, and then I was asked actually to stay on at Computer Associates and move to their corporate headquarters in Long Island. And I declined because there was only one guy that managed a P&L if this is profit and loss, probably can’t say “a P&L”?at Computer Associates, and that was the founder, Charles Wong. And so I said, “I’ll help transition it for six months, and then I’m going to find something new.” At that point, we had— One of the other reasons I left GE, by the way, is we had moved around a lot with all these jobs.

And we were getting tired of — and now we had a child, and we were getting tired of having no stability, if you will, and moving into places and not being able to plant a bush because we couldn’t justify it economically because we weren’t going to be around long enough to see it grow. You couldn’t have anything but a neutral color carpet or neutral color walls, because it wouldn’t be resaleable. We said, “We don’t want to keep doing this,” right? So, when we went to Dallas we thought it was going to be a long-term thing, and then the company got sold. So, Greg actually was going to start a private equity business, and we went way down the path of formulating it. We had legal documents drawn up. And for a lot of reasons, that didn’t end up happening, didn’t end up forming the company.

So, I had to decide, well, what am I going to do now? And Adrienne and I said, "Okay, we'll either stay in Dallas, we'll go back to Chicago, our hometown, or we'll go back to Washington, because we had lived here before, and we liked it." One of those three.

MJP: You went to Marino.

PB: I did. But I actually, no, he didn't set me up. I'm trying to remember how I made a connection with Seven Steven?Rosen, another venture firm in Dallas, and I spent a little time with them. So I started getting a little exposure then to the venture world. I didn't have a job offer, but I was spending time with them.

But I ended up at Marino. That was tangential. I ended up at Morino Associates, and the way I ended up there was Mario MarinoMorino? had this company, Morino Associates, and they had a product set. Within their product set was another, a product that, in my strategic plan at UCCEL — I had a strategic plan, and it was essentially, here are all the products we need in our portfolio — and I had this big void, and Mario had that.

So I was, at the time we got the offer to buy out our company, I was negotiating with Mario to buy this product — rights to the product, not his company — out. And so Mario and I built up a relationship in that process that, when they announced that Computer Associates was going to buy us, he called me and said, "You know, I've been thinking about bringing a president on." He didn't have one. "Would you consider doing that?" And it's in Washington. (laughs)

MJP: Fit all the categories.

PB: It was system software; I knew the product set. So I ultimately decided to make that move.

MJP: But it didn't last long.

PB: Well, what happened is we merged with another company called Duquesne Systems, and then renamed it LEGENT. I was the president of the combined company. It was a merger of equals. It was two equal-sized companies merging, and we called it a merger of equals, and there was two of everybody. I was president of Morino Associates, there was a president of Duquesne, there was a VP of sales. And so we had to merge these two things, and it was agreed that I was the guy that had the most depth in operations from my GE background. So everybody kind of agreed I'd be the president of this company. Then we had to split everything up. "Okay, this VP of sales from this company, this VP of finance from this one."

MJP: It doesn't work, does it?

PB: It doesn't work. It doesn't work well. And so it also became contentious as to where's the headquarters? Pittsburgh or Virginia? And it was a little bit like, well, I won that battle ultimately, because we headquartered in Virginia. But in the process we had a guy that came in off the board, a guy by the name of Joe Henson, who came out of twenty-eight years in IBM, and he was a senior executive. [Section deleted.] Eventually I decided to leave.

MJP: At this time, you had moved back to Virginia. How did you start with NEA? How did you decide to enter venture capital?

PB: When I left LEGENT, I had actually been thinking about starting a company. And I was transforming LEGENT from a mainframe-oriented company, all the products were rooted in mainframe world, but the world was changing to decentralized computing. So, we were starting to introduce products in a networked world.

And I'd be sitting there thinking, "You know, this is hard, to take a company that's got mainframe roots and transition it. Boy, do I wish I had a clean slate." So, in the back of my mind I always said, "You know, wouldn't it be great to start a company with these products, doing these functions, but in a decentralized computing world, instead of a mainframe, centralized computing world?"

So, when I decided to leave LEGENT, I said, "I'm going to start a company that does this." When I [had] moved back to Virginia from Dallas, Art got me involved with some of the NEA companies, and they used to have, I think it was called the President's Forum, where the presidents of NEA companies would gather together. And he invited me to come to those sessions, and I invested in what was then called the Silverado Fund. So I had a connection to NEA, albeit not day-to-day. That's when I moved back to Virginia. When I left LEGENT and I said, "Well, Art, I'm going to start a company," he said, "Well, how about you incubate it at NEA?"

I said, "Well, what does that mean?" He says, "Well, that means you work out of our office. We'll help you put the business plan together, start the company, and we'll pay you for that, and you give us first dibs on investing." I thought, "Well, all right, I've got to commute to Baltimore, but they're going to pay me to put my business plan together? That's a pretty good deal. And I'm going to get help? Okay, good deal."

MJP: Did you know anybody else at NEA?

PB: No, not really.

MJP: This is 1991; you left LEGENT in '91.

PB: Yes, '91. LEGENT, by the way, coincidentally, got sold a few years later to Computer Associates. So, UCCEL got sold— At the time it got sold, it was the largest deal ever in the technology industry at $890 million. And when LEGENT got sold, it was the largest deal ever in the technology industry at $2 billion.

MJP: But this is in the late eighties.

PB: Yes, and LEGENT was $2 billion, and it got eclipsed by IBM buying Lotus a few months later. But they were large deals.

MJP: You said, "Okay, Art, I'll be incubated and get paid."

PB: So I went to the NEA offices in Baltimore, and I started working closely with Art and Nora Zeitz. We started hatching a business plan that Art called LEGENT for LANs, LANs being local area networks, so kind of distributed computing. And that was our catch phrase, LEGENT for LANs. So, we're going to create this company. I also divided my time, quite frankly, between NEA and General Atlantic.

General Atlantic was the venture firm, private equity firm that was largest shareholder at LEGENT. So, when I left LEGENT, they kind of corralled me, and they tried to get me interested in running a couple of other of their companies. And then they started paying me to— They weren't so much interested in this business plan, but they had other projects for me.

So I agreed to split my time, half between NEA and half with General Atlantic, which was in New York. So, I actually had an office in New York. I spent half my time there, and half my time with NEA, which was really foolish. I mean to think that I was going to put a business together when I was splitting my time up like that was crazy. Then NEA made it worse by asking me to help them because I had just come out of the operating world, [and] NEA had some troubled companies. "Would you help counsel our CEOs?" Well, now I'm getting paid by them, right? So I now feel an obligation—

MJP: Having a moral center. (laughter)

PB: —to, "Okay, I'll help you," so there was one company in particular, the name of which escapes me right now, up in Boston. It was one of Art's companies. And I'd go up there just about every week to help the CEO figure out his strategy and operational issues. Frank Bonsal would go, "Well, while you're up in Boston, here's three business plans. Would you mind stopping by these companies and telling us what you think?"

The next thing I know, I'm sitting in partners' meetings pontificating on whether this company is a good one or a bad one and why. After doing this for a few months, I go, "Well, I'm not making a lot of headway in my business, and I'm essentially doing what they're doing, but I'm not getting paid nearly as much as they're getting paid." (laughter)

So who got the better end of this deal? I thought I was getting the better end of this deal, but I'm not so sure. So I did that for a while, and finally, I forget after how long, Art and Chuck sat me down and said, "Have you thought about venture capital?" And I said, "Well, I don't know that I'd want to do that." And Chuck said — I'll never forget this discussion — Chuck said, "Well, we don't know that you'd be any good at it." That really pissed me off. (laughter) Me? I wouldn't be good at it? (laughs) The competitive juices kicked in right then.

MJP: Chuck wasn't a marine leader for nothing.

PB: But they said, "Look, you've got to stop your deal with General Atlantic. You've got to put this business thing, LEGENT for LANs, on hold, and focus for a year on venture capital, and at the end of the year we'll call it, mutually, whether you want to do it and whether we want you." I had gotten intrigued with what they were doing in the meantime, having been in their office and seeing what they did, and kind of got attracted to the fact that he worked with a lot of different companies.

I could leverage all my business lessons in lots of companies, in exciting, different areas, where you were interfacing with smart, ambitious people with great, new, exciting ideas. So there was an attractive side to it. I didn't know if I'd like the fact that I wasn't in control. Didn't have my hand on the levers like an operating guy did. Lots of travel. I wasn't sure it was my cup of tea, but there were aspects to it that were very attractive. So I said, "Okay, hey, what have I got to lose? A year."

MJP: And the other company wasn't offering you anything like that.

PB: General Atlantic? Well, actually there was a company by the name of Compuware, which was also a public company, in Detroit, that they were trying to get the founder and CEO to hand over the CEO role. And he and I had had a lot of discussions. He happened to be Greek, Pete Karmatos. (laughs) So, you know, we hit it off, and I expected to get a job offer, and I was half prepared to accept it, and then he got cold feet, he didn't want to hand the company over to anybody. So, I had gone down a path. And at the time there wasn't anything else, and they'd shown me some things that didn't interest me. So, the short answer is no, there wasn't anything at that point in time.

MJP: At what point in this first year did you say, "I like it. I can do this and I want to do it"?

PB: I don't know if there was a point, but it became— I'd say it was probably six months into the process where I said, "You know, this is fun, I'm having fun. I think I could be good at this." And it's worth a try. It's a career change and I'm for the challenge. I still hadn't figured out, quite frankly, how you made any money at this business.

This was a very difficult time, we were coming out of a recession. All the partners' meetings were about companies blowing up and problems. They had just raised NEA V in 1990. But it was a troubled time in the industry. If you look back then, there were very few public offerings. There was only something like $2 billion raised in the entire industry, compared to $25 billion today. It had peaked in theInternet boom years at over $100 billion, and it had gone down from a peak of $4 billion.

So, it had gone down. The industry actually had contracted. So I'm sitting there going, "Art, how do you make money at this business? I don't get it. You just sit around and talk about problems at your companies." I never got a convincing answer to that question, but somewhere in my gut, I had the sense that, look, there's less innovation going on in big companies today than five years earlier. This innovation's important. There's got to be a way to make money. I'm not sure I figured out how these people do it, because no one's really explained it to me, but there's opportunity here. I smell it; I don't really totally understand it. It was more instinctive than anything.

MJP: Did you love technology at that point?

PB: I do love technology. I'm not a technologist, but I love technology. I'm a firm believer that lots of great things come out of it, exciting things. At some point, quite frankly, I was thinking about going to the health care side because not only do I like technology, I like the fact that you're helping human beings very directly, you know, the cause seems good.

But those weren't my roots, so that was an unnatural kind of thing to do. But at any rate, for whatever set of reasons, I just said, "Let's give it a try. I like mixing it up with these entrepreneurs, this is exciting stuff, and I think there may be a future here." I didn't have all the answers, quite frankly.

MJP: Had you met all the partners at that point?

PB: At that point I had met all the partners. Chuck encouraged me to come out and meet Dick [Kramlich.] And Dick had me go around to a few of his portfolio companies, one of which was [Telebit], and the corporate development guy there was Peter Morris. Now, this is before I decided I was staying with NEA, right? Or they had even offered me a position.

Peter Morris and I almost started a different company at that point in time, on our first meeting. Because I'm sitting there, just having met Peter, talking about the situation, and I'd given him my background, I had bought and sold lots of companies. I was one of the most acquisitive guys in the industry at that point in time.

And I said, "You know, Broad View Associates," which is one of these M&A [merger and acquistion] shops out of Leigh, New Jersey — Fort Leigh, New Jersey — "is a very successful practice dealing with tech companies in M&A." And I had developed this theory, being around NEA, that the new epicenter of that activity was going to move to Silicon Valley. Particularly given the recession that was going on, there was going to be lots of activity, and that one could kind of set up shop in Silicon Valley and become the Broad View Associates, which was the leader in the industry, but the industry was East Coast-centered at that point, and move it west.

Peter instantaneously grabbed onto that idea and wanted to start a company, a firm doing that. So, we talked about that a little, but I didn't really want to do that. I thought there was an opportunity. That's, again, tangential. But that was my first meeting with Peter Morris.

MJP: So, you came out here, you met the partners, and you grabbed on.

PB: Yes. I don't know that all the partners really knew what to make of me, quite frankly. Out here, Dick was the senior guy. Tom McConnell was a more junior guy. I actually had known Tom a little bit, because when I was at GE Information Services, one of the businesses I ran was everything we did in the banking industry. And NEA was looking at a banking-related software company — Tom and Art were — and they asked me to help them, which I did. So I had known Tom, actually, from that experience.

MJP: Could you have imagined that within seven years you'd be the managing general partner?

PB: No. Are you kidding? I had no idea.

MJP: When did you figure out that you really love this business?

PB: I think I knew it pretty quickly, actually. I think I instinctively, even before I made my first investment, just by the interactions I had had helping these companies, you know, when they sent me on these little projects — I could see. I said, "I really enjoy doing this, and I really feel like, in a sense, I'm a mentor, I'm teaching these, in some cases, relatively young, inexperienced CEOs some lessons I've learned, and I can leverage myself over multiple companies. I can deal with the important issues, the strategic issues, as opposed to, you know, our receptionist left, and we've got to replace our receptionist." And one of the things I learned, which I don't think I fully realized in an operating role, was I loved the freedom of being able to set your own agenda.

MJP: In control of your—

PB: In control of your own destiny. That even when you're running a company, you feel the burden of the organization needing you. So if you're feeling bad and you want to stay home and you're sick one day, you feel like, "Geez, I'm letting a lot of people down, 'cause they need my involvement in this or that." It's not a matter of self-importance, but it is a matter of, you are, in a sense, a choke point in terms of things getting done if you're not around.

And to some extent you were a slave to your schedule. So, you knew you had to visit your sales offices, you had to visit customers. There were a certain number of things, you might've had some flexibility as to exactly when you did it. But, you know, when you're in a public company, you have quarterly earnings and quarterly analyst meetings and conference calls, and so much of your calendar was scheduled for you, like it or not.

The venture world was, well, look, I've got obligations, you always have some obligations, but you know what? I've got a lot of freedom and a lot of flexibility to determine what's important and where I spend my time. And I liked that. And it was just right for me at that point in my career.

MJP: Right. And you were mature enough and experienced enough and disciplined enough to manage it well.

PB: Yes. It wasn't a matter of was I going to work hard, or, I wasn't looking for a vacation, but I was looking for having control of my own destiny, if you will. In an ironic sense, you know, even though I was the COO of this company, I felt like as a venture capitalist you actually had more freedom. That was attractive.

MJP: That speaks a little bit to what motivates you. What do you think you're best at?

PB: Oh, what am I best at? As a venture capitalist?

MJP: Yes.

PB: I think that I learned — I don't think I appreciated it so much at the time — but I learned some incredibly great business lessons in my tenure at GE that are applicable in any business. One of the things GE teaches you, I mean GE has a philosophy where they take people and they move them from one industry to another. It's almost, a general manager is a general manager is a general manager. In fact, when Welch went up the ladder to be

CEO, in the middle of my tenure, in Pittsfield, Massachusetts, they promoted him to be a sector executive running the consumer businesses. So, Mr. Welch, you're a chemical engineer by background, a PhD. You've grown the plastics business and all the chemically related businesses, in GE materials businesses. Here's your new test: Consumers. Light bulbs, refrigerators, appliances. And GE did that. And so I learned those lessons at GE.

MJP: And the lessons are—

PB: Well, all these business lessons that were applicable across most any business.

MJP: I see. Give me some examples.

PB: It's hard to pick an example. One of the lessons might be the one that I gave you earlier about being direct, shooting straight with people, and telling them sooner rather than later about what they're doing right and wrong and being honest about their career, and giving them that counsel. That sounds simple, but you know what? Most people don't do it.

Other lessons would be, a GE axiom is, basically, I'm going to say it wrong, but, "Recognize reality." You would always be challenged. It's human tendency to take a situation that's a problem and say, "You know what? Here's the best way to optimize it." I take a bad situation. "Here's how I can make it better." Instead of saying, "Why am I doing this at all?" Make the hard call. "Should I be in this business?"

MJP: So, challenge your assumptions.

PB: Challenge all of your assumptions, and be realistic about what you could actually do and achieve in a business, and be willing to make hard decisions. So I learned those lessons. I'll give you an example of where I applied that.

When I went to Morino Associates, this was a — relative to that day and age — a high-flying company. It was trading a high multiple in the NASDAQ. To the world, it appeared that everything was great, and I was going into a high-growth situation. And I, in doing my own due diligence, I had my former international manager at UCCEL take the job running international at Morino Associates.

So I'd call up Mike, "Tell me about this business." "Great, growth, et cetera." But Europe, I learned later, was still in its infancy for that business. When I got into the business and I brought my VP of sales, and I brought my investor relations guy along, so I had my team, if you will, very shortly, I don't remember how long it was, but it was a matter of weeks, not months, I realized we had a big problem, and that even though sales had been growing, the pipeline of new business had been shrinking dramatically.

Well, why is that? Well, there were fundamental issues at the business. And I said, "We're going to hit a wall about a year from now if we keep on this track." And so a matter of three or four months into my job, I laid off 15 percent of the employee body, I restructured the benefit plan. They were paying something like 56 percent of the wage dollar in benefits. I restructured it down to 21 percent from 56 percent. That made me a real popular guy. I changed some management and some key positions, and I did this in — And by the way, I had to convince Mario MarinoMorino?, the founder, who was still — had the title, he had the title of CEO, but he had one direct report, me, and then the rest of the company reported to me.

He was a passionate guy, who was the founder of his company, intensely loyal individual, intensely loyal individual. And I had to convince him to let me do this, and that was not easy. But I ultimately did. And he would tell you today that, in retrospect, I saved his company. And what GE taught me was most managers would look at the same set of facts I looked at and hope that they could, over time, manage their way out of it, incrementally, instead of making the hard call that said, "I'm going to lay off 15 percent of the employee body, reduce my expenses through benefit changes, et cetera, that are going to impact every employee negatively, and I'm going to deal with it."

And I'm the new guy on the block on top of it. I haven't even earned their respect yet. And that takes, you know — if I hadn't had my GE training, there's no way I would've done that. But I said, "You know what? This is going to be a hard call, I've got to do it." First of all, Mario said afterwards, "Most people would have left the job, wouldn't have even stuck around." But even though I got surprises that I felt I shouldn't have gotten, after I got into the job, I made a commitment. Right or wrong, knowingly or unknowingly, I made a commitment, I'm going to work through this. I had to do this in a public environment. One analyst nicknamed me Babyface with a Chainsaw. (laughter) Never forget that one. They were aghast that I would take this seemingly everything's-going-right company, and made these radical moves.

MJP: That's one of the things you do very well.

PB: That's one of the things GE taught me to do. Lessons in business, make the hard call, face reality today, not tomorrow.

MJP: Is that your role at NEA?

PB: Yes. Well, it's my role in any job I'm in, yes.

MJP: Maybe that's the role of every venture capitalist.

PB: When I'm counseling my companies.

MJP: That's what you do.

PB: Yes. It's like, "Let's be serious, guys. You're fooling yourself if you think there's any real probability to that outcome. Let's face reality."

MJP: Could I vote for you for president of the United States? (laughter)

PB: No. (laughs)

MJP: That's core.

PB: That's one lesson, facing reality and making the hard call is something most people don't do. GE teaches you to do it, even if you're managing yourself out of a job. I've recommended shutting down businesses I've managed. Now, GE gives you a little cover there because it's a big company, and you know that if you do the right thing by GE, they'll look out for you.

If you're managing a company that has no coverage, it's harder, it's a little tougher, but you learn. So that's what I was doing there, though. There was nowhere to hide. That was a company, stand-alone company. GE taught me to face reality; make your analysis of the situation, and you might be wrong, but do it, and make the call. Don't wait.

MJP: Great story. Thank you. Now I want to get to the history of , and we can continue in the morning. But I want to be respectful of your time.

PB: I'm okay now. Where are we now?

MJP: It is very exciting. You've had these lessons, you're at NEA, you decide to stay, you like it. You have the freedom and the responsibility, and you get to learn. I get the feeling that you love to learn.

PB: Yes.

THE STORY OF UUNET

MJP: And you love to make a difference. Now, how did you end up with UUNET, which is one of NEA's largest, greatest successes, and where you really made a difference in the universe of technology and the Internet? How did that come about? We can talk about it now and go on, or tomorrow, whatever.

PB: I'll start, then we can stop. UUNET, how did I come across it?

MJP: Yes. What's the story of UUNET?

PB: We came across it actually two different ways, almost simultaneously. Arthur Patterson at UCCEL was a guy that I had met, because when UCCEL in Dallas got sold, he called me up and said he wanted to meet me. And so he flew to Dallas and met me. I'm an executive in the industry, and he had heard about me, and so he wanted to know, I suppose, if I might fit into one of his companies at that point in time or some future time.

So we got to know each other, and we had a couple of meetings in Texas and one out here on the West Coast when I was traveling out here. Arthur knew my background, he knew GE Information Services. I don't even know how they sourced UUNET, but with one of their partners, a guy by the name of Jim McLane, Arthur, because it was in Washington and because it had similarities to GE Information Services' business (I suppose), thought of me.

Arthur talked to Dick [Kramlich] and said, "I got this company that Peter Barris might be interested in." That's one connection. The other connection was that one of the board members — I say that generously because I'm not sure they ever had a board meeting per se — but one of the board members at UUNET at that point in time was a guy by the name of Mike Ballard who happened to be the VP of marketing at Telebit, a company that Dick was on the board of here in the valley. UUNET was raising capital, and so Mike brought it to NEA. So, through those two unconnected events, it came to our attention. I started looking at it with the help of one of our associates by the name of Alex Slusky. And I didn't know anything about the Internet, but when I went in—

MJP: What year is this?

PB: This is, I'll have to go back and check the dates, but I believe it was '93. I'll have to check on those dates. Do you have something there, did I write something down?

MJP: No, you didn't, but— In 1990 UUNET launched AlterNet, so it was after that. 1991, UUNET participates in the founding of the Commercial Internet Exchange Association. And then the company in '95 sells stock on the NASDAQ.

PB: I think we invested in ’93, but I’ll check that out. Because it was about two and a half years between when we invested, so maybe it was ’92. I’ll check the dates. I officially started in ’91, it’s probably ’92. But when I looked at UUNET, it was already a company, and it had, I think, about $3 million in revenue, only $1.5 million of which was Internet-related. And there was another company in the Washington area called PSINet that was actually further along, and growing faster, and had already gotten one round of venture financing, led by a firm by the name of Matrix. And they coincidentally were raising capital at the same time. Now, I didn’t know this until we started looking at UUNET, we said, “Okay, who else is in this industry, what are they doing?” Here’s another company in our backyard, PSINet, they coincidentally were raising capital. So, we went and visited with them as well.

But I instantly knew, when it was explained to me what UUNET did, that there were incredible parallels between this and GE Information Services’ business. GE had this proprietary global network that it delivered value-added services over and sold to large enterprises. So I had started asking some questions about, well, these kinds of applications that we did at GE, to Rick Adams, the founder: “Could you do this on this now public internet?” “Yes.” “Really? Explain that to me, and explain to me the cost advantages,” and so on and so forth.

And this light went off in my head, and I said, "You mean the hundreds and hundreds of millions of dollars of business that we sold at GE Information Services, you can now do all that cheaper on this thing called the Internet?" Which was a public, non-proprietary network. What was particularly interesting about it is what little hype there was, and there wasn't a lot being said about the Internet in those days, it was all around consumer, and my background was all business.

And I said, "Wow, this is not promise of future, these are real applications running on networks today that can now be done cheaper on this new medium." So, that got me excited. So we jointly, hand-in-hand with UCCEL, did due diligence on this and decided to invest. Now, along came Menlo Ventures at the same time. And, eventually, for a variety of reasons we agreed to a three-way deal.

Now, this is because I don't know that I'd want this to be available information to the venture industry.but it is on the record by being here—OK? But this gets back to being morally centered. Maybe there's a way we could work this in, but I don't know. Jim McClane, the guy that had been working this for UCCEL, left the firm, and Arthur Patterson took his position. Rick Adams didn't like Arthur Patterson, so Rick Adams came to me and said, "I want NEA to do this alone," and I said, "We came to the dance with UCCEL, it's both of us or it's none of us." So — Menlo Ventures that was also sniffing around — Rick said, "Okay," after several discussions in a couple of weeks, "Okay, then I need a counterbalance to Arthur, and I'm going to bring in a third firm, Menlo, because they're trying to get into this deal, so that I have a counterbalance to Arthur Patterson."

So we agreed to a three-way deal. In retrospect it could've been all NEA. Instead, we got basically one-third of what we would've otherwise gotten. But what makes that important is because later when we did Netscape, we brought Kleiner Perkins into the deal, and then Jim Clarke got miffed at NEA because of how we declined to just pay his ridiculous price that he was asking, and we said, "Kleiner, you come in and be the third party, we're close to Jim," because we knew him from Silicon Graphics, "You be the third party."

Well, Kleiner quickly decided and said, "We'll pay your price," and then Jim got mad at NEA because Kleiner, this new guy on the block, was willing to do it, and we had hesitated. And so he got mad at us and basically was going to cut us out of the deal. We went to Kleiner and said, "Hey, Jim wants to cut us out of the deal." They said, "Well, you've got a problem with him, you need to fix it with him."

And so to me that was the parallel situation. They could've said, "We came to this dance with NEA, it's both of us or none of us." And they went on to fame and glory. They did Netscape, we got cut out, and to me it's the same situation. I went down a different path.

Do I regret it? Not at all. Could we have made a lot more money and been a lot more famous? Yes, but I don't regret it. UCCEL, as far as they know, they showed us the deal alone. They didn't really know Mike Ballard showed us the deal. But that's neither here nor there. They invited us to be their partner. I wasn't going to do that, and neither was NEA going to do that. That's not NEA's style.

MJP: Right, that's not Dick's style, no.

PB: So, anyway, so that's an aside. So, we did a three-way deal.

MJP: And that's why.

PB: That's why it became a three-way deal. It could've been a one-way deal, and most people don't know that story. I've never told Arthur Patterson that story.

MJP: No. I wonder if he knows.

PB: I don't know. I don't know why he would, but maybe he does.

MJP: On a personal level, then you don't regret it—

PB: Not at all. It would've been like blood money to me. To cut 'em out, I couldn't see it. I made it sound like it was an instantaneous response to him. He shocked me when he said it. I had to go back and think about it. And I thought about it, and I said, "I don't know how I could possibly do this. Well, how do I respond to him?" And I went back to Rick, I said, “Look, we came with them, and I can’t do this. So you either take us both or we’re both out.”

There were three other VCs sitting around the table. I did the investment. The money went in on a Friday, and on Tuesday we had our first board meeting. At that board meeting the CEO gets up and lowers all of his financial estimates, projections going forward. And I’m going, “Wait a minute, we just invested in a company with a whole different set of projections.” “Well, you know, blah blah blah,” and the other VCs sitting around the table are laughing and saying, “Welcome to the venture business.” I was mortified. And so I went back, and how do I face my new partners at NEA? I’ve just invested in my first investment, and the rug got pulled out from under me. This was material difference.

So, I remember the discussion. And the partners — and they’re saying, “Tough lesson, Peter, blah blah blah.” I go, “Can we sue them?” I mean, I’m not a litigious guy, but, “We couldn’t sue other VCs,” and this and that. I don’t remember exactly how this happened. I went back with Dan Finkelman and I said, “I want to know our legal rights.” I said, “You know what? People respect you when you deal with—” You know, another business lesson, “Don’t roll over. If you’re in the right here, deal with this thing upfront.” So, he said, “You absolutely have legal rights. They made representations. You know, the money went in on Friday. He had to have known then if, on Tuesday he lowered his estimates."

So, I went back and I said, "Okay—" I don't know if I cleared this with the other NEA partners or whatever, because they, I think, didn't know what to make of me. I went back and I said to the CEO, I said, "Look, I understand that mistakes can be made. Just give us our money back and we'll go home, and that's it. Just give us our money." "Well, we can't give you your money back." "No, you misrepresented, okay?" And I implied, I don't remember how I did it, that there was a suit being drawn up if he didn't. The other VCs — and I communicated this to the other VCs. I said, "Gentleman, I just want our money back. This isn't the company we invested in. We certainly would not have invested at this price if we had known this information, which we should've known."

And long story short, they renegotiated the deal at a different price, gave us warrants, and those other VCs respected me for that. I know they respected me for that because of other things that happened after that. And it was— So I said, "You know, Kleiner will never respect us if we just roll over."

MJP: Right, and— ?

PB: Well, we just rolled over.

MJP: Because that wasn't just your decision.

PB: Well, that wasn't my deal, right, right. But my attitude is, you know, I'm not a litigious guy at all. I had never sued anybody in my life, but I said, "I know I've been done harm here, and this was not the up and up, and I'm not going to just roll over."

MJP: What a first lesson.

PB: (laughs) But the lesson in the response was, you know what? If you're dealing with people fairly, and they knew I was wronged, and I was not being unreasonable. I just said, "Give me my money back, guys, no harm, no foul, okay, let's just reverse it, you know? Rewind this, okay? And let's pretend it never happened."

MJP: How was the rest of your relationship with that company and that CEO?

PB: Great. The next board meeting they were asking me, when we had an issue, to sit down with the CEO because I was the operating guy, and he would respect it, that we all agreed to what the message was. They agreed I was the guy to deliver it, because he would respect it coming from me, a guy that had sat in his seat.

So, they were totally supportive of me. They were not at all— Had great relationships. In fact, one guy, one of those guys tried to recruit me to his firm after that. It's a little bit like the guy, you fire the guy and he gives you the— It's how you handle it. If you're not being unreasonable, you're being fair, you know, I'm not being unreasonable here.

MJP: Your daughters have to read this story, this transcript. This is wonderful.

PB: I don't know if they're understand it, but—

MJP: What happened with UUNET?

PB: So, we invested in the company, and again, there were lots of parallels to GE Information Services. The founder had a predisposition to the commercial market anyways, and clearly my experience at GE Information Services said, That's where the gold is, in them there hills, not the consumer market. And so UUNET took a very different approach to the world than the consumer market.

MJP: From PSINet.

PB: And the others, the other ISPs, which was to concentrate on the business world rather than the consumer world. One thing that's very important in this story was before we invested, we went to Rick Adams, the founder, and said, "We're only going to put our money in if you allow us, with your participation, to bring in professional management, including a new CEO."

That was up front. Sometimes you don't know how a guy's going to work out. In this case we knew he wasn't going to be the CEO. So, we said we're going to tell him before we put our money in, we're not going to play any games here. And that was a hard thing for him to accept because he had visions of being Bill Gates. But I think he knew in his heart of hearts that that was the right thing to do. We said, "Look, you're going to be a participant in this process, and you've got to want the guy." He ultimately agreed to it, so it was on that premise that we put our money in. But the first person we hired was actually the VP of operations, who was the guy who had that job at GE Information Services. A guy by the name of Joe Scuarzini. I forget what his age was, he was several years older than me, so it was a big difference between him and Rick Adams, the founder. But Joe is kind of a child-at-heart kind of guy, so he related to these young kids, and yet he was an experienced guy that ran one of the biggest networks, data networks in the world. It was, in fact, I think it was the biggest data network in the world. And so he's a very qualified guy, lived locally, wanted a new opportunity, and he fit in culturally.

MJP: And you got him.

PB: We got him, and then Rick, I think, I earned a lot of respect with Rick because here I found this guy that he liked, an older guy from a different generation that he really liked and was very competent. So, that helped in the process of bringing other people in. The next guy we brought in was actually to head up customer support. He was my customer support guy at LEGENT. They actually asked me, the board asked me to become CEO of UUNET, and this is another, we had just raised NEA six. So, that's the timing. It was '93. Well, no, no. This is when they asked me to be the president, so this is not when we invested. We had just raised NEA six. No, I was commuting to Baltimore, this was ten minutes from my house, UUNET. And I went— Now, you know, I didn't know how successful it was going to be, either, but I obviously felt good about the company because we invested. I said, “I can’t do it, we just raised a new fund, I made commitments to limited partners, I cannot do that. But I will find you the guy.” And that’s when I thought John Sidgmore.

MJP: How did you know John?

PB: Well, John and I had— When I was at GE Information Services, I ran, out of Chicago, I ran a P&L that was a twenty-three-state area. There were what we called area managers for the business. It was an $800 million business, there were five area managers, including international, that ran the P&L for GE Information Services. I was one of them, John Sidgmore was another one of them. So we were peers.

MJP: And you stayed in touch with him?

PB: No.

MJP: Just out of the blue you said, “Hmmm, he could do this.”

PB: Right. I said he could do it, and Joe Scuarzini.

MJP: This is a great story. Has this ever been written up?

PB: No. Joe Scuarzini — also obviously knew John, and said, “What a great guy.” So I called John up and I said, “I got this company,” you know, I explained to him what I had been doing, we hadn't talked in years. And, "What are you doing?" Et cetera. And after I left GE, John had gone on to become the number two guy at GE Information Services. And then he left to run a small company, kind of a startup that he then sold to CSC Corporation, and he stayed on at CSC. He was very successful. John said he'd agree to look at the company, but he had already accepted a new position with the guy that owned this other company he had managed. So, it's a guy he had worked with before, a guy by the name of Ron Han. He accepted it, but he wasn't going to start for another year. I said, "What? I've never heard of that. What do you mean, it doesn't start for another year?" Well, I can't remember all the details, but it was a future. But he had already been paid a sign-on bonus, I think it was $400,000. And so anyway, I introduced him to UUNET, and he got really excited, and I really started selling him on it, really hard. I sent you the eulogy?

MJP: Yes, I have it right here.

PB: But somewhere in this process we developed a conflict. I had Sidgmore, and John Jarvie from Menlo really liked Sidgmore as well. Arthur Patterson liked him, but Arthur Patterson had a guy he had worked with that he had also introduced to the project who was a good guy, but I didn't think as good as John, and neither did John Jarvie think as good as John, and we had a problem.

And the problem was that John had accepted this other job. And the guy was a known litigious guy. And so we were sitting there saying, "Ugh, we're going to get sued." John thought we would get sued, good chance, Arthur Patterson wanted nothing to do with it because we were going to get sued. Well, we ultimately said, "John Sidgmore's worth the risk." What we did is John agreed to return the sign-on bonus, okay? This was a year away, remember.

MJP: Right.

PB: The world's changed, I'm going to take this job instead. But in that process, when I was trying to convince John, he used this line, "Why do I want to do this WeWeNet, UUNET, whatever you call it?" He was playing hard to get. He's a tough negotiator, right? And so I was in sales mode and he was negotiating and playing hard to get.

And in the meantime, we weren't sure we wanted him because we didn't want to get sued. I knew we wanted him, but we were grappling with that internally. Ultimately we got past it. We hired him, he wrote the check back, we never got sued. So that worked out. But we were taking a chance. Because you have a guy with a lot of wealth, this guy had a huge amount of wealth, I forget what it was, but he was a very wealthy guy, he's litigious. A small company, he can tie you up, and you can be spending all your time fighting litigation as opposed to doing what you've got to do. That was the risk. Not that we were, I mean we got all the counsel in the world, but there was no problem. You return the sign-on bonus, you're not a slave to— You're on your own free will. You haven't even started the job, for God's sake. (laughs)

MJP: And John started right away.

PB: John started right away, and we were off.

MJP: Did he make the company?

PB: Yes, he did, absolutely. But we ran into some problems pretty early on, and this is where it became kind of critical. And our GE Information Services background was particularly relevant. Our strategy at the time he signed on was to do a roll-up of these— The Internet at that point was a bunch of regional networks operated under contract, typically by universities.

So, the one in the, I forget what they call them, but the one in New England was run by MIT, the one in the northeast was run out of NYU. Stanford was one. So we were going to go and roll these up and buy them, and create critical mass, because critical mass was important. By the way, NEA was not that enthused about this investment. We all agreed, but everybody thought, this is a commodity, what are the barriers to entry? And again, my experience coming out of GE Information Services, which was a services business, is there is no technical barrier to entry, but not a lot of people understand this Internet technology. So, the resources are relatively scarce today, and if you can get enough of that resource today and build critical mass quickly, that becomes your competitive barrier.

So, speed — it was a little bit of a land grab — was important. So, this roll-up strategy was do it quickly. I forget the numbers, but I remember quoting them in a few speeches. The number of mentions of the Internet, when we invested, in the press and six months later, dramatic difference. Right after we invested, the world caught on to the Internet. It was something like, order of magnitude, ten mentions, 150 mentions. You know, it just dramatically increased. So the prices of all these regional players shot up, and the roll-up strategy no longer was going to work.

MJP: Who created the roll-up strategy, the board or you and John?

PB: No, that actually preceded John, and it was a collective strategy. I don't recall exactly how we got there, but it was board and management team collectively came up with it, and we hired John on with that in mind. That was what he was going to do and execute. And then all of a sudden this happened. So, how do we deal with it? Okay. Well—

MJP: GE principle.

PB: GE principle. So, before I left GE, in my group we hatched an idea. The idea was, we have all these business customers that are on our network during business hours. And at night our pipes are empty. How do we take this empty pipe and fill it? Because there's no marginal cost. It's there. Consumers use networks at night when they're out of work. Businesses use it during business hours. So we came up with what was then the idea of a consumer-used network, which ultimately was called Genie. That was, early on, there was Prodigy, Genie, Compuserve, and America Online. GE should have been the America Online, should've been. It had the network already. Nobody else did, they were building theirs.

So, the execution of that happened after I left, and it did okay, but it ultimately floundered a bit. But we said, "You know what? Everybody's talking consumer, and we want to build it for commercial. Let's flip it." So, how do we build our network off the backs of the consumers for where we're going to make our money ultimately, commercial? Who cares about consumers? America Online cares about consumers. So, I set up a breakfast with John Sidgmore, myself, and Steve Case, who I had met on a few occasions, the founder of America Online. Steve loved John Sidgmore.

MJP: They had known each other?

PB: No. This was the introduction. I knew both of them, I introduced them. And that ultimately led to— America Online was going to make a major investment in UUNET, Steve Case was going to go on the board, and based on that investment we were going to finance the buildout of our network, and America Online was going to give us business for their consumers.

We got way down that path, and we got surprised because they bought another company called ANS that was in a similar business to UUNET, and we said, "Steve, how do you do this? You own a competitor." He said, "Well, they're not a competitor." We said, "Well, that's interesting because we knew they were for sale, and when we went to them, they wouldn't give us the book because they said we're their competitor. How do we do this?"

So, we then said, "You know, what we need to do, you know who hates AOL more than anybody? Microsoft, and AOL hates Microsoft. So we need to get a competitive auction going here." We made sure Microsoft found out that we were talking to AOL, and that got them interested in us. And essentially, we ended up doing a deal with Microsoft.

We did, perhaps, and this is John— I was— John would call me every night and bounce ideas off, and we'd strategize, and then he'd go back, and he was a great negotiator. He negotiated what, at least from what I know, is maybe the best deal anybody's ever done with Microsoft. And so they made a— I'd have to go back, I don't recall all the facts, but I think it was a $10 million investment, but more importantly, they guaranteed us a huge amount of business. They were going to build out a whole network for their purposes, dial-up network, and we put a guy, my— The guy that came to run customer support, but maybe *was* not *but*? if so, add comma after LEGENTa guy who worked for me at LEGENT was put in charge by John of building this out. When Microsoft invested

— the guy that did this was a guy by the name of Dan Rosen — he was their point guy. He told me afterwards that the reason they did it, he said, was because of those guys, John Sidgmore, Joe Scuarzini and Dave, (I'm getting tired now) the three guys I had brought in. "Because those guys aren't at these other companies, it was your management team, that's the reason we invested in UUNET."

John struck this sweetheart deal. So, while PSINet and others were going out and raising all this capital in outside markets and getting diluted, we built a large part of our network off the back of Microsoft. That was our new strategy, and so they helped— Because building a network's an expensive proposition, and it was off the backs of their customers, we were able to build a network and ultimately resell it to our commercial clients at a time when the consumers didn't use it. So it was a flip of our GE experience.

MJP: When you say, "We sat around and we thought of this strategy," how does that happen? I mean, are you literally just sitting around?

PB: Just lots of discussion: We can't finance this. Do you realize how much money it would cost us to go out and finance? How do we finance this network buildout? We've got to do it in fairly short order. Well, can we get a strategic partner? Well, what kind of strategic partner would want to do this? Well, we don't want somebody who's going to be competitive with us. Who complements us? It's that kind of logic. Now, this is multiple discussions. I don't even recall exactly how many.

MJP: Did you lose sleep over this?

PB: Oh, at that time I was losing sleep because we had made an investment. We had a strategy, and it had been turned upside-down. Some of the board members wanted to turn it— I mean to give you a sense, okay, well, "We can't afford to build a network, so let's become a consulting company." That's the level we were at, a consulting company. "Well, if we build a network, we're going to be a commodity. Wait a second, hold on, hold on. If we build a network and it's off the, and we're leasing AT&T lines, what's our differentiated position? How do we—" Well, guess what? We used to lease our lines at GE Information Services from AT&T.

And I remember when the front page of the *Wall Street Journal* said AT&T was going to put us out of business. Well, guess what? They never did. So, all these little lessons, it was so many parallels to GE Information Services, gave us the confidence to say, "I'm not afraid of AT&T. I've read this book before. I'm not going to dismiss them either. They're serious and they've got a lot of money, but I'm not going to just roll over either, because I've seen it before. It's not necessarily so. If we move faster, if we're smart, if we're cleverer, we can beat them," and we did.

MJP: Do you think your heartbeat was up about twenty beats a day higher—

PB: It was exciting, it was an exciting time. The Internet was taking off. We were in a great position, we had a great management team. Then John brought in more great people.

MJP: What was John like?

PB: Read that eulogy. [Peter Barris delivered a eulogy at John Sidgmore's memorial service. It is included at the end of this oral history.]

MJP: I was going to include this. Could I?

PB: Yes, absolutely. He was a very smart guy, but unassuming, didn't take himself too seriously, despite all his successes. He's the kind of guy that would be very, you know, he would call me all the time, and we just talked. He was always learning. He was always asking questions about what's the best way to do this? Here's what I'm thinking about, et cetera.

But he was a very confident manager. I don't mean to say anything other than that. He was a very confident manager, and people loved him. I mean truly, employees loved him because he was a people person in a very genuine way. He wasn't a back-slapping kind of people person. He was just, he could walk the delicate line between being a manager and still being your friend. And that's hard to do. But people felt very comfortable with him, they felt like they could walk into his office, and he became, as I say, something of a rock star, internally as well as externally.

MJP: Was his brilliance that of a scientist or of a manager?

PB: Definitely not a scientist, he was not a highly technical guy. I mean, he understood it well—

MJP: He was a businessman.

PB: He was a businessman, and he had good instincts.

MJP: So, what happened, why did he let go of the leadership?

PB: He didn't. What do you mean? When did—

MJP: Well, when Bernie Ebbers came.

PB: Oh. So, UUNET ultimately got bought by MFS, that very quickly got bought by WorldCom.

MJP: And he wasn't absorbed each step of the way?

PB: Oh, he was. In fact, he became vice chairman of WorldCom. Bernie Ebbers wanted him to become CEO, and he said he'd never go to another job where he had to wear a tie. He had such a great experience at UUNET, besides building some incredible wealth, he knew he liked start-ups. So, the example of that is he— His administrative assistant at UUNET started a company called Electronic Commerce, Inc., ECI2 2?. And from her job and familiarity with the Internet, she started a company to buy office supplies on the Internet, and she asked John to mentor her. This was in the heyday of the Internet, right?

So, John put some of his personal money in and he mentored her. Then she asked him to be chairman of the company.

He did, he agreed to that. Then they needed some money, so John came to me and said, "Would NEA put some money in?" And we said, "You know, if John's involved, where's the checkbook?" But he was chairman, not CEO at the time, but there was the prospect of him becoming CEO. He was very involved. Even though he was still employed at WorldCom, he was doing part-time work there with their understanding, he spent time at this company. That's where he was spending his time. That's what he loved, he loved the start-up environment. So, he said, "I could never go work for a telephone company, run a telephone company. I can't do that." And he was sought after by lots of big companies.

MJP: Why, after WorldCom was in trouble, did he go back?

PB: Okay. Well, that, ultimately UCCEL came back in on the next round, into ECI again. It's like, "John Sidgmore, where's the checkbook?" John took over the CEO role, but he maintained a board seat at WorldCom and the title of vice chairman, but he really didn't work there day-to-day.

MJP: I see. That's why he didn't know what was going on.

PB: He didn't know what was going on, really. But he was a board member like every other board member, so he had every responsibility of every board member. But he would go out and give speeches occasionally on the industry on behalf of WorldCom. To them, he was a front guy for them, an important one.

But he had done a lot of acquisitions for WorldCom. He led the way when he was more actively involved. And the board came to him and said, "We're going to fire Bernie Ebbers, and you're the only guy." I don't know all the reasons, I wasn't privy to that discussion, but this is the way he explained it to me, "You're the only guy that we can put in that seat," and they begged him to take it over.

He felt a responsibility, particularly to the employees and particularly to the ones he brought in, because now the company was in trouble. So, he called me up and said, "I've got to do this." "Well, John, I understand, but, and I'm not going to try to talk you out of running this major global telecom company. What do we do about ECI?"

"Well, I'm going to come back. I'm going to fix it, it's going to take less than a year." "John, you might get sucked into this." This is a discussion we had. "No, I'm going to be back, this is what I love doing." He was convinced he had a job to do, he would go do it, and that he could manage, through other people that were there, ECI would be okay for the time being. I wasn't convinced of that. I was very worried about ECI. Shortly after he did this is when the whole thing with Bernie blew up. I don't recall exactly what the timing was.

MJP: Just months, actually. **[INCLUDE DATE OF SPEECH TO CONGRESS.]** I have here his speech to Congress, and I think that was in July, and I think it was within six months of—

PB: Yes, oh, definitely within six months, right.

MJP: Maybe it was April, it was July, and—

PB: Yes, so he just got sucked into it. And then his health deteriorated. What was important to John was his reputation. He had enough money, money wasn't important. He lived— He, his wife and he are just both humble people, they have one son, [my daughter] Diana's age, he's a senior now. Nothing pretentious at all. This is a kind of guy, as I described, who liked to jam on his guitar, and was a U2 fan, and he was a rock and roll guy. He was really a hippie turned corporate executive, that's what he was.

MJP: Did he drink?

PB: He started, you know, nothing excessive, but I certainly think he started drinking more during those WorldCom— There was incredible stress. And you could see it physically in him.

MJP: From the WorldCom—

PB: Yes. There were, first of all, a lot of employees started blaming him. When you have a big WorldCom corporation, he didn't know all those employees, he was put into the hot seat, things blew up with Bernie, and he started getting death threats. There was a morning when there was a package at the— He went to get the paper, and there was a package at the foot of his drive, and it turned out to be fake, but it was a bomb. I mean to the point where the FBI came there, they cordoned off the road. He had to get security for his child. It was a hugely stressful time, and it took its toll, there's no doubt about it.

MJP: Do you think—

PB: This is a guy that just wanted to come out. He had nothing to hide, and he was just in this vortex of that.

MJP: If he hadn't re-taken on that leadership, would he have, do you think, gotten sick?

PB: I don't think so. Who knows? But there are a lot of people who share my belief that that job killed him. It really compromised his immune system. He got this infection. This infection got out of control and killed him, ultimately.

MJP: And quickly.

PB: And quickly. He went into the hospital. I don't know how much his wife wants this to be public. But he went into the hospital for some tests, and they admitted him and he never came out. And I got a call, I will never forget this, I got a call, I was at a dinner in New York with George Stamos and a guy that runs Mid-Ocean Partners in New York, a private equity thing.

And we left the dinner and I went up to my room, and I had "message from Randy Sidgmore," his wife, that said, "Call me no matter what time it is." And she says, "I'm at the hospital, John's seriously ill, and they don't believe he's going to make it." And I'm like, I didn't even know he was in the hospital, and then all of a sudden he's dying—

MJP: Do you see it as a Greek tragedy?

PB: Yes, it really is. It really is. His memorial service was on a Sunday morning in a downtown hotel. It snowed six to eight inches the night before, which closed down the city. There were six hundred people there. There would've been a lot more. He was really loved by a lot of people.

MJP: I asked Chuck Newhall what he wanted me to ask you. What was the essence, I wasn't sure. He said, "My view was that John was a hypomanic. He was a romantic visionary about the Internet. UUNET was his baby, and Bernie Ebbers used it to con the world. John stepped in to save the company and it killed him. The cause of death was an infection, probably brought about by the damage done to his body by heavy drinking. It is almost a Lord Jim storyLord Jim was a separate book, from Conrad's *Heart of*

Darkness. Peter may not see it that way, but it is my perspective. John and I had talks when I was living through [Health South].” So, was he a romantic visionary?

PB: I would say that, yeah, for sure.

MJP: And was he just explosively enthusiastic and passionate and wildly had ups and downs?

PB: Well, he was not the kind of guy that was. If you met John, he was not effusive. He was not a P. T. Barnum kind of get on a stage, but he was— You want to talk about a guy who knew how to communicate. He had a way with words. First of all, he had a deep, husky voice out of a small frame, and he had a way of kind of mesmerizing you. He was charismatic in that way, but not in an overt way. He’d kind of suck you in because—

MJP: Was it his intellect or just his style?

PB: Both. It’s hard to describe. How do you describe style? It’s the kind of guy that you immediately — he exuded confidence, but he also — you just trusted him. You listened to him, and you said, “Wow, what a competent guy.” No airs about him, and he just was able to— He literally would go to meetings, and then they’d swarm him afterwards for his autograph. He was almost like a rock star. He was highly sought after. But none of this really went to his head. That was the amazing thing about him. He never lost his grounding, and that’s what people admired about him. He was the same old guy, he really was.

MJP: I don't have it with me, but I will email it to you, his testimony before Congress. The short, focused, seven typed pages, exuded honor and a sense of responsibility.

PB: I have no doubt about it because I got the story from him as to why he was doing this before the Bernie Ebbers stuff blew up, okay? This was not a reaction to— "I have this responsibility, I'm going to go fix it, I think it's fixable." I was skeptical that it was that easily fixable. In that sense, he was the romantic visionary.

I said, "John, this can just suck you in. This is a complicated situation. It's not going to be a quick fix, and I'm really nervous that once you get in, you're going to get sucked in." "No, no, no." In fact, he told me a story that his wife, he was calling me up to tell me this: He was standing, he told me on the phone, "I'm standing in the parking lot of Fresh Fields. Randy's next to me. She thinks this is going to kill me, but I've got to do it."

MJP: A romantic visionary. Oh, that's why Chuck says what he does.

PB: Yes. Now, when he says that Bernie — what did he say? Bernie Ebbers was using him?

MJP: Not using him, but— He said, "UUNET was his baby, and Bernie Ebbers used it to con the world."

PB: Well, I'll tell you why that's wrong. Because Bernie Ebbers, well, it depends on the context, the timing. Bernie Ebbers bought MFS, Bernie Ebbers didn't buy UUNET.

MFS bought UUNET. Bernie Ebbers didn't know what UUNET was when he bought MFS. It was only later that he learned that the real jewel in MFS was UUNET.

MJP: I see.

PB: So, his motivation, at least initially, so Chuck says, "To con the world." I mean, I guess it's— Ultimately he realized he had a jewel in UUNET, but I don't agree that Bernie Ebbers used that to con the world, I don't agree with that at all.

MJP: On a pragmatic level in terms of your involvement, was UUNET your greatest financial success?

PB: Yes.

MJP: For NEA?

PB: Yes, to this day.

MJP: How many times was—?

PB: Let's see. It would be about 95 times.

MJP: You invested three?

PB: Invested three and got back 290, I think. It would've actually been a lot more, except we hedged our investment, and we shared it, but we hedged it because we locked in our gains on a big chunk of it.

MJP: But hasn't it been NEA's greatest success?

PB: No, Juniper has been.

MJP: Oh, Juniper, I see.

PB: Yes.

MJP: But that was later, a different [value].

PB: That was later. Well, interestingly enough, when John Sidgmore died, Scott Kriens, the CEO of Juniper said, "We owe our success to John Sidgmore and UUNET." That was in a letter to the employees at Juniper.

MJP: Why did he write that?

PB: Because UUNET put Juniper on the map. They were, for years, their largest customer. They were their first big customer. And so Mike O'Dell, who's now with NEA, made the decision for UUNET to go with Juniper, and then the rest of the industry followed.

MJP: Right. I think what Chuck wanted was to prove his hypothesis that—

PB: John's a hypomanic?

MJP: Mm-hm.

PB: I'm not educated enough in what a hypomanic is to make a judgment. Why don't you describe to me again at least—

MJP: A hypomanic has an abundance, if not an excessive sense optimism. A confidence and willingness to take risks. That's the essence of it.

PB: I'd say under that definition, John was a hypomanic.

MJP: Right, and what about you?

PB: The one thing I'd say about John, before I answer your question about me, he was an optimist, but that's not the first word that comes to my mind. I think of a guy that was supremely confident in his ability to make things happen. So even when we were talking about selling it to MFS, which he really didn't in his heart of hearts want to do, he would've taken it, if it were just his decision, he would've taken UUNET to the next level. And in retrospect, he was probably right.

MJP: What difference would it have made?

PB: It would've become a much bigger independent company, and if we ultimately sold it, we would've sold it for a lot more. We sold it too early.

MJP: Why'd you sell it?

PB: Well, I think that was a group, you know, investors, it was a great offer, it was a fear that everybody, big players were in the game, AT&Ts of the world and others spending big dollars, that we wouldn't be able to financially play ball. And I think that conclusion was the right conclusion, but I think we could have gone much—

MJP: If John had done it, John would've kept at it.

PB: John would've kept at it, and we could've gone further, independently, than we did. And John was very optimistic about that, confident about it. John was very confident about his ability to— "If I get in there, this is what I can do. This is what I can do with WorldCom, this is what I could do at MFS. This is what I could do." He was supremely confident in his ability, not of ego, that's the important thing.

MJP: Yes, that's what I'm hearing you say.

PB: It was confidence. Now, is confidence optimism? Yes, you've got to be optimistic. But it's not as though he would always, he would be optimistic about everything. He was confident in his ability to get good results. If you talked about something that he wasn't involved in, would I have called him a supremely optimistic guy? Not really.

I think he was a very critical, thoughtful guy. And so is he an optimist in that sense? Not really. He's generally optimistic. He wasn't a negative guy, but I don't know that he was that much more optimistic than most people. So I don't think of him that way. If he had control over it, he was confident. Optimism born of confidence.

MJP: Right. That's more rational than an exuberant definition.

PB: Right.

MJP: I'd like to conclude this part of our interview now, and we can pick up tomorrow morning. Thank you very much.

This is a continuation of an interview with Peter Barris. Today's date is December, 14, 2006.

THE BUBBLE

MJP: I'd like to continue this interview with questions about the economic bubble. Can you characterize the energy and deal flow in the nineties and early 2000s that led up to what is now called the bubble?

PB: Led up to and during. It was an unbelievable time. We literally worked from early hours in the morning to late at night every day and through weekends. In terms of our activity level, in a normal period we would see, in our partners' meetings on a Monday, one or two presentations from new companies. Now we regularly had four and five presentations during that period. It was difficult to have partners meetings because we were prosecuting so many deals. And it wasn't only the volume. Part of that was, the timing was such, it became so competitive that you had to make decisions, quite frankly, on little, if any, due diligence. You had to rely on your knowledge of the industry and your instincts, and maybe a few phone calls, but you'd miss the deal if you didn't make decisions quickly. So it took your normal risks, and exaggerated them by multiple times, if you will.

MJP: Was it exciting?

PB: It was unbelievably exciting because we felt at the time that we were in — not only were we seeing exciting deals, but we were part of a transformation, if you will. Everybody talked about the new economy and how companies were going to be measured on a whole different set of metrics going forward than they had been since the beginning of time. Ultimately, most people drank that Kool-Aid, myself included.

MJP: Did you know you were drinking Kool-Aid?

PB: I knew I was drinking Kool-Aid. The things we were doing were counter to most of the business lessons I had learned through my career. And so you were involved in an internal struggle. Do I put all these lessons that have served me so well for so long aside? And do I become the big skeptic and the naysayer? Or do I join the club?

And I think everybody went through that struggle in one form or another, and some people bought it instantly. I'd say NEA did not. We had difficulty, and if you looked at

— We never really did a lot of the true dot-com investments. If you look at the volume of our activity during that period, we did a lot in the communications area because that was also hyperactive.

And we said, "This is a real business with real customers and companies that have budgets. This is real, it's not smoke and mirrors." Now, yes, we got excited about some dot-coms and we did some dot-coms, though we tended to do more business-to-business dot-coms than we did consumer dot-coms, which were kind of the height.

MJP: Why was NEA concentrating on those as opposed to the dot-com, like PlanetRx and Drugstore.com?

PB: I just think that when you come down to those struggles, the struggle that I talked about here, your business lessons that you had learned and had served you well all your career, versus this brave new world, if you will, we were less willing to take that leap, so you might say we were more conservative.

MJP: Did you miss some good deals?

PB: We definitely missed some good deals, but we also did some bad ones. I have to go back and think about the ones that really did well that we missed. Let me put it this way: I can't recall off the top of my head right now if we saw an Amazon or we saw a Yahoo! Because of their consumer focus I am not sure we would have done these deals had we seen them. We've changed our style as a result of that. We're, I'd say more willing, particularly in our portfolio… Look, we did some of the Greetingcard.com, e-greetings, and yellowbook. We definitely did some of those. But we did it in a way that said, "Look, our portfolio can absorb some of these, so we can afford to take these risks. We're not buying it all, and we're not investing our entire fund in these kinds of deals," as some did.

And those funds tended to do extremely well, and then crash extremely hard. And in retrospect, maybe that would've been a better strategy, I don't know. But it wasn't our personality. I don't want to make it sound like we were overly conservative. We did a lot of pretty interesting deals in that timeframe, but—

MJP: What's an example of an interesting deal that worked, or one that was a real loser?

PB: An interesting deal that worked — let me think back now to that time frame. In that period. Well, we did, we had a lot of communications successes. That was the NEA VIII, NEA IX time frame. That's when it was. In NEA VIII we did very well early, and those were mostly communications companies. Peter Morris and Rod Coneybeer led that effort, and we have lots of examples of those successes during that period of time.

But I'm trying to think in the dot-com, which is what most people think of when they think of the Internet boom. The fact that I'm struggling to come up with an example, in and of itself, says something. I can't think of a great one right now.

MJP: But NEA IX was such a bust.

PB: Yes, and largely because we were heavily concentrated in communications, and it flipped. It went from a high-growth area, where all these new technologies were being adopted by them as they invested in new services, to a total change. That all started with a regulatory change in 1996, the Telecom Act of 1996, that allowed new competition to come in. And so that was an exciting era because we were coming up with competitive carriers and competitive services to the Bell, Baby Bells, if you will. The new services required new equipment, new communications equipment, and so we invested in both the service side and the device side, and with great success. Even if you take the boom and the bust, and you average it out, you'd have to say we did the right thing. Quite frankly, I look at that whole era, dot-coms included, and say I don't know what the big issue is that people have because I thought it was a great period of time, for not only our industry, but for our country and our economy.

It was, I guess, an exaggerated example of common behavior. The behavior patterns that we all exemplified in that time frame as venture capitalists, we saw in other times and we will see in the future. It was extreme, and there were excesses, there's no doubt about it.

But I look back at it, quite frankly, and say, That's the strength of our country and our system, that we could marshal that kind of human and financial capital as quickly as we did, and disperse it in an incredible number of business enterprises, and out of it came some very important companies. Now, people want to talk about the Amazons and the eBays of the world, and the Yahoos of the world that were outgrowths of that period. What people don't talk about is, go back to my company, General Electric, that I started at, and how that era impacted General Electric today. And if you look at GE today and how it conducts business and how the Internet and e-mail affects everything from how products are sourced from suppliers, how customer service is conducted, how everyday communication is conducted internally and externally, you'll find enormous change and productivity improvements in old-line legacy companies like GE.

So we transformed our economy for the better because of what we all did in our industry at that period of time, and we're all better off for it. I think it was a great period of time. And yes, there are a lot of corpses that came out of it. I read something just last week that was pretty interesting. In that period, if you compare it to other, similar periods, and it didn't elaborate on the other periods, but there was a study, I forget where it came out of, I think it was Harvard, where they compared it to, you know, when railroads came into being or when the automobile industry started, other fairly significant changes in the economic landscape, the number of business failures per year was actually slightly less during this Internet bubble than it was during those periods of time, on a percentage basis. They use the number 20 percent failures per year. It was less during that period of time.

So are we going to see it again? Absolutely. It might not be quite to that extreme, and I think the best chance of seeing it again is in the health care area, in my view. Because there's so much innovation and technological advances going on in that area, and that area, quite frankly, is something that everybody can understand. Everybody understands cures for cancer. Not everybody understands fiber optics. (laughs) So, if there's likely to be a frenzy in the future, my prediction is it's going to be in the health care area.

MJP: How are you going to approach it? Differently, now that you're seasoned?

PB: Again, in retrospect, if you averaged everything out, it worked. So, would I temper some activity? One of the lessons we learned in that period of time is that — those business lessons that we learned — you know, earnings do matter, not just market share, is an example. Those have been tried and tested, and I'm never, ever going to abandon that. If that changes, it's going to pass me by, because I won't abandon that.

MJP: Did you abandon it during the bubble?

PB: Not in whole, but I started to question whether I was wrong and the rest of the world was right. I started to have doubts because I hung on and hung on. And, you know, I had doubts for the right reasons, but at that point I will admit, like everybody else, you see a train leaving the station, and you say, "Well, can I afford not to be on it?" It's not only a question of do I get it, but can I afford not to be on it? Because you saw other people having successes.

MJP: So the risk is not participating.

PB: The risk is not participating. There's a risk to not participate. That's what happens in the stock market every day. The people that are the buyers of stocks sit there and go, "Well, I can sit here while the guy in the trading desk next to me makes a lot of money. Now, I might lose money if he loses money, but we all lose money together. Don't I look foolish if he makes money and I don't?" That's actually risk aversion. (laughs) It's not risk taking. [pause]necessary to note this here?

MJP: When you were in the middle of that frenzy then, you moderated it.

PB: Yes. (pause) That was the constant debate we had internally.

MJP: Did you ever wake up scared? "Oh my God, I'm not jumping on the train," or, "I've jumped on the train and this is crazy."

PB: We did jump on the train in this sense: We invested, if you look at NEA IX, which was a $890 million fund, we went through the investing cycle, which is about half the fund, and then you retain half, in eleven months. That normally would take you three years, and that was the biggest fund we ever had. So, there's no question we changed our behavior in that period of time, in the velocity of our activity level, and deal flow and deals we did, materially changed our behavior.

We did lots of deals that had unproven, uncertain business models. So, were we taking risks that were unusual for us if you compare them to the past? Yes. Were we doing Pets.com? No. But we did a few of those deals. I distinctly remember myself sitting in a lot of these discussions when I was maybe a bit more skeptical than some, but we hear a business model, and somebody would talk about what they were doing, and I'd say, "You know, if I could stand on a street corner and hand out ten-dollar bills, that would attract a crowd. But as soon as my bag of ten-dollar bills ran out, the crowd would go away." So, what do you do to monetize this? Everything was about getting eyeballs, and very few people said, "How do I monetize that?" And so we saw a lot of those business plans, and we bought into a few of them, but we were skeptics.

MJP: When did you wake up?

PB: I'd say we started waking up in 2000, and clearly by 2001 it hit us.

MJP: Chuck sees venture capital as a romantic quest in general. It's exciting. You're braving a new world.

PB: I agree with that.

MJP: And yet during this period, 1999 to 2004, he thinks that venture capital was as difficult as, for him, the [Ashaw] Valley in Vietnam.

PB: Interesting.

MJP: It was that desperate.

PB: Yes, well, we went through the valley of death, there's no doubt about it.

MJP: But you haven't described that kind of desperation during this period?

PB: No. I mean, this, to me, does not in any way compare to the fright I had, the story I gave you last night about taking over the helm of a public company and realizing that we had a wall in front of us, and what to do about it? Doesn't come close. Doesn't come close to that, in terms of really testing— Yes, there was a lot of second-guessing going on. Look, the media fueled the frenzy along with lots of other constituent groups, but they made venture capitalists saints. And then all of a sudden, we were the pits. It was just an era of extremes all the way around. But everybody was a participant in it. Limited partners would come back and say— I remember when we went to raise NEA XI, I guess it was, which was the first big fund after the bust. And I was sitting in front of a group of one of our limited partners in New York around a conference table. And the first question put to me was describe what we had done, the dollars we had put to work and the number of companies we invested in. And at the end of it, the limited looks at me and says, "What were you thinking?" And I said, "Well, you could ask that question of our entire industry." And he said, "Well, I'm not asking it of the entire industry because we didn't invest in the entire industry, we invested in you. What were you thinking?" And what I wanted to say was, "Well, I didn't force you to give us money. What were you thinking? You were as much a participant in this process as I was. And in fact, while we're downsizing our fund, you're expanding yours." (laughs)

MJP: *But you didn't say that.*

PB: I didn't say it. I wanted to say it, but I didn't say it. (laughs) But everybody was a participant in this. And some people recognized that and admitted to it, and said, "Look, we blew it. We collectively blew it. Let's call it a bad set of decisions and move on."

MJP: *Right. But NEA didn't make as many bad decisions as other firms.*

PB: No.

NEA MANAGING PARTNER 1999

MJP: *Peter, I just realized you became the managing general partner in 1999.*

PB: Right. (laughs)

MJP: What were you thinking? (laughter)

PB: Well, we had started the transition from Dick and Chuck. Dick was the managing partner and Chuck managed kind of the internal back office of our firm. That's how they divvied up responsibilities. Coincident with NEA VII, we created an executive office, if you will, of Dick, Tom McConnell, and myself. And then in NEA VIII Dick dropped off and it was Tom McConnell and me. And then in NEA IX, Tom dropped off and it was me. So, this was not the start, we had started back in NEA VII, where I was involved in the management of the firm, but not solely.

MJP: But did you wake up one day and say, "What have I gotten myself into?"

PB: Well, when I took over it was really the height of the Internet boom, it was an exciting time. I was very concerned about our pace of investment. And if I, in retrospect, if I had — There were lots of lessons, but not as many as you would think, because I think they're going to be repeated.

MJP: You might want to jot them down as we go forward.

PB: Okay. The single biggest lesson that I think is applicable going forward is, we talk about diversifying our investments for some risk management, but there's also time diversity. When you invest as much money as we and others invested in a short period of time, you're now committed to those investments for the next number of years. And if the world shifts on you, you cannot respond. You've already set the course. So time diversity is important, regardless. If you have a fund, regardless of how exciting the environment is, you can't invest it over a short period of time, you have to do it in a measured way because the world is unpredictable.

Our attitude during the boom was it was all about velocity of capital; get as many deals done because, quite frankly, your chances of success were high, regardless. When you could take a company public six months after you invested, and it was still an unproven business model, cash flow negative, that was an era when the public markets were essentially participating in venture capital and doing venture capital deals, and taking venture capital risk. So they were participants, too, public investors were participants in this process. And I guarantee you it'll happen again.

MJP: In your professional lifetime?

PB: Yes, I think so. And I don't think that's a bad thing.

MJP: You're looking at over the next fifteen years, it's going to happen again?

PB: Right. Maybe not to that extreme, and probably not to that extreme. You have elements — Look, when I say it'll happen again, we'll see that characteristic, stars aligning in a — maybe it's an industry sector where people throw out some of the lessons of the past, and invest in sectors and get excited and exuberant, and capital gets amassed over a very short period of time. We'll see elements of it. Will we see it to the extent we saw in the late nineties? Probably not, just because we smart too much. But I'm confident we'll see it. And I don't think it's a bad thing. I actually think, again, if you could carve out some of the excesses, it's a good thing. And if you go back in our economic history, that's what we had when we had revolutions, if you will, it was a lot of companies with similar solutions to the same problem, most, if not all of which, ultimately failed.

But some people made a lot of money, a lot of people lost a lot of money, and overall we were all winners for it. And that's okay. That's our system. It's the gold digger system, you know, let's all go to California and dig in the Gold Rush. How many people actually found gold, right?

MJP: Not as many as wanted to.

PB: Right. Was that a bad thing?

MJP: No, it was a shake-out, as it were.

PB: Right.

NATIONAL VENTURE CAPITAL ASSOCIATION

MJP: And NEA's still strong. Now, moving on, when did you first become aware of the National Venture Capital Association?

PB: As a firm, we've always been very involved, and Dick was president of the National Venture Capital Association. I forgot what years. I guess I really understood what was going on there and the impact they were having on our industry when Dick was president of the association.

MJP: I think it was ’92, ’93.

PB: That sounds right. So, it was early in my tenure at NEA. And that was also a particularly important time in terms of issues that were on the table and getting entrepreneurs to lobby together on the Hill. I think that’s when the NVCA started having some real impact on the Hill. I realized, along with everybody else in our firm, how important that was to our industry. So, they have a venture PAC that people contribute to, that everybody in the NEA contributes to annually, and it’s a very important ingredient. They’re fighting some battles up there that are important to our industry in terms of sustaining our growth.

MJP: So you see it as a lobbying organization.

PB: Yes, principally.

MJP: And as an agent for change or for protection?

PB: Good question. Well, in many of the battles it’s for protection, quite frankly, because we’re a believer in low capital gains rates. We’re believers in the importance of stock options as incentives. So, it’s, “Don’t change that.” Now that we have made changes like Sarbanes-Oxley, the NVCA is a proponent of changing, but it’s changing back to something closer to what we were. So, in that sense it’s more defensive, I guess you would say, than offensive.

MJP: So it’s both.

PB: It's both. We're trying to change the visa regulatory environment in terms of allowing more immigrants to come in. Now, where we are doing very positive change, definitely on the offensive rather than defensive, is our focus on competitiveness, particularly our educational system. That's very off positive change as opposed to defense. So, it's both.

MJP: It's interesting. When it first started, which was actually in the seventies, it was an effort to just network. It was a networking association.

PB: Really?

MJP: Lionel Pincus and a few of his buddies said, "Let's meet, let's change places around the country."

PB: I don't think they even had, in the early nineties I'm not even sure they had their own offices, the NVCA.

MJP: Dick said he was instrumental in hiring Mark Heeson.

PB: Yes.

MJP: And getting it organized. And how did you get to be on the executive committee?

PB: I was just nominated, and I got called up.

MJP: Out of the blue.

PB: Out of the blue. (laughs)

MJP: Just one of 20,000 venture capitalists, let's go with Peter. I don't think so.

PB: I certainly didn't lobby for it. I just got called up.

MJP: Dick was on it, Tom McConnell was on it.

PB: Yes. I think NEA has certainly a tradition of being involved. We're a big player. We have a Washington and Silicon Valley presence. So it's a natural. We've been contributors to the Venture PAC. I mean leading contributors, we've always been at the very top of the list. So I think NEA is thought of as an important firm in the industry in that sense. We've always been supportive of the NVCA's efforts. We're an important bellwether in many senses because we've always been amongst, if not the largest fund. To some extent, we like to think of ourselves as defining the direction of venture capital.

MJP: *Consciously?*

PB: Yes.

MJP: *As in your ventures into China and India.?*

PB: Yes. We may not be the first, but we'll often be the fast follower. Our efforts in venture growth equity, a limited partner told me the other day, "We didn't know what that was before you brought it up, but now there's a dozen funds being raised to do the same thing." I wouldn't call us a pioneer, but on the other hand, I'd say we're a reasonably important player in the industry, just for no other reason, because of our size and longevity.

MJP: *And success.*

PB: And success.

MJP: So, you see NEA's role in NVCA as being, you're one of the leaders in the field, so therefore you would want to be on its governing board.

PB: Well, we see it's doing important work, and we want to support it. Not enough firms in our industry support it actively, in my mind. I don't think enough firms in our industry realize the positive impact it has.

MJP: *Interesting.*

PB: And that you can, through regulation, fuel and, alternately, kill our industry. So it's fragile in that sense. And the reason we have this terrific system in America is partly cultural, but it's also a set of incentives and a regulatory environment that fosters innovation and risk-taking, and all the things that make up our industry.

MJP: I realize we have to continue this interview another time, Peter, but you have already provided so much insight. Thank you very much. It is a privilege to interview you. Your reference to your “moral center” and the way you’ve applied it to your professional life is inspiring. Your observations about business and venture capital during the past twenty-five years are fascinating. You have a lot to share.

PB: Well, thank you.

The following is a follow-up interview with Peter Barris, taking place at NEA’s office in Chevy Chase, Maryland. Today’s date is June 23, 2011. My name is Carole Kolker

Carole Kolker: *As I said, I’m here following up on a 2006 interview. Chuck Newhall suggested that we meet and talk about a recent adventure with Groupon. I'm sure there's a story here. We're always interested in “the story,” about the people you've been working with, the entrepreneur, and the challenges you faced. Perhaps you could just start and explain, what is Groupon?*

Peter Barris: Okay. Groupon today is a business that's based on offering daily deals via the Web, via email, and its focus is local. So it is bridging the gap between what you think of as the web and the Internet and local brick and mortar commerce. So unlike e-commerce, which is Amazon, where you order a product on the Internet and it gets delivered, this is using the Internet to learn of an offering and then visit a local merchant for a service, generally, but it can be a product as well. So it's all about local. And it started out in Chicago, but now it's in over 200 cities and 50 countries worldwide. And it's grown from a business that really started in 2008and today it's a multi-billion-dollar business with 10,000 employees. So it's a phenomenon. It has struck a chord. But, you know, the really interesting thing about it is that wasn't really the business we invested in. It morphed itself into what it is today.

CK: *Let's back up then, and start with how this business came to your attention.*

PB: Yeah. I had been working with one of my other partners, Harry Weller, who's a collaborator of mine on many of these deals, with a couple of guys in Chicago who I first met back in, I'm going to say 2005 — I have to check on that, but 2005. Which was a little bit of serendipity. I'll give you a little bit of that history. But I'm a Northwestern grad and I was at a homecoming football game, which was an evening game on a Saturday, and I was sitting next to an old fraternity brother of mine who I hadn't seen in years, and he was an investment banker in the Chicago area. And we were talking about what we do professionally, and he said, "You gotta meet this guy, Eric Lefkofsky. He's got this business, InnerWorkings, that you need to know about, that I think they have a term sheet already to raise capital from a West Coast firm." So this was a Saturday evening, and he whet my appetite, and I flew back to Chicago that following Wednesday to meet with Eric. I met with him, but he was way down the path of doing a financing with a; west coast firm although it was actually out of their New York office.

CK: *What was that?*

PB: (Don’t want to identify the group). And so I said, "Eric, give me two weeks, give *us*, NEA, two weeks to do our work, and if you give us two weeks, we'll let you know if we want to invest and on what terms." And he said, "I'll give you the two weeks." And so about a week into this process, Eric called me and said, "You know, I think I'm going to move forward with this other deal I have, it's a bird in the hand." And I said, "Eric, you know, you said you were going to give us two weeks, and we've lived up to our side of the bargain, and you need to live up to yours." And I convinced him to give us another week. Long story short. I played to his natural good nature. He relented and gave us the additional week we had previously agreed to.

CK: *How did you establish this rapport with him so quickly?*

PB: Well, you know, he was and is a very impressive guy. He's a University of Michigan grad, and went to law school at the University of Michigan, and he has a very sharp mind in the sense that has this ability to take a very complex situation and boil it down to its essence. He could take a complicated business model or a complicated set of circumstances and very quickly boil it down to the essence of the issue, or the essence of the solution to the issue. So I was very attracted to that. And he's a very aggressive, hard-driving, business person, And I thought refreshing in the sense that so many of the startup people we meet are focused on creating a business, but they're not focused on creating a profitable business. Eric came from the point of that we're in business to make money, and that was refreshing to me, because it wasn't just about gathering eyeballs or traffic; It was: How do I monetize that?

CK: *You were comfortable just saying, "You promise to give us two weeks?"*

PB: Yeah, I was a little more blunt about it. I was saying, "I've done everything I said I was gonna do, and if you're not gonna do everything you say you're gonna do, maybe we shouldn't do business together. Because we do business with people who keep their word." And Eric very quickly said, "Well, you know, I'm not backing off of what I committed to, basically." And he gave us the week. Long story short, he gave us the week. But he was nervous, and I totally understood it — that he was gonna lose this other deal waiting for us. Now, his recollection and mine may be a little different. He thought he gave us a week; I thought he gave us two weeks. But it was short; let me put it that way. And at the end of the day he said he was impressed by how quickly we moved and did all of our work, because we just marshaled troops internally to do our due diligence, lawyers to paper. We had money wired maybe a week after that. It was, start to finish, a real effort on our part. You know, Eric is a kind of "make it happen," action-oriented, decisive guy. That impressed him that we could move that quickly and decisively. And so long story short, we made the investment in InnerWorkings, and it went on to become a public company a lot sooner than we expected it to, quite frankly. And he showed an ability to scale businesses quickly. This thing went to multi-hundred millions in revenue very quickly on a business model that was bringing technology to a relatively moribund industry, the print industry, and disintermediating their distribution channels, their print purchasing channels. And so he and his partner— Brad Keywell, then went on to start a similar company in the logistics space called Echo Global Logistics. We invested in that as well. It scaled quickly, it went public. They then started another company with a similar concept of disintermediating the purchasing channels in media, and it's a company called MediaBank (now MediaOcean) It's private to date, but doing very well. And in each of these cases, Brad and Eric incubated the company, got it to a point where it was self-sustaining, and then recruited in industry-experienced people. And so their ability to think of these concepts, come up with these concepts, incubate the concept, get the company started and then recruit management was, to me, and to Harry, and to NEA, the ideal entrepreneur. Because most entrepreneurs quite frankly don't know what they don't know, and oftentimes have visions of being something they aren't, personally. And so that's why you hear stories of entrepreneurs who hang on too long, and when they try to scale a business, they get to the point where they're not doing what they do best. Eric and Brad knew what they did best, and then they knew when to pass the baton to someone else. So we learned this over time. We didn't know that when we made the initial investment at InnerWorkings. And so they were expert at it. So we continued to back them, and they continued to create some successful companies. And that now brings us to Groupon.

CK: *He becomes like a serial entrepreneur for you.*

PB: He's definitely a serial entrepreneur. We had backed three of his companies(Brad was involved in two of those). And Eric then came across this guy by the name of Andrew Mason, who is the founder of Groupon, who was working at InnerWorkings. And he heard about this idea that Andrew had, and it was an idea that he called "The Point." And he was also part-time. He had just started a graduate program. He had graduated from Northwestern and he had just started a graduate program at the University of Chicago. And Eric was enthralled with his idea behind The Point, although he saw it as risky, and he said, "I'll fund you $1 million to get this going if you drop out of school and focus all your attention on it, Andrew."

CK: *And the concept of The Point was--?*

PB: I'll get to that. So this was October of 2007 that he put his $1 million in. They very quickly came to us with this concept —(so Andrew) to put some more serious capital behind it. And the concept behind The Point was simple: We're going to create a website that uses the internet to aggregate individuals for the purpose of collective action. And so let me explain what that means. An example would be your phone company — you're a subscriber to your phone company and they're doing something you don't like. But you're, as an individual, powerless to do anything about it. So maybe the phone company has a practice or they have a lapse in service, or you have a complaint with them. And it's a complaint you know is shared by a lot of other people, but individually you're powerless to do anything about it. So the concept was you would go to this website, The

Point, and you would create a contract, and the contract would say: If I can get — let's use hypothetically — 15,000 people that have the same complaint to join me, then we're going to go back to our phone company and complain to them and tell them we 15,000 people have this common complaint, and if you don't fix it, we're going to cancel our subscription. So now all of a sudden we have a powerful voice; it's not one voice, it's 15,000. And 15,000 cancelled subscriptions gets attention. That was the concept. That sounds like collective bargaining, and so that's kind of the negative side, but it could be done for positive things too. You know, we want our company or our community — here's a call to action for something positive. We want to construct a statue in the mall; we want a coffee machine in our company, whatever the case may be. We were very impressed with Andrew as a a creative mind. Sharp young man although inexperienced in business. He had no business experience to speak of outside of working as a programmer at one of our companies, and now a graduate student in social policy, I think it was. And they were raising $4.8 million; I don't recall exactly why it got to that number, but $4.8 million is what we ended up funding. But they came to usas well as going to a lot of prominent firms in Silicon Valley, and they went up and down the Valley trying to get funding for The Point. I wasn't pleased that they were marketing this concept, having now backed Eric and Brad in three other companies. I wasn't particularly pleased about the fact that they were marketing it more widely, because we were interested in doing this, and backing it.That said, it was a controversial deal within NEA, and I'll explain that in a moment. But they didn't get any takers at the end of the day. I suspect the problem that they had was the problem we had internally with the company, with the concept. Our partnership was very worried about using the negative collective bargaining kind of example I used earlier and the chance that it would lead to lawsuits. We were worried about there being a kind of negative overhang to this company. And we didn't understand how you were going to monetize this. Although there were some concepts as to how you might monetize it, none of them frankly made any sense to us. But what we loved about it — what I loved about it, what Harry loved about it (the sponsors of the deal within NEA) — what we loved about it were three things. Conceptually we loved using the Internet as a mechanism for aggregating individuals into a position of leverage-- where they became more powerful as a group than they were as individuals; that to us seemed like a great utilization of the Internet. And we loved the idea of what is called today the “tipping point," which was, in my example, if I get 15,000 people to sign up, we have a contract; if I get something less than 15,000 we don't have a contract. So here it was that tipping point concept of, if I can get enough people to join up for whatever purpose, there's power behind it. And if I don't get it, nothing happens. We loved those concepts. And the third thing we loved were the people. Eric and Brad we knew, and we knew what they were good at, and they were incredibly successful. And we had built a relationship of trust, respect, and a working relationship, quite frankly, where we could almost finish each other's sentences. Then there was, as Eric today would call it, the magic of Andrew. There was something about this kid that was clearly a very bright mind, but it was his creativity that was really attractive to us. And we thought the combination of Andrew and his product creativity and his conceptual design concepts with Eric and Brad's drive towards meaningful business models was a very powerful combination. We said, "Okay, we got a business model here that's not going to work, we don't believe it, but we think this has the ingredients of a successful company if it can be reformulated somehow" And what I said many times, and many times to my partnership, is, "There's a kernel of something here; there's a pony in here, and if anybody's going to figure it out, these guys will figure it out, and that's the bet we want to make." There was a lot of pushback in our partnership because of the negatives that I mentioned earlier. There is no business model; there is no way to monetize it, and a lot of concern about, this is collective bargaining in a very negative sense. We're not union builders here.(laughs) But it was hard to argue with the success that Brad and Eric had had, and our success in collaborating with them. And so ultimately our partnership basically said, "Peter, Harry, if you guys want to do this that badly, we're going to let you do it because you've been successful investors in the past, and we're going to let you do it. “But here's our concerns." And we said, "We share these concerns. We share all these concerns, but the reason we get past it and the reason we get comfortable with it is we've worked with Eric and Brad before, and we think those two guys working with Andrew is worth backing." And that was an advantage that no other firm had, because they hadn't worked with these folks before. So they would probably judge it on surface, one layer deep, and we were judging it three layers deep.

CK: *You were investing in the people.*

PB: We were investing in the people and some kernels of concepts there. It was more than just the people, but it was a combination of the people and what we saw as some very powerful concepts that needed to be molded differently than they had been.

CK: *So you felt it was going to be tweaked from the beginning.*

PB: Oh yeah. We didn't believe that The Point, as it existed at the time,had the makings of a successful business enterprise. And we were right — in retrospect, we were right about that. It wasn't a successful business enterprise.

CK: *When you bring this before your partners, how much agreement do you need to move forward with the investment? Is it 100%?*

PB: No, you need majority agreement. At the end of the day they voted in favor of it, but they were voting — as we were putting a big vote on people, they were putting a big vote on people, and in this case it was myself and Harry Weller. 'Cause they were saying, If you guys feel that strongly, on surface we got very deep reservations about this. This thing has lots of problems. And our response was, "We agree with every criticism you have."

CK: *That's a good way to get what you want.*

PB: Yeah. But that's not the bet we're making. We're saying, These people and these kernels of an idea here are powerful, and that's the bet we're gonna make, that they're gonna figure it out. They're gonna figure out how to take this concept of aggregating people and tipping point, and create a business model out of it that does work. This one doesn't.

CK: *Was anyone using this on the Web at the time? Aggregating people?*

PB: Not in this way, not that I'm aware of. There were some — I'm trying to remember — there were some failed buying sites and discount sites that had previously existed, but again, the discount concept didn't come until later, quite frankly. But there were some — we didn't see it being used that way. We didn't see anything quite like this where you would aggregate in large numbers. Now, so they kept experimenting. We put our money in in January of '08. So Eric funded it at a seed level in October of '07. We put our money in in January of '08, and the company went nowhere for ten months. It was going sideways; they were not burning a lot of capital, it was just a handful of people. It was Andrew and Ken Pelletier, and then they brought on a few other people, but it was handful of people during that year — were working on different concepts, and Eric and Brad were pressing them for new business models. In the summer of that year, we, quite frankly, were starting to give up hope that we would get there. And we were working on, we, NEA, were working on ideas for merging them with some other companies we had seen, and the merged companies would create a new business model that did have some substance to it. But we were all exploring and trying to figure out ways to make this successful.

And Andrew came up with this group buying concept, and experimented with it in his building. There's a restaurant in the building. They're at a converted Montgomery Ward warehouse at 600 West Chicago Avenue. That's where all these businesses (Eric L. and Brad K. startups) — InnerWorkings, Echo Global, MediaBank, they were all housed in this large converted warehouse — so hundreds of thousands of square feet under one roof on eight floors. It's on eight floors. So they occupied part of the space — obviously a very small part of the space. And they kept experimenting, but on the ground floor of this building is a restaurant — the name I'd have to get you; it's escaping me right now. And they did a deal in the building with hamburgers. And it got traction. And so they started experimenting with other businesses in and around Chicago, and it was getting some traction. And we said, "We might have something here. This is interesting." So this concept of aggregating for group buying, where you have leverage because you're bringing a group of people — customers — to a business. And I think the surprise to Andrew and all of us, quite frankly, was how, from a merchant's perspective, how valuable this was to them. Because what we learned out of this process is, you know, these are sole proprietorships generally, and they're not marketing experts, and they have a very difficult time marketing locally. Their vehicles were newspapers, taxicabs, billboards, direct mail — although most of them didn't use direct mail in any sophisticated way. They didn't really understand how to use the Internet as a marketing vehicle. Yellow Pages was the predominant way local businesses advertised, if you will. But none of them really understood what you could never do is link the money you spent on newspaper ads and Yellow Pages and whatever to business that you got. So this was a direct linkage. They didn't pay anything if they didn't get the customers in the door, and they knew they were going to get a minimum number of customers; otherwise there was no deal. Because the way Groupon works is, when you sign up, every day you get a daily deal of something of interest. So it might be 50 percent off a massage, or it might be 50 percent off on a restaurant. You get $50 worth of food for $25. Fifty percent off dry cleaning; 50% off helicopter lessons; 50% off a museum membership. What the businesses got out of it was — this tipping point concept said that Groupon would help the business design it, and say, If we don't get 200 people signed up, the deal's off. You're not going to discount anything. But if 200 people or more sign up, the deal is on. And you'd come in with your Groupon and say, "I signed up for a Groupon, here it is. I get my discount," on whatever it is. What the businesses loved about it was there was a direct connect. They knew this customer came in their door because they got this deal through Groupon. So yes, they were discounting it, but services businesses tend to be much higher margins than product businesses, so they could afford to discount it. In a lot of services businesses like restaurants, you would come in and maybe it would be $50 worth of food for $25, but you'd order more than $50 worth of food. And the bet to them was they were going to get new customers.

CK: *And this is paid for in advance?*

PB: This is only paid for — that's the other beauty of it: When you sign up for your Groupon, you pay for part of it then and the remainder over time. And so you might not use it for several months, but it's paid for.

CK: *Forever.*

PB: It's paid for forever.

CK: *But I'm saying you might not use it.*

PB: There's some spoilage, right. But you're paying for it upfront and you might not use it for several weeks. So from a merchant's standpoint, there's some benefit. They know they're going to get customers in the door. They know that some high percentage of it — this is what time has shown us — are new customers that were attracted to the business. So from a merchant's standpoint, there was a direct connect between their cost, what they were spending, and to getting the customer in the door. When you advertise on Yellow Pages, you have no idea. Or you advertise in a newspaper, you have no idea. And the reach of Groupon as the numbers grew was far greater — the number of subscribers in any one city would grow, would dwarf what the newspaper subscriber numbers were, what any other vehicle was. So businesses, there are lots of stories, but businesses — you know, there's a place in Chicago, this helicopter guy had been in business 25 years. In one day he signed up as much business as he had done in 25 years.

And so the power of this became obvious — that it was an incredible tool. And from a user standpoint, what it was is it was a way for couch potatoes to get up and do things. You know, I've always wanted to do yoga, but I just never got around to it. I got this 50 percent off yoga offer. It's going to expire in 24 hours, here's my chance. It's the thing that gets past the inertia. And so people were looking for kind of interesting, local — it's not just about deals, because these aren't coupon clippers. It's, I want a new experience; I want to get some excitement to my life. So you're going to introduce me to a business that I didn't even know existed in my city, in my locale. And Groupon does it —

There's other parts to its formula. It has a creative writing element to it in the description of the deals. It is all about scaling quickly as well. I remember asking Andrew questions about scaling this business. Andrew will tell you I was pushing very hard. "Okay, you got a great idea here. There are no barriers to entry. It could be easily copied. Your only barrier ultimately is scale. So you gotta run very fast." So I was a thorn in his side. "Okay, you're in Chicago; what's the plan to get to four cities?" He'd come back with a plan for four cities. "Great. What's the plan for ten cities?" Come back with a plan for ten cities. "Great. What's the plan for twenty-five cities?" And so to me it was never good enough. I was a thorn in his side, and he looks back today and he says, "You know, what it did was — you know, we thought, 'Geez, aren't we running fast enough?' But when we went back and thought about it, we actually could execute and run faster." And so running fast was a key. But I say that because what it's really getting to is, I asked him the question once, I said, "What's the roadblock? What's the gating item in you running faster?" And he said, "Editorial creative writing." And I said, "Creative writing? You gotta be kidding me. Why is that a burden to you, a blocking mechanism to you? You're in a city." He's a Northwestern grad, I'm a Northwestern grad. It's got one of the best journalism schools in the country, Medill. I go, "Go hire a bunch of grads out of Northwestern. The Tribune and the Sun-Times must be laying people off left and right. Their subscribers are going down dramatically. I mean, I would think you could get writers; that'd be the easiest thing in Chicago to hire." He said, "No, no. This is not just any writing; this is writing with an edge and writing with a humor. I want my people out of Second City. I want the people that do improvisation." And I quite frankly didn't understand that concept. So he goes to Second City, which, you know, Stephen Colbert and Tina Fey, that's where those folks came from, right? And that's where he got a lot of the early writers, and still continues to hire people out of Second City and places like that.

So part of it was the way they presented deals. There was humor, there was creativity to it. You'd get up in the morning and you'd say: I'm interested in seeing what my deal of the day is." And that's what caught fire. I knew we really had something, my daughter who was going to graduate school at the time at Northwestern said — I said, "Have you heard of Groupon?" This is after several months. She says, "Oh yeah. All my friends and I, we plan our social schedules around Groupons. ." These services are often very social. You know, "Let's go to a restaurant." "Oh, look at this deal at this Indian restaurant. Why don't we all sign up, and we'll all go together?" So it became a social thing. So this is part of social networking that's going on.

CK: *So it just went viral.*

PB: It was very viral. And so it had elements of social, and it was all about local. So the merchants saw this as a performance marketing tool. We had no problem signing up merchants. This caught on like wildfire. In fact, our problem that we discussed often, and to this day, is the backlog of merchants wanting to do a Groupon is so long that we didn't want them to go to what then became clones of Groupon. 'Cause: Well, I've gotta wait six months to get my Groupon offer? Well, let me just go to one of the competitors — because as other firms started coming up to copy us— So our issue was, How do we deal with that? And so as time has gone on, the business has started to evolve, so that there's more personalization, so that, you know, simplistically, it starts with gender. As a guy I'm not going to get pedicure offers. The deal of the day might've been a pedicure before, but now it's, Well, if you're a male, I'm not going to give you a pedicure offer; I'm going to give you a different offer than I might give a female. And then as time goes on, it's going to get and is getting more personalized based on what your tastes are. And so you can now offer multiple deals. I might get a different deal a day, and will get a different deal for the day than you get. I can share mine with you, but I'll be presented with a different one.

CK: *Every Groupon member has a profile.*

PB: Has a profile. And it's getting smarter about what that profile is over time, and what their interests are. And it's becoming more hyper-local. And by that I mean, so in Washington, where we are, it's not just DC; it started as Washington Metropolitan Area. Now you can sign up for DC, Northern Virginia, Montgomery County, and you'll get the deal of the day in Northern Virginia if that's what you choose. You can see the deal of the day in DC and the deal of the day in Montgomery County, but you'll be served up the deal that's closest to where you are. The next evolution of the company, which was recently introduced, is a concept called Groupon Now, which turns the business model on end. We'll continue to offer daily deals to subscribers, but now we're creating a platform for merchants to serve up their own deals, and it's based on — there's a time and a proximity element to it. And so the best way to describe it is you can do it off your computer or you can do it off your smartphone that has a GPS system on it: I'm walking around Chevy Chase, Maryland at three in the afternoon. I can go to Groupon Now, and I'll have a choice — I think it's ten different buttons: I'm hungry, I want to be entertained, I want to be pampered. Whatever the different categories are: I'm hungry at three in the afternoon, and I'm standing on the corner of Wisconsin and Western Avenue. What deals are proximate to me now? So merchants can say, I've got some food that's going to go bad in the next two hours if I don't serve it up, so I'm willing to discount it. So they can go to this platform and put up a deal. That is, now I don't sign up for a deal with, I've got a 24-hour window to sign up and I can use it for the next year; it's, I sign up and use it within — and it'll tell you, two hours, twelve minutes. You've got to use it within the next two hours and 12 minutes. I have a masseuse sitting around with nothing to do. It doesn't cost me any more. I might as well get business in the door. It's like the airplane that flies with empty seats or the hotel that has an empty hotel room. The marginal cost of putting somebody in that seat or in that hotel room is very very small. So they're willing to discount. If you go into that hotel room at midnight and that room's empty, they're willing to give you a big discount, 'cause it's all positive to them at that point, it's positive margin. —They first introduced it in Chicago, and now they've rolled it out to a few others, five other cities. So in Chicago I was testing it. I have my condo in Chicago, I test it. "I'm hungry." I get eight deals within .7 miles of where I'm standing, restaurant deals, at a particular time in the afternoon, and they ranged from 30-50 percent off. And so I might experiment with a restaurant I wouldn't otherwise experiment with. A restaurant doesn't necessarily need a Groupon customer at twelve in the afternoon or six in the evening because they get plenty of customers in the door then; they need them at other times of the day. Or any other business has peaks and valleys to their business. So this serves the merchant from the perspective of: When I need the business the most and it's the most cost-effective for me. And they serve up the deal, as opposed to the Groupon salesperson designing a daily deal with them that's featured; they serve it up on a platform.

So what's exciting about this business is it's dealing with commerce, that is local commerce, that when you aggregate it, it's in the trillions of dollars — the market. We're obviously not going to be 100 percent of the market, but you're dealing with a huge market. The spend levels on local commerce are enormous. And that's the market we're addressing. So it's not an advertising market; it's a commerce market. And so it's a very exciting business that's gotten enormous traction, and it's been incredible fun to be involved with, and at times scary. Because as I've said to many people before, our business is a business of pattern recognition. We see lots of startup businesses, we work closely with lots of startup businesses, and you see patterns that you can identify, and you use that pattern recognition to help counsel a business on what they ought to be doing to either accelerate growth or what they ought to be doing to avoid pitfalls that you've seen before in other, similar businesses. I've never seen a business like Groupon, so everything's new here. That's not to say none of the business lessons I've learned through my years of an operating job and my years of venture capital aren't applicable, many are. But I'm writing new chapters in my own book now, because I've never seen growth like this, where you're hiring people at the rate we're hiring. We went from — in early 2010 we were in one country, and as we sit now in mid-2011 we're in fifty countries. That's incredible execution. Challenges. There are challenges associated with it and an incredible job on the part of this management team to even do this, what they've been able to achieve in terms of scaling. So from those early days of challenging Andrew to, "how are you going to get from one city to four and four to ten" — to say they've risen to the occasion is such an understatement.

CK: *Can you give me an example of how you set this up in another country that has a different kind of culture? Or what the challenge of that is?*

PB: Well, an enormous challenge. It's not just the culture. The culture means the local businesses are very different. What appeals to somebody in Miami, Florida is different than what appeals to somebody in Los Angeles, California. You know?

CK: *How about India?*

PB: But I'm just saying, so even within the US you have differences in the kinds of things that appeal to consumers; the daily deals are different in Miami than they are in LA. So understanding the local environment is critical. So obviously that's tenfold an issue when you go from one country to another country, but it's even an issue within the borders of the US. We have a team internationally that operates out of Germany. We bought a company, actually. We acquired a company that was cloning us in Europe called City Deals; and it was founded by a couple of German brothers, the Samwer Brothers, Oliver and Marc, and they had successfully cloned other successful US companies, like eBay.

CK: *Cloners.*

PB: That's what they've done. Oliver, interestingly enough — it's another Northwestern connection—he went to graduate something at Northwestern. He went out to Silicon Valley, he and his brother. They decided they could clone many of the successes that they were seeing in Silicon Valley back in Europe, and that's what they did. So they started cloning Groupon. We came to the conclusion very quickly that we weren't going to be able to beat them. And so we bought them. And that was a terrific, in retrospect, acquisition. It wasn't obvious at the time, because we were giving up a pretty sizeable percentage of the company to buy them, and there was a bet there that they would be successful. Well, Oliver and his brother have been — I mean they're the most driven entrepreneurs I've ever experienced. And so he runs around the world and builds teams.

So he'll go into a country, he'll hire locals, and he'll push them hard to scale. And he's got this model down. So I won't call it cookie-cutter, but it's as close as you can get to cookie-cutter. He goes into a country — now it's become easier because we're a known brand. In the early days it wasn't quite that simple. But were a known brand, and in some cases we acquire preexisting companies that are already striving to do this model, and they believe that with the Groupon brand they can accelerate it. And we believe with their already established infrastructure, we're a step ahead. In a country like China, which already had 100 Groupon clones when we got there, we decided to do a joint venture with a very successful internet company there called Ten Cent. And so we did a joint venture with them. And we've rapidly built up — this is where Oliver comes in — we've hired hundreds of people in a matter of a few months. And we're not number one; we are in a catch-up mode. There's still a very significant number one that's been there, but we're gaining. And so we won't be number one in every country. Because the wildfire nature of this caught on so quickly, and it can be cloned; there's no barriers to anyone else going in and cloning this basic model of daily deals. Where we have an advantage, that we've built in the US and hopefully we'll build in other countries, is our scale. Because this Groupon Now concept of location-based deal of the moment, you can only do that when you have an inventory of merchants that's in the thousands. Because it's useless to me to be standing on a street corner here saying, "I'm interested in being pampered; what are some deals." And one comes up, or none come up; I want choices. And so that takes scale, and that's an advantage we have, and most all of these other firms that have been started up that are cloning us don't have that advantage. And you market through things like Facebook and Google and whatnot. And as we and LivingSocial, which is a local Washington company that is a substantial competitor — as we've bid up prices in competition, it's very expensive now for a startup to come into this business.

CK: *It's who's there first in some sense.*

PB: So a first mover advantage has proven to be an advantage.

CK: *You go in, you're not only marketing Groupon to the public, which is going viral, in a sense, but your biggest marketing push is to the merchant.*

PB: Well, it's a chicken and egg. The merchants want to go where there's lots of people that are subscribers, because that's their best chance of getting a lot of people in the door, and the people want to go to where they're going to get the best deals.

CK: *How hot has this become among the merchants? How viral? Do they talk to each other? Do they contact you and find out how they can be part of this?*

PB: Oh, they do. I've gotten plenty of those, yes. "We want to do a Groupon; how do we do it?" Yeah. It's become viral, and well over 90 percent of the merchants that do a Groupon want to do another one. So there's lots of media that talks about the problems. There've been plenty of examples where businesses have gotten overwhelmed. You know: "I'm a cupcake thing, and I didn't expect 1,500 people to sign up." So we've learned as well to manage their expectations and in some cases put limits. Once you get to this number, there are no more, because this is a small business that can't handle the volume. But that's the advantage. As we get more personalized, that's how you scale. Because if I'm going to serve up a different deal to you than is going to be served up to me, it's not like the thousands of subscribers in Washington are all seeing one deal; they're all seeing one deal, but they're different deals. So we're not going to, as likely, going to overwhelm a business. So between having enough experience now with various businesses, Groupon, the company, can forecast pretty well what kind of traction a particular business is going to get. And they can guide the company to: one, how they need to beef up their business for this event, or to limit the number of Groupons, and moderate how many people they send it to now because of the personalization capability. So this business model's becoming more and more refined over time.

CK: *Do you see it moving forward in another direction?*

PB: Well, the Groupon Now direction is a huge — I won't call it departure, but shift; it's a huge pivot from what we were doing. Because we were, and are, continue to be and will continue to be a business that serves up daily deals, where our salespeople go in, work with merchants to design a deal, and feature a deal, and then email it to the subscriber base. This Groupon Now concept is our salespeople need to work to educate merchants on Groupon Now, but once they're educated and are users of it, they self-serve. They design their deals. We don't hold their hand and design it, but we're also not curating them. When we serve up a daily deal, there's a curation process.

CK: *They'll say, "How selective are you?"*

PB: Yeah, and we're standing behind it. So if you have a dissatisfied customer, we have what we call the Groupon guarantee. You'll get your money back if you're not satisfied. This other concept is now the volumes are different. It's not one deal a day per location; it's hundreds and hopefully thousands of deals. So it hopefully is— In its blue sky concept, this redefines how local commerce is conducted. I think we went from $250,000 in revenue in — we first got traction in November of '08, so in that first two months we had $250,000 in revenue. Then we had $33 million in revenue in 2009. And then we had $760 million in revenue in 2010. So we went from $250,000, which wasn't a full year, to $33 million to $760 million, which is why Forbes called it the fastest-growing business ever in terms of getting to $1 billion.

CK: *I read that Groupon rejected a Google offer?*

PB: Can't comment.(laughs)

CK: *And one from Yahoo! was it?*

PB: That's what the media reported. There were several offers, and now we're going public.

CK: *Are there other partners other than NEA in this?*

PB: Yeah. So we did the first round in January of '08, first institutional round. There was the seed capital that went in in October of '07. We did the first institutional round in January of '08. And then we did a round in October of 2009. And that was led by Accel Partners. And we also put more capital in on that round. And then we've had a couple of other rounds since then that have gotten a lot of press that have included folks like: one was led by DST, this Russian outfit, at a very high valuation, what was considered then to be a very high valuation; it was over a $1 billion valuation. And then a succeeding round to that that had a lot of different players — venture players like Kleiner Perkins and Greylock and Andreessen-Horowitz. And it also included some large public mutual funds and public investors that you would expect to come in on an IPO offering.

CK: *Chuck often refers to a Band of Brothers—*

PB: Investment banks?

CK: *— these established venture capital firms who support each other. Back in the '80s. So when you mention Kleiner Perkins or Accel or something, are these people you normally would be--*

PB: Well, we were very supportive of bringing Accel in in that round. At that point this was a company with an established business model. And I think Accel came in out of their growth fund. But we've worked with Accel and know those people very well, and they're lead investors in Facebook. And at the time we saw that there might be a way to leverage Facebook to help Groupon. As it turns out, Facebook now has a competing offering. So, you know, that's the way our world works.

CK: *But you've also mentioned Kleiner Perkins, you mentioned Greylock.*

PB: Right.

CK: *Are these partners that you've worked with?*

PB: Oh yeah, multiple times over the years, for sure. Yeah.

CK: *Is this one of this Band of Brothers that—*

PB: Well, I think that one of the things that venture capitalists — because they know each other and have worked with each other, they help raise capital. But by the time Groupon became as successful as it has become, you didn't need NEA to raise capital for Groupon.

Groupon sold itself. And so these venture firms were chasing Groupon; they didn't need our assistance. I'd love to be able to say they did, but they didn't.