Oral History with Russell E. Planitzer

NVCA-Venture Forward Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

Russell E. Planitzer

Interview Conducted by
Carole Kolker, PhD
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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 Laurence Rockefeller, J. H. Whitney and Georges Doriot, and the mid-century associations of Draper, Gaither & Anderson and Davis & Rock — families and firms who financed advanced technologies and built iconic U.S. companies.

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

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

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

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

Charles W. Newhall III 2010

VENTURE CAPITAL GREATS

A Conversation with Russell E. Planitzer

Russell Planitzer is managing principal at Lazard Technology Partners, the firm he co-founded with Kevin J. Burns in 1998, where he has since its founding headed Lazard's New York office. Russell's areas of investment focus include communications, business process applications, financial services and information technology, and he has led LTP investments including MCK Communications, Inc., Quantum Bridge Communications, Inc. and Sonoma Systems, Inc.

From 1981 through 1993, Russell served as a general partner at J.H. Whitney. While at J.H. Whitney, he established a strong investment record by focusing on early-stage technology and emerging growth companies, including the incubation and founding of Wellfleet Communications, Inc. (renamed Bay Networks, Inc.).

In 1993, Russell left JH Whitney to assume direct responsibility for Prime Computer, Inc., where he reorganized the business to focus on high-end computer-aided design software and restored its profitability. He became Chairman and CEO of Prime Computer, Inc. in 1993, which was renamed Computervision, Inc. Russell Planitzer led the Computervision, Inc. to profitability by the end of 1995. In recognition of this achievement, he was named "CEO of the Year: 1995" by D.H. Brown and Associates. Russell orchestrated the sale of Computervision, Inc. to Parametric Technology, Inc.

Russell holds an MBA from Harvard Business School, and he is a graduate of the United States Naval Academy. He is a past director of the National Venture Capital Association.

The following is an interview with Russell Planitzer taking place at the offices Lazard Technology Partners in New York City. Today's date is June 7, 2011. My name is Carole Kolker. This interview is being conducted as part of the National Venture Capital Association's and Harvard Business School's Venture Capital Oral History Project. This interview has been lightly edited for clarity.

THE EARLY YEARS

Carole Kolker: *We're going to start from the beginning: For the record, where were you born, when?*

Russell Planitzer: Born 1944, South Orange, New Jersey. And actually I guess my parents left there when I was a baby, and then they moved to Massachusetts, Lawrence, Massachusetts, then Lunenburg, Massachusetts, and I grew up in Lunenburg, Massachusetts, which is in the center part of the state.

CK: *What were your parents doing? What was your dad doing?*

RP: My dad's a machinist. I doubt that work drove him there. He was an assistant manager at a Kresge Store in New Jersey, went back to Massachusetts because that's where my grandparents were; he became a machinist at General Electric. So my dad, from all my time with him, worked at GE. My mother was a house maker.

CK: *And your parents' names?*

RP: Walter W. is my father, and my mother's Rose Muriel.

CK: *Those were times when women were primarily working at home.*

RP: You got it.

CK: *Did you have any siblings?*

RP: I have an older brother, Walter, and he's still in Lunenburg, Massachusetts, never left.

CK: *What's the age difference?*

RP: He's three years older.

CK: *Is he a big brother?*

RP: No, not at all. Sort of rivals, because he was smaller than me. It was one of those things where, when we'd go to the movies together, they'd make me try to pay adult, and he the child's fare (laughs). I think that lasted for a long time.

CK: *So there had to be a rivalry.*

RP: Yes.

CK: *As a child, what were your interests?*

RP: I came from a blue-collar family, right, I lived in a very small town. Today you would call it very provincial.

CK: *What was Lunenburg like?*

RP: It probably had a population of 2,500 people. My high school class was eighty, or so. It was a very small place — not rural, but you wouldn't think of it as suburban, per se. My interests as a kid, I worked a lot. I wouldn't call that an interest, but I had an interest in money, I guess, and self-reliance. My first merger was two paper routes. I had a paper route, and then I bought somebody else out, and then I tried to get my newspapers from a store that would sell 'em to me cheaper 'cause I had market value. That didn't quite work out. I didn't quite have the power that I thought I had. (laughs)

CK: *How about school? Did you have any favorite subjects?*

RP: Well, I particularly liked science and history. I think the history part is something I've always continued. I'm a voracious reader of history, I've always continued that interest.

CK: *Were there any teachers along the way through high school, any mentors or anybody—*

RP: There were two or three who were particularly great teachers. When people talk today about how bad schools are, etc., it's amazing to me, when I can think of the mentorship these teachers provided to kids. Because in many ways, they were the first adult that you had a relationship with outside of your family? But one in particular is an English teacher, Robert Tapley, had this special English class where you had to be invited into. It was ten kids, and we had our own little curriculum that, clearly divorced from everybody else's. And he was one of these people, sort of a lost soul, that you had the feeling that he always felt that he could've done more than he did. For example, when he went to New York and attended a Broadway musical, he would bring back the playbill and play the recording, but he'd take the class through the entire musical. So it was really well beyond the core curriculum. And of course, the course itself pushed a lot on writing. I saw my first Broadway show with him, albeit in Boston, because he organized our class of ten people, we went to see *My Fair Lady,* we're up in the nosebleed seats, and I was amazed. Just the thrill of a lifetime.

CK: *Did he give you a love of theater?*

RP: Yes, yes, which I've always kept. Avid opera-goer, theater-goer — love all that.

CK: *You're lucky.*

RP: Yes. Today we talk about the burden of America because of the salary of the teachers. It's very strange to have that experience, and listen to the discussion of teachers today.

CK: *What were you thinking of doing when you finished high school?*

RP: Well, going back to my book reading: First of all I think I clearly had to go to college. I had to go to college because in one of my many jobs, I ran an ice cream truck from May 'til September, Labor Day. It was one of these trucks with a little refrigerator on the back, and you rang the bell, and you'd go from street to street and sell ice cream to these little kids, and these little kids come up to you with their father, "I wuv you, Mr. Ice Cream Man." (laughs) But one of my other stops in there, I'd go to a shoe factory, the Atwell Shoe Factory, which I'm sure is gone now. And for their afternoon break, I'd go in and sell ice cream. A sweatshop is probably the best description you could come up with. And these guys were making a piece-work salary.

CK: *It was in Massachusetts, yes.*

RP: Right. So I could see how horrible that kind of work would be, and without a college degree that's probably where you're ending up. Maybe not that one, but some form of physical labor. And my father, who was an accomplished machinist, worked for a big company, and probably it's as good as you can get as a blue-collar worker, to work at GE. That summer I made as much money a week as he did. Now, I'm seventeen years old, and I can see that's the career, that's what you're going to make the rest of your life.

CK: *You said you did the paper route and you--*

RP: Yes. I cleaned a bakery. I was a runner at an auction house. I worked for a landscape gardener. Anyplace I could work.

CK: *Is this just to have spending money?*

RP: Yes, pretty much to be independent, to have my own money. My family was pretty poor. You know, my clothes came from the Salvation Army, and I sort of decided I wanted more.

CK: *What were the values in your home in terms of work, education or success?*

RP: No. It's very strange, because my father's biggest hobby was to play the horse races. He went to the race track — it's probably a little similar to venture capital, I guess, in that sense.

CK: *I don't know if it's measured risk.*

RP: (laughs) Well, at least in venture capital it takes longer to get your losses. (laughs) Dinner's at six o'clock at night; everybody had to be completely silent because we had this radio that had the race results; and it's from far away, and it's AM, and it's [whirring sound], you can barely hear it. But his dream was always, you know, the big race. Gonna win that big race. That was his portfolio. (laughs) And one of the funniest things was, when I was working at this bakery, these guys were all Italian, and they were loosely connected — very, very loosely connected — to very low-level mafia types. And they're talking one day, I'm cleaning the bakery, and they're talking about how they had this race and the fix is in, and this horse is gonna win, and it's all fixed. So I go about my business and proceed to get in my car and drive up to the race track and bet on this horse and win $l,000. (laughter) But the fix was in. There are games of strategy, chance and skill, right? And I think this one was a game of chance — where the odds were significantly better than typical.

CK: *But you didn't see this as a road to the future.*

RP: (laughs) No, I didn't see it that way; I just saw it as an opportunity. It was very funny. But so going back to going to college, part of my reading was World War II books like Monsarrat's *The Cruel Sea, The Caine Mutiny,* things like that, and then parallel there were two TV series, *West Point Story* and *Men of Annapolis* — they were TV series. So I sort of decided I wanted to go to the Naval Academy. When I told my parents, they laughed: "Oh, you couldn't go to the Naval Academy."

CK: *Is there a military history in your family?*

RP: None. Family of draft dodgers. My father wasn't in World War II. Everybody was in World War II, right, but not my father. I don't know how to connect all those dots. But those dots connected to poor kid, if he gets in there, can get a scholarship and go to a real college, as opposed to scraping his way in some community college.

CK: *How did you proceed with this dream?*

RP: Well, this is the funniest— This is probably, in some ways the saddest part of the story and the best part of the story, because in working at this auction house, I was a runner — somebody'd buy something, you go down and you give them whatever they bought, and you collect the money. This wasn't Sotheby's; this was, "How much for this?" (laughs) People cleaning out their attics. You know, big transactions might've been ten dollars. (laughs) But there was a woman who went to these auctions all the time. Half these people went just for the fun of being there, and they might buy some bric-a-brac for fifty cents.

CK: *Like bingo night.*

RP: Like bingo night, it was almost that way. But there was this woman who went all the time. I was always polite to her and always nice to her. And I guess I was a junior in high school, because I probably started doing that when I was a sophomore. They had auctions every Thursday night, and I'd come home and my clothes were just filled with smoke. And one night she asked, "What are you gonna do when you get out of high school? What do you want to do?" And I said, "I want to go to the Naval Academy." And she said, "Do you really mean that?" I said, "Yes, I really want to go to the Naval Academy. Thinking it through, and yes, I'd really like to go to the Naval Academy." "Okay, so here's my address; you come see me." So, she lived in an adjoining town, Leominster, and turns out she's the wife of a very successful doctor. She's very involved in Catholic Charities. As luck would have it, she happens to know my congressman, Philip J. Philbin, who the *Wall Street Journal* reported one time as the biggest hack in Congress. But my congressman, right or wrong. And she didn't rest until I got an appointment. And it was interesting, because in parallel to that, I found out you could get NROTC scholarships, too. So I got both an appointment to the Naval Academy and an NROTC scholarship, so full freight wherever I wanted to go. Harvard or the Naval Academy. I chose the Naval Academy. Why? Because I'm such a screw-up that if I don't have some disciplined area that they're going to keep me there, I'll never finish. Obviously I had to get accepted at the schools, but at the time NROTC scholarships were to the best schools in the country.

CK: *What kind of kid were you? Were you an athlete?*

RP: No. I worked all the time. I literally never did much athletics, 'cause I literally worked all the time.

CK: *I want to ask you if you're competitive? I guess you can have a sense if you're competitive even if you're not in sports.*

RP: Yes. And it's interesting, because I always felt that my kids — they all went to private school, and I made sure that they were in places where they could have competitive sports, because I felt one of the things I really missed in life was that competition. But, what do you learn in sports? You learn when you're tired and when you're down you gotta give it that last piece of energy. There are plenty of analogies to that in work. And a lot of disappointments. So I think in many ways they both bring that sense of accomplishment and the stick-to-itiveness you have to have in life.

CK: *But you did have a sense that you needed the structure.*

RP: Right. Because I didn't really have any structure at home. My parents were good parents, but I was sort of going off in a place — and whatever I did, they always advised me not to do it, right? When it was time to get out of the Navy: "Oh, why would you possibly leave the Navy? It's such a secure career. Why would you go in that big bad world when —?" No, I sort of marched to my own, to a different drummer, and they didn't know quite what to do with me. And my brother was always sort of on the edge of trouble — nothing serious, but he was driving too fast and drinking too much. My mother had to bribe him with gas money to go to school. The fact that I was just sort of doing good, they just left me alone.

US NAVAL ACADEMY 1962 - 1966

CK: *I guess they were grateful. So you chose mechanical engineering. Did you choose it or—?*

RP: At the time, the Naval Academy was essentially very rigid; today you can have much more open opportunity. But at the Naval Academy then, it was a very standard process. In fact, they didn't start with electives until I think my junior year, which I jumped on. But it probably has one of the best— If you didn't know what you're gonna do in life, you couldn't do better than to have the kind of curriculum they had at a Naval Academy; I'm sure West Point, too. It had mandatory language, mandatory history, English, and then a lot of engineering. A lot of physics, the sciences, math. So you were forced into this curriculum where you took five courses a semester to do all that. And you went to school on Saturdays. So it was a very full schedule, and it was very rigorous, but it was very balanced. So while I was interested in engineering, you could be interested in engineering, but you had to take history, you had to take English. Great curriculum from that point of view.

CK: *How'd you do?*

RP: My first year I didn't do well at all. I was lost.

CK: *I don't want to say a culture shock — that's a little too much — but you were coming, as you said, from a small town, and this is—*

RP: I was overwhelmed. The Naval Academy's mission is to make naval officers, right? And you're supposed to be an officer and a gentleman. In the first year — they're going to weed out — I think my class started at 1,300. By the time plebe summer was over, we were probably down to 1,100. Two hundred people said, "That's not for me; I'm out of here." And at the time physical hazing was at least for the first six months of the year. So you had the combination of upperclassmen just beating the bejeezus out of you, a pretty tough curriculum, and I was lost for the first year. I barely got through my first year. I was amazed that I actually could, that I stuck it out and I could get through. I was just ill-equipped for it. And then next year I really blossomed. I did well in my last three years, very well, and I took all the electives I wanted to take.

CK: *Did you find any mentors at the Naval Academy?*

RP: You know, no. And in fact, probably the worst thing that happened to me there in a mentorship sense was, the first people you meet going in there is for plebe summer. These are juniors, called second classmen, who have been handpicked to stay behind; instead of going out for their summer cruise, they stay here to train the new plebes. It's a select process to get there, so these are supposed to be the best of the best. And my squad leader — our squad was roughly twelve kids, so you had a platoon, which is three squads, and it sort of builds up in the hierarchy — his name was Cohen, and he was very, very smart, but he was just, he was the strangest guy. For example, he'd say to you, "Do you believe in God?" "Yes, sir." "You're not cool." And he took his job very seriously. (laughs) For some reason I thought about this the other day: When you learn to march — you have to learn how to march — so one of the more complicated parts of this is to — your row turns, you turn together. So if you get ahead of it, you've surged. So we're marching, and it's plebe summer, right? We're just learning all this stuff. And I surged (laughs) and he grabbed me, he grabbed me out of my platoon and grabbed me like this, he's shaking me, "You surged, you surged!" (laughs) And two of his classmates had to pull him off of me. I didn't kill anybody. This guy, turned out, was married, and they threw him out. Anyway, so that was my first upperclassman. Then every plebe has a "firsty," a first classman who is in your company and he looks after you; everybody else beats the hell out of you, but this is your guy. This is your ally who's supposed to look after you. And typically it's somebody who is from your same state. It's equivalent to, in the Navy, when they had wooden ships, and these youngsters would, literally midshipmen could go aboard when they were eight or ten, twelve years old, as midshipmen, and they had a sea daddy, some old guy who would look after him. So it's almost the equivalent of the sea daddy in the sense that this person's supposed to look after you.

Well, my first classman did nothing but borrow money from me. (laughs) He was always short of cash. The big thing would be when your first classman takes you into Annapolis for lunch. And one day he said, “I want to go into town for lunch.” And I thought he was gonna take me, and he goes, “Do you have any money I can borrow?” I wouldn’t say that I’ve had mentors very much. I mean Tapley would be one who’d come to mind, who I thought was very special.

CK: *What were you learning about yourself during these years?*

RP: If you had to say one thing you learned at the Naval Academy above all others, above everything else, is that your biggest limitations are self-imposed. Simple thing. You go in the Naval Academy, they say, “Well, at the end of this summer you’re gonna be able to do your class number in push-ups.” Class of ’66, ugh, that’s a lot of push-ups. So the first week maybe you can grunt out ten or fifteen, but by the end of that summer you’re doing sixty-six, and then you’re doing one more to beat Army. You can do a lot. So what I learned there was most of your limitations are self-imposed. And I think there’s a stick-to-itiveness that I’ve had in my business career, when things have really been bad, that have helped me a lot.

CK: *Did you play any sports?*

RP: Everybody played sports, but I wasn’t good enough to play varsity sports.

MILITARY SERVICE U.S. NAVY 1966 – 1971

CK: *What did you do when you left the Naval Academy? You were there from '62 to '66.*

RP: Selection night is the night you select your service. I knew I was going to be surface Navy. And I ran into some officer who berated me because my shoes weren't shined properly. And typically what you had was a pair of shoes that you wore for inspections - they were perfect. You could never wear those because, my God, they'd never be perfect. So your second set might be a little sub-standard. (laughs) So he berated me, and I knew it was time to move on. So I said to the surface naval officer, "What's the furthest point you can get me from the Naval Academy?" He said "Oh, I can homeport you in Yokosuka, Japan." "Done." This is a kid who's never left the country in his life. And what's the furthest point you can get? "I can homeport you in Yokosuka, Japan."

CK: *Why did you ask for that?*

RP: Because I just wanted to get as far away from the Naval Academy as I could (laugh), because I was sick of people asking about my shoes. (laugh) In John McCain's book — one of the biographies on John McCain has a chapter on the Naval Academy, and the chapter is called "IHTFP." "I hate this f—ing place." (laughs) So after a while just, "Get me out of here."

CK: *This was not going to be your career.*

RP: (laughs) The other saying at the Naval Academy, "It's a wonderful place to be from, but a terrible place to be." (laughter) Because after a while, the discipline, it gets a little old.

CK: *So you went to Japan?*

RP: I went to Japan, and that was— Getting to my ship was a story in itself, we probably don't have time to go through. Suffice it to say I saw every den of iniquity between San Diego and — ultimately I got to my ship in Vietnam. It was a two-month saga of trying to find the ship.(laugh)

CK: *And you're on your own?*

RP: Yes. I'll tell you a little bit of it. You write to your ship and say, "I'm coming and I'm really looking forward to it, and blah blah blah." So I got a letter back from the CO that says, "Well, based on our schedule, we're gonna be on the gun line in the Tonkin Gulf about the time you're coming." So, okay, great, good to know that. So I had a month's school in San Diego, which was great. San Diego in June, July, beautiful. Had a wonderful time. So then they have to dispatch me, so they send me up to Travis Air Force Base, which is north of San Francisco, and one of my buddies happens to be going up there, too, and he has this beautiful Corvette. So we drive along Route 1 and I'm seeing — I'd never seen California before — I was just mesmerized by this place. So I get to

Travis Air Force Base, and they said, "Well, we're sending you to Japan." I said, "Well, my ship's not there. Here's a letter from my commanding officer of my ship." "Doesn't matter what your letter — you're going to Japan." "Oh, okay, send me to Japan." So they send me up there. I get to Yokosuka, Japan, they tell me my ship's not there. Well, I know that, because my ship's in Vietnam. "So we have to send you to Subic Bay, the Philippines, to get you to your ship." Then he made the mistake of saying, "When would you like to go?" I said, "What?" he said, "Yes, I mean you have things to do?" I said, "Well, you know, I've never been in Japan before. Maybe take a week, is that okay?" "Yes, sure, take a week." So I wander around Japan for a week.

Then I get to the Philippines, and say, "I'm here to get my ship." They say, "Well, your ship's not here." I said, "Yes, I know that." "So what we're gonna have to do is, we're gonna have to send you on a ship leaving here," which was an oiler, "and we'll get you out to the Tonkin Gulf." So naturally I said, "I've never been in the Philippines before, think I could take a week?" "Oh sure, take a week." (laughs) So my odyssey: It takes me about a month to get there, and I go from oiler to oiler to aircraft carrier to aircraft carrier, onto another oiler, and finally high-lined over to my ship, which is in the Tonkin Gulf. (laughs) The town next to Subic Bay is this absolute hellhole called Olongapo City, and it's filled with, you know, bars and prostitutes and all kinds — and I remember writing a letter to Mr. Tapley saying, "Oh my God, you can't believe this, I can't believe this place, how horrible it is. I mean, what is this?" (laughs) The greening of Russell Planitzer, right? I'm a long way from Lunenburg, Massachusetts, in those days.

So anyway, I spent five years in the Navy, my first two years principally in Vietnam. Then I go to the East Coast, where I discover the real Navy, which is the peacetime Navy. The peacetime Navy, you don't have a lot to do so, you have to make things up, and it's much more spit and polish and much more bureaucratic. And I'm actually a division head in my first ship, and I'm a department head on my second ship, so I have all the weapons department. And it's funny, because you really worked in Vietnam — you worked — it was called port and starboard; you're four hours on, four hours off, seven days a week. You literally go to the gun line and fire on targets, then you'd go back to get replenishment for fuel or food or weapons at night, go right back to the gun line. You'd be so tired that I remember one time just getting off watch and going to sleep, and the ship is firing four guns at a time. I'm so sound asleep that they had to shake me to wake me up.

CK: *Were you in harm's way when you were in Vietnam?*

RP: Not compared— I never thought of it. We got occasionally shot at, but compared to my brothers in the Marine Corps, no. We would occasionally get shot at, but we always had silver service and air conditioning. Choosing the Navy over the Army was certainly the thing to do.

CK: *Where were you stationed on the East Coast?*

RP: I was out of Norfolk, Virginia, and then deployed to Europe for most of a year.

CK: *And where in Europe?*

RP: We were everywhere, because we were part of the Sixth Fleet. But there I literally did everything you could do. In the first two years it was like adrenaline city. You're at sea all the time; I was a fleet-qualified officer then, which meant I could bring the ship alongside another one for replenishment. You're sitting there going twelve knots, one hundred feet apart, and sometimes in a sea so rough that literally the bow of the ship would go underwater. This was real work. This was really being a qualified seaman. And then you come to the East Coast, where— It was the funniest part: I went to my ship, and I'm only a JG, lieutenant junior grade, because I haven't made senior grade yet, but I have a senior-grade officer billet, so the other department heads, they're lieutenants. And ensigns in the JGs are all calling me "mister," "Mister Loving." The only people you didn't call by the first name on my first ship was the CO, who you called captain, and the Executive Officer you called XO. Everybody else was on a first-name basis. So I'm a JG, so I'm calling him "Mr. Loving," too. What do I know? So we have our first inspection. We're in the yards, and finally we're going to go out of the yards, so they have the inspection, and everybody's in dress blues, and they're in swords and all, white gloves. So I show up, and I've got three rows of ribbons, or actually it's all medals, right? And the only other person who has anything close to me is the captain. And all of a sudden Mr. Loving looked at me, says,: "It's Howie, ok!" (laughs) You know, so while I was the youngest department head, I was clearly the most experienced in terms of what I had done, and it showed up in every way. So those first two years, while it was arduous duty, was terrific duty.

CK: *It seems to have had a great impact on you.*

RP: Yes. I remember particularly my first two years very fondly. And of course, as an ensign you come out and you have your division officer, and you've got a chief petty officer who's twice your age trying to figure out whether you're salvageable or not, whether he should put any time into working with you. And at the other end, the seventeen or eighteen-year-old kid who the judge said, "Six months in jail or the Navy." Right? So that's what you get to work with. I once gave a speech about leadership as a venture capitalist, and I said, "You know, if you want to learn about leadership, I'll tell you what leadership is like: I was on an aged destroyer. It was equivalent to a car with 400,000 miles on it. And the next one over was exactly the same. And one limped in and out of port, couldn't make its schedule and was rusty, and the other one, crisp, great esprit de corps, always made its commitments, it was like the thing just came out of the shipyard.

What was the difference? One person: the captain. And a captain can make all the difference in the world. And there's a great saying in the Navy, which I pass on to all my CEOs, which is: 'It's not what you expect; it's what you inspect.' If you're not interested, then why should your team be interested? If you don't care, why should they care? I had a skipper who was terrific. I had a bad one, too, but I had one skipper where *everything* on that ship was important to him.

CK: *These are great lessons.*

RP: Yes. And it used to be the best thing to do out of college, go to OCS, it wasn't a career; it's two or three years. God, did you learn about people. I didn't have as much responsibility again in terms of people until I was ten or fifteen years older, as I did as a department head on a destroyer. When I ran the engineering department, I had two hundred people reporting to me, and the entire propulsion system of that ship.

CK: *How do you feel that that experience — those five years — impacted the direction of your life?*

RP: Well, I think, obviously, it wasn't so great that I stayed. (laughs) The best example for anybody to understand about success in the military is what my captain had in his standing night orders to the officer of the deck. The officer of the deck's in charge of the ship. Everybody's asleep and it's three in the morning, and you run the ship. And one of the standing night orders was: Never pass within ten miles of another ship. So why ten miles? Well, it's pretty hard to hit 'em if you're ten miles away, right? If you make a mistake and you're 10 percent off, well, it's only nine miles. Right? But there's a premium in not failing. So the military process is one where it weeds out people who might take too many chances. And it wants you to be by the book. And that wasn't me. I was the kid who overheard the talk about the racehorse, and ran up there and, you know, put money on it. (laughs) And there's a saying in the Navy that says, "If you retire as a commander, you're good; if you retire as a captain, you're lucky; and if you retire as an admiral, you're goddamn lucky." So there was a process to it that wasn't for me.

CK: *The culture.*

RP: Yes. A culture — it wasn't a culture of failure, it was a culture of correctness, of by-the-book. You can see why. It has to be.

ELECTRONIC DATA SYSTEMS 1976 - 1972

CK: *So what's going on in your mind at this point? You're getting out—*

RP: I'm a complete dumb-dumb. I know nothing about the world. Everything I saw in the world, I learned on Navy ships, (laughs) and the Naval Academy. So at the time, the Vietnam War was winding down, and computers were really just starting to be broadly based. So another Naval Academy graduate named Ross Perot had started a company called Electronic Data Systems, and he was growing the business. He had a great strategy. In fact, the EDS strategy probably is largely intact today, which was to serve regulated businesses where there either wasn't enough money or interest in computer systems to do it right, and he would sort of take over the entire back office and do all the processing. And he started it in health care, and then he actually went down to Wall Street, where he got killed financially. But EDS was growing like a weed at the time, and what he did was he hired military officers, and he had a training program for six months. Then when you finished that, you then went to Dallas, which were his headquarters, and you took three months of programming, and then you went back onto an account as a trained systems designer. He was hiring, and everybody knew about it, word of mouth. So I went down. It was very interesting. I got interviewed. The interview process was, you met with three executives. No, you met with three trainees who were already hired, they're in the training program, so they'd been there for six months, and then they're actually in the training program at Dallas; and a couple executives. And the process was the three trainees interviewed you, and they were supposed to agree unanimously to hire you. And so I go through the program, talk to all these people, and when it's over, talking to this executive, and he says, "They really liked you, but they say, 'Do not hire.'" I said, "Why?" He said, "Well, because there's a discipline to this process that they didn't see in you; they saw a little bit of—"

CK: *Wanderlust.*

RP: (laughs) I don't know what it was. But it was, "They weren't quite sure you're suited for this," he said. "But I'm gonna override 'em, because we really want you. I'm gonna take the risk." So they hired me, and I went into this process, and the three people were right; I hated it. In those days, computers were really expensive and people were cheap. So you had these big mainframe computers and they were behind this glass wall. And when you wrote a program — they were doing production work — so you had to sneak in and get any computer time that might be available, usually at three o'clock in the morning when the production runs were over. And just to get your program to run, you had to run this job control language. It basically set up for the computer what you were doing, what resources you needed, et cetera. Well, if you made a teeny little error, if you put *a* in the wrong place, it was an "ab end," abnormal ending. It was not for me. But, I went through the program. I was there. And at EDS, I was here in New York, because EDS had started doing back office processing for two or three brokerage firms, and Perot ended up personally buying one of these firms: duPont Glore Forgan.

And if you were to go back and look at that history, what happened was the brokerage market was kinda lackluster, didn't have a lot of individual investors. So it sort of wandered along. And then some big explosion took place in terms of either people having money or wanting to invest, and they had built these rudimentary back office systems.

But when they built them, they didn't, for example, think that they'd ever have more than say a thousand customers at a branch. So they built these things, and they were completely hardwired — you couldn't fix them overnight. So if customers left the firm, the account numbers were reassigned to someone new. Suddenly everybody wanted to do trading again, and the branch had more than a thousand people that wanted accounts. So they said, "Fred Smith left, so I'll just reissue Fred Smith's account." Well, Fred Smith decided he wanted to invest again, too.

So suddenly two people were trading in one's account. And literally, nobody could keep track of anything. So it was just a fiasco. And I was actually doing well — I was doing well not because I was a great programmer, but because I got along really well with our customers, and I was able to unearth things that other people couldn't do. But what I discovered was the EDS process was a brute force process. We worked endless hours trying to solve problems. But the people I'd interact with, senior executives on the customer side, they'd seem to know what one or two really important questions were, to get to the heart of the matter quickly. I discovered there was a common denominator — these guys were smart, they seemed to be able to figure this stuff out. And I found out their common denominator was Harvard Business School. So I didn't know whether it was something in the water up here, I was twenty-eight years old, so I'm kinda old now.

But I say, "Well, I'll apply to Harvard, and if they take me, I'll go." Didn't apply anyplace else. Just said, "If Harvard takes me, I'll go." And they took me.

HARVARD BUSINESS SCHOOL MBA 1972 - 1974

CK: Seventy-two?

RP: Yes, I was class of '74. And this was interesting too because at Harvard they had one of the first timeshare computers — also very, very expensive. You know, a $1 million machine called a DEC 10, I think it was. But it was a time-share system. So I knew a lot about programming, and I discovered you could do — they had a simple language called BASIC. I was doing assembler programming as EDS. I don't know if you know what that is, but it's like programming in machine language. It was very, very efficient, but very, very hard to do. And that's because it was important to save — if you could save memory in those days, since computers are expensive, that was important stuff. But I discovered this language called BASIC, you can just write a program in an hour, and interact with the computer. You don't have to go beg for time; you can just go do that on this machine. It was wonderful. Occasionally a case had something that would lend itself to simulation, so I'd build a little simulation model. Oh gee, this is fun using computers. This isn't drudgery; this is analytical stuff, and it's a lot faster than anybody else is doing it. So time to leave business school, I decided that— So, there were two places you went, right. You either went to an investment bank, or you went to a big consulting company, that's what everybody does.

CK: *What was happening at Harvard that shaped the direction of your life, set your goals in any way? Was it anybody you were meeting, any professors?*

RP: Oh. Well, the guy that I built a great relationship with, Ben Shapiro. Ben Shapiro taught marketing and sales management. My areas of concentration were finance or marketing. Ben became my mentor there. In fact, I used Ben as a consultant much later in my career, and he and I kept close till he retired. I got hooked on modeling , and thinking this could really be interesting stuff. My summer job, I worked at duPont, because they wanted to keep me around. They had some real estate they had to get rid of, and they just sent me off. "You get rid of all this real estate around the country." So I built these models to try to figure out how long we'd have to keep them, and if somebody offered you something now, what would be the net present value of the decision of taking it now versus waiting for a better offer? So I built a fairly sophisticated model that said, "Current course and speed, this is going to cost the firm $20 million, and if we did these things, you could probably shave $5 million off — it makes a lot more sense to take a bad deal now. A bad deal now is really a good deal; you gotta get this off the books. And sell it below market if you have to. And you could look at every one in these individual cities and decide what was the right thing to do for that city. In total, you're going to spend $20 million, but you could look at it city by city and decide. So I went to the computer department at HBS and asked for more storage. Then I asked for more storage. Finally, the head of IT called me and he said, “Look, I’m not gonna ask you what you’re doing. I’m just gonna tell you right now what I know. I know that no one uses this much storage that isn’t consulting, and you can’t use our computers to do that.” (laughs) “So, stop.” (laughs)

In the second year there was an MIT professor who came over named Pinkerton, little cherub-faced guy with a bowtie. But he taught a program on computers for decision-making: decision support systems. Our class was so small they couldn’t even give us a classroom. It was like six of us or seven of us who were interested in this. But I could see how computers — these big fat ones are great for back office stuff when you have to process things and account for it, but in terms of bringing things to life, bringing in decisions, these interactive models, they can really do stuff. So anyway, that course was very interesting. I don’t know when I made this decision, but certainly sometime in the middle of my second year I decided I was not going to be one of the fifty people they hired at Morgan Stanley in the bottom of the pyramid and working up. What you have in that process is fifty smart people, and the guy who’s willing to work 120 hours instead of 110 hours— No, that’s not for me. I want to go someplace where there is no other MBA, where I can make a difference. A vice president that I got to know best at Dominick and Dominick, which was the account I was on at EDS at the time, was now at First Boston and he was interviewing at HBS. And I get a nice note from him, "I'll be up interviewing in three weeks, really looking forward to seeing you." So I go by to say hello and he says "Great to see you, what time is our interview slot?" And I said, "No, I'm not interviewing with you." "What do you mean you're not interviewing with me?" I said, "Well, I've decided that I'm not gonna be one of these fifty guys who go in there and they just slug it out, and I want to do something different." He goes, "That's the smartest thing I ever heard." He said, "That's great, you should do that. You should do that."

PRIME COMPUTER 1974 - 1980

So on the bulletin board wherever they did the employment stuff, little companies who couldn't afford to come and interview fifty people could put up a little piece of paper that said, "Looking For." And there was this company called Prime Computer. It was out in Natick, Massachusetts, maybe $2 million in revenue, and they wanted an assistant treasurer. Ooh, big title, assistant treasurer. So I go out, and the company's fifty to sixty people at the time, in this shoestring of a building in some little factory facility; and it's sponsored by Idanta Partners, David Dunn, Naval Academy. Have you met David yet?

CK: *No, but he is going to be interviewed.*

RP: You've got to meet David. Jack Delaney, who was — I guess they had a venture arm at the investment bank he was with. I can't remember what the name of the bank was at the time. But they were the principal investors, along with Greylock. They're offering — I'd say I could've made like $22,000 if I'd gone to New York. So they offer me $17,000 and five hundred shares of stock. So I talked to Ben Robelen, [who] was going to be my boss. He goes, "Look, I've decided, interviewed a whole bunch of people. I'll be honest with you. You're the only guy that makes any sense to me," he said. "So I'd like to have you, but, you know, and if seventeen's too little, I can go a little more." I said, "How about a thousand shares? I'll take the seventeen, but I want a thousand shares." He said, "Yes, that's fine." So I have this glorious title, right? Assistant treasurer. Well, I'm assistant treasurer one day negotiating $20 million bank lines, and at the same time I'm the accounts receivable clerk, collecting money from our customers. Because there's only sixty of us, right? So very much a hands-on, roll up your sleeve, get things done job. Very much a teeny company; you had to wear fifteen hats to be successful. As the company grew, I went from an assistant treasurer to treasurer. The company grew very fast; we doubled every year to a quarter billion dollars. It was the fastest growing company; became a New York Stock Exchange company. You couldn't have been more successful a company than Prime was.

CK: *So this was in 1974 when you started?*

RP: Right. And guess what they built? They built minicomputers, which were the cheap version of what I was using at Harvard on that DEC-10 system, which was $1 million. You could get that same time-sharing capability on a $100,000 computer. And so Prime was very much a late entrant into the market; the industry really started by Digital Equipment. Then the other very big player was Data General, and Prime. Now, note that they're all within twenty miles of each other. So, Massachusetts was very much the hotbed of minicomputing technology.

CK: *Why was that, do you know?*

RP: Well, I think it's probably because that's where Digital Equipment started. Ken Olsen started that company there. In fact, hopefully you're going to see some of the people that came from American Research and Development.

CK: *I would like to.*

RP: Charlie Waite was actually there, but I think he started with AR&D.

CK: *He's been interviewed. It's Harvard and MIT, it's this corridor—*

RP: Right. Well, but think about when you get later on, you're going to see that most of the technology now is really — as computers became silicon-based, the center quickly went to Silicon Valley. Yes, computers always had memory chips and they always had logic chips and everything, but when the heart of the machine became a microprocessor, I think that's when Massachusetts lost the preeminence it had in computing.

CK: *We can get back to it, but maybe you could just tell me why that happened. Why the East Coast didn't keep up with—*

RP: Because most of the semiconductor companies were in Silicon Valley. The genesis of that industry really was in California. Semiconductors. Companies get started by people who work in big companies and want to leave to do something that the big company won't. You have to have an infrastructure for that particular industry. And the infrastructure for semiconductors was very much centered in Silicon Valley. Yes, there are companies like Analog, but there are certainly companies, exceptions, that prove that rule, but the heart of silicon is in the Silicon Valley. So anyway, so Prime just becomes a rocket ship.

CK: *The darling of—*

RP: Yes. And in companies that are growing fast, if you can put more rocks in your knapsack and do more, then you can. So I stayed on the finance side and did some interesting things there. Most notably, some very interesting simulation products. We had a service business that was losing money, and services. So the then-CEO asked me, he said, "For next year, the service business says they're gonna make money. Can you take a look at it and tell me whether you think they are or not?" I don't know anything about service, but it quickly becomes clear that service has three key elements to it: How often a system fails, called MTBF, mean time between failures; how long it takes to fix it; and how long it takes to get there to fix it. So if you have a big, dense environment, mean time to travel gets to be very small. If you're like Prime Computer and you only have a few systems everywhere, kinda hard. So I built this relatively sophisticated computer model that could predict the failure of a machine based on its configuration, how long it would take to travel to get there, how long to fix it. At the final analysis, the only thing you could fix short-term was mean time to travel. So you had to reward people for selling systems in a closer universe, or you had to penalize buyers, which was kind of stupid, by charging them more for maintenance. But I built the model and I said, "No, we're not gonna make money next year, in fact, you're gonna lose X millions of dollars." "Well, why do you say that?" I said, "I built a model." And I showed them the model. They said, "What can we do to fix it?" I said, "Here are the things you can do to fix it. Short term, if you wanted to, you could stop selling to people in Ohio. But guess what? We need every sale we can get."

And then we brought in — about a year or so after I got here, Ken Fisher became the new CEO of the business, and he came out of General Electric, and he was a salesman's salesman. This guy was very crisp, Chicago-based. In the company, people were kind of — I don't want to say they were unkempt, but I wouldn't say that Esquire would be featuring Prime Computer as its face. So Ken came in. My boss always wore suits, and I wore three-piece suits, but in general the company was somewhat slovenly. Right? So Ken shows up with his white shirt and his blue suits, and you watch the metamorphosis of the business, right. Suddenly people are wearing suits. And when somebody would change over from the way they used to be to the new one, I'd go, "Oh, 'Body by Fisher.' " (laughter) Ken made a big difference in the business.

This is kind of funny, because one of the cases at Harvard Business School on credit was how much credit you'd extend to a company if they had bad credit: should you sell to them, or not? Well, the answer was, if he had a 70 percent gross margin on your product, that if you sold it to them for a dollar, it only cost you thirty cents, and you kept them in business for a year. So it was an economic decision. Right? Yes, their credit may not last forever, but could they last long enough that could you make a profit on that? We were the last company in the business, our customer base wasn't General Motors. I always called it the unfortunate 100,000 instead of the Fortune 1,000. So I had to be very clever about credit. So Ken shows up, and he gets a list of questions: "So, how many write-offs have you taken?" I said, "None." "Well, then your credit policy's too tight." I said, "Well, I've never turned anybody down. I don't know how to be tighter; that's about as loose as you can get; I always say 'yes.'" "Well, then it's too loose." "Well, you know, we have our problems, but at the end they always pay." He says, "Why's that?" I said, "Because nobody can fix the machine but us, and it's central to their business, and ultimately when the machine goes down, I'll wait 'em out; when the machine goes down, I say, 'I just need a certified check, and you give it to the maintenance man, and he'll be there.'" We never had a credit loss, even though we're selling to a lot of fly-by-night people.

CK: *You knew where your power was.*

RP: If I just did my job I had, it didn't take all my time. And one of the best things about it, being in a small company is if I had a little free time, I'd go to manufacturing. "What's going on?" Sit down with the manufacturer vice president. "I want to know more about manufacturing; tell me what I need to know about manufacturing. What really drives your business?" So I got to see all the pieces. And most small companies, the marketing department doesn't hire marketing people; there are people who are salesmen who they like and they bring them to the home office, but they don't know much about marketing. So no segmentation, all the stuff that you learn in a formal marketing course. I spent half my time in marketing, helping them with how to do customer segmentation, how to figure out why people were buying our computers. I built a very sophisticated model on sales force productivity, because Ken said, "I'm going to go hire McKinsey to come in here." I said, "What do you want to hire 'em for? That's kind of expensive people, and it'll take 'em a year to figure out what the heck you want done. So what is your burning question, Ken?" He said, "I want to know how fast I can grow the company." I said, "Okay, and what are the constraints?" He said, "Well, I have to have this level of profit." I said, "Fine, I'll come back in a week and I'll tell you how fast you can grow the company."

It was all about sales force productivity, because a new salesman does not sell anything. You hire him, you train him, they're in the field, you pay them, and for six months they do nothing. And then for the next six months, if they're going to be productive, they'll be about 50 percent productive, and then after a year they become fully productive. And then some certain percent become very, very productive. So it's about balancing how many people you can afford to hire who do nothing. So I built this model, and I just took every salesman— For some reason, I had collected information about every salesperson and how productive they were. I was trying to figure out whether there was any kind of correlation between past history and education. I found that there was none. So I came back in a week and I said, "This is how fast you can grow the business; this is how many people we can hire." MIT actually had that model as one of the first cases of computer modeling. They liked it a lot. And we ran the business that way for three years. You tell me what profit number you want, and I'll tell you how fast you can grow. It was taking computers into decision support as opposed to just the back office. And of course, minicomputers were inexpensive and easy to use; not like today, but compared to what was out there, these things were fabulous.

Later we got into trouble. We always had the highest-performing computer, and then suddenly Digital Equipment released a product that put ours to shame. And that ended up in a crisis in management where we fired the vice president of marketing. And just like in the Navy, I was the happy guy running the weapons department, and everything was going great, but the engineering was always bad, and we couldn't make our schedules and everything. So one day the captain calls me up and he goes, "You're now the chief engineer; don't screw it up. Get outta here." So I'm no longer treasurer; I'm now vice president of marketing. And it's a very difficult situation, because we've lost our competitive edge. But it was fun. So we figured it out; we had great engineering. They got us to where we needed to be. So now I'm in the company, and it's a quarter billion in revenue, and I'm by far the youngest officer. It was funny because as companies get big, HR systems become important. So now we have a real personnel department and we have delegation of authority. So personnel introduced job levels: a CEO's level one, and then levels down. So they do all this grading and they discover that I'm not even on the minimum of the level I'm supposed to be for my title. Now they've been paying me well. They're always giving me bonuses, and I'm happy as a clam, but now there's a big crisis, because I don't make enough money. (laughs) Because I'm making less than people on the level below me but ten years older in other departments. But the point of the story is, I know that I'm never going to be more than I am at Prime because I'm too young. It's time for me to make my next move.

CK: *So Prime's doing well at this point.*

RP: Prime's doing great, but it's now time for me to move. I looked at a couple of opportunities Guys are always calling me, asking if I am interested in this or that. And Don Ackerman was introduced to me by a person who had worked for a short time as a senior executive at Prime, Bruce Emblad. Bruce is the personification of an entrepreneur. Bruce, he's the biggest character in the world, and he's wonderful. He's the entrepreneur's entrepreneur. He'd always, "Hey" — he called me Humpty —"Hey Humpty, I want you to go look at this company; they need some help."

J. H. WHITNEY 1981 - 1993

CK: *Where did Humpty come from?*

RP: Humpty Dumpty, I don't know. (laughs) But Bruce would always send me off on these missions. "What do you think?" "Well, Bruce, you shouldn't do this one; this one's good." But he was a real character. He's still around. Entrepreneurs are a great lot? I always said if you had to be on a deserted island somewhere, you could do worse than being surrounded by venture capitalists; they're pretty eclectic. So he introduced me to Don Ackerman, who was a partner at J.H. Whitney & Co. Don asked me to look at one of the companies he was involved with but I didn't like it, said no. Then he asked me to look into another— Oh, this is the funniest part: I'm vice president of marketing and he wants me to go look at this company called Nano Data, which is an IBM knockoff in Buffalo, New York. This company is just a basket case. And this is classic Don: "What do you think?" I said, "I don't know. What do you want me to do there?" He said, "Well, I want you to be vice president of marketing." "Well, Don, I'm already vice president of marketing. I've got a $10 million budget, I've got a hundred people. What's the job you want me to do there?" "Vice president of marketing." "How many people?" "Well, you." "Okay. Let's see, Don, if I understand this now: I live in Boston, you want me to go to Buffalo. I already run marketing; you want me to take less money than I make now, and I'd have to leave about $1 million of stock on the table. Have I got this right?" "Yes, you got it right." I said, "So, Don, you're not gonna be upset if I tell you I don't think this is really compelling, is it?" And he laughed, and he said, "No." But then he called me about a year later and he said, "I want you to have dinner with me because I have something compelling for you."

CK: *This is a year later; so you are still at Prime.*

RP: Yes, it's probably a year later. And by this time—

CK: *Did you have a sense of what you wanted to do? A fantasy job?*

RP: No, it was clearly going to be in technology. In fact, I looked for a couple CEO jobs, one out in Portland, Oregon, called August Systems, which was a fault-tolerant computer, I mean really fault-tolerant; you could put a bullet in it. But you know, it wasn't a big market. So I was getting to be known in the venture world, and people were showing me stuff. You know, and I figured, I wasn't in a hurry. When the one was right, I'd do it. So Don called me for dinner and he said, "I want you to be a partner in the firm." Partner at J.H. Whitney & Co. Holy mackerel! Where do I sign? Don't leave! And when you call J.H. Whitney & Co., they didn't answer the phone, "J.H. Whitney & Co." It was, "757-0500." So I interviewed; and I come in there for an interview, and that's when I meet the larger-than-life Benno Schmidt. Now, I don't know it at the time, but what triggered this was that Benno had met David Morgenthaler, and David was at Ardinal, which was a successful IBM look-alike company. He [Benno] was going through a tour and David was his tour guide, and he said, "Are you David Morgenthaler, Sr.'s son?" And he said, "Yes." And he was quite taken by David. David's a brilliant guy, by the way; he and I became best friends. We could've become archrivals as, you know, we sort of show up the same day and not even know the other one's coming. And he's to start an office in California. And I come in as the young partner here in New York.

So this is very funny because I make this decision, I get accepted, they make an offer sort of in the January first timeframe. I go, "Well, look, I've got to stick around and get my bonus, year-end, so how about if I start March first?" "Yes, that's fine; you can start whenever you want." And I'm thinking that's good, because I've really never taken any time off, so I'm going to take a month off; never done that before. About that time, in January, I get a called from Paul Severino. Paul had worked at Prime as an engineer, and he went off to a company called Data Translations, and he and I were good friends. And he called me one time and he said, "It's not working for me; I want to leave." I said, "Well, you can't. If you're gonna leave, you gotta leave on good terms. So find your replacement; get your next product line set; when all that's done, you can leave. But you don't just leave as a senior guy without those things in place, that's not how one does things." So he called and he goes, "I got all that done and I want to start a company." Now, I claim, my recollection is: And he said, "I want you to be the CEO and I'll be the engineer." And I said, "Well, no, you're going to be the CEO, and it ought to be an Ethernet board company, because I think Ethernet's going to be big. And I'm not going to join it, but I'm going to finance it, because I just got accepted to be a partner at J.H. Whitney & Co. So I'll make a deal with you: I'll help you write the business plan, and I just want a right of first refusal on the financing." "Oh, sounds great to me."

So, Paul and I write the business plan, and I'm on vacation, and I go to New York with business plan in hand. I said, "Don, I think this is a good idea. I know the guy well. I think this is going to be a good space. Take a look at it and tell me what you think." And I leave and call him a couple weeks later. "Well, Don, what'd you think of that plan?" He said, "Yes, it's a good plan." I said, "What do you think?" He said, "I think we ought to do it." "Oh, great. So, what do I have to do? Take me through the investment committee stuff. What do I have to write?" "No, we're gonna do it." I said, "What do you mean?" He said, "It's done. Tell Paul he has $650,000." Tell Paul he's got his $650,000; call Paul Brountas, who's the lawyer up in Hale and Dorr; Paul will tell you how to do the papers. Just go do it." "No investment committee, nothing?" "Done. That's it, over. Get outta here." So Paul helps me with the papers, start the company, and sold it three years later, and our take was $20 million on the $650,000.

CK: *And the name of the company was—*

RP: No. InterLAN. So that was my first deal.

CK: *Too easy?*

RP: Too easy.

CK: *Who was at Whitney when you joined in '81?*

RP: There's David, who I've yet to meet, but he's a lone ranger out in California to start the office. Walter Curley was gone then. I don't want to say this — this is going to sound — there was Benno, who was everything; there was Don Ackerman, who was a genius; and there were a bunch of people that never did anything. And the firm, as near as I can tell, historically, had one or two winners, and everybody else kind of came in and went.

CK: *Why do you think Whitney had evolved like that?*

RP: Well, first of all, I'll tell you what I know about the firm starting. You probably have heard all this before, maybe not.

CK: *I haven't heard your version.*

RP: This is Benno's version, as I remember it: Jock Whitney of course came from a wealthy Pittsburgh steel family, and he did a lot of personal investing before the war. During the war, he was a prisoner of war. — And I'm telling this as if I'm Benno. I never met Jock Whitney. He was a partner and alive when I joined the firm, but was on his last days. — And he'd had a lot of time to think about his investing before the war, and what he found was some things worked and some didn't, but he thought the common thread was when there wasn't any supervision. And he felt that a venture firm, a firm that invested in speculative things — venture capital as a term didn't exist at the time — that had supervision, the chances of those ventures working might be higher, would be higher if they worked.

So when he came out of the war, he decided to start J.H. Whitney & Co. exclusively to invest. And everybody told him that it'd never work, that what you really had to do was have a brokerage firm to make money, and then you could take some of the nickels and dimes off the table and do these things as a sideline. But no, he wanted to start a firm that did venture capital. And Benno had worked on Eisenhower's staff in World War II, I don't believe was still in the Army but was at the State Department in Washington, working on Lend Lease obligations, sort of winding those up. He had a call, and the caller said, "This is Jock Whitney, can you have dinner with me tonight? I'm in Washington." So Benno never met the man, but he knows who Jock Whitney is, and he says, "Sure." So Jock says, "I'm starting this firm, and I've talked about a bunch of people and asked them, 'Who's the smartest guy you know, the best guy you ever worked with?' And five people talked about you. So I want you to join this firm." Now, Benno's just one of the most larger-than-life people in the world. By background, he grew up in Abilene, Texas, poor family, devoted to his mother, didn't like his father, almost hated his father, never said a kind word about his father, but loved his mother. Worked as a roughneck summers, you know, in the oil patch. Went to University of Texas, was teaching law when the war started. So he's having dinner with Benno, and he [Jock] says, "So look, I'm gonna put $10 million to do this. And it may not work. If the $10 million is gone, then you'll be out of a job."

CK: *Okay. I want to stop because of one thing I want to show you. The $10 million has kind of gone down in history. I found this.*

RP: Oh, this is the check? [showing image of check]

CK: *Yes, but it's for $5 million.*

RP: (laughter) Okay.

CK: *I forgot that I had it. When I was researching for Walter Curley's interview, I just dug and dug and came upon this history [www.whitney.com/history] and found a picture of this check. So I don't know whether it's half of the ten or[that this is all of it.*

RP: If it's really five—

CK: *Five million. So we don't know. But anyway, I'll be glad to send you a copy of this, I I just thought it was interesting.*

RP: Yes, it is funny. So Benno says, "Well, gee, that sounds really interesting. I'm excited to do this, but I've got to be honest with you," he said. "I don't know anything about accounting. I couldn't even read a balance sheet." So Jock says, "Well, I can't either, so maybe we can learn it together." So Benno's coming up, and then he gets a call from — this is sort of the Benno, the bad part of Benno; this is the competitive part of Benno. He said, "I get a call from Jock and he goes, 'Well, Malcolm Smith, who's also a partner, says, "Great to have Benno on board, but we think maybe he should start as an associate."'" And Benno says, "Well, you tell Major Smith," because Benno was a lieutenant colonel in the Army, "that I'm not coming up as any associate." (laughs) So the firm started, and its first investment was a company called Spencer Chemical. Have you heard all this?

CK: *I've heard bits and pieces, but everybody lends something to the story.*

RP: So Spencer Chemical was a munitions company; the guy, Spencer, was running a munitions plant. And the government obviously didn't need it anymore, and they were willing to sell it to him for a bargain price, and he wanted to turn it into a chemical company to do fertilizer, I gather, agricultural fertilizer. So the firm lent him — sort of did a leveraged buyout of this, and as Benno tells the story, that turned into — I'm going to be hazy on the numbers, but it was so successful, it was the last money anybody ever needed of that $10 million. Spencer Chemical became a very large industrial enterprise, and was sold, I think, for a very hefty price. So that was the first investment they made. Well, notice, leveraged buyout. Now, technology didn't kind of exist in those days. Benno does tell the story of some guy coming in wanting money to go through a course that AT&T was offering, or Bell Labs was offering on transistors. So he wanted to get the firm to pay for it, and they said, Well, what happens if you flunk the course. He goes, "Well, you lose your money." So of course we never did that one.

But the big investments that were enormously successful in those early days: one was Corinthian Broadcasting, and Corinthian Broadcasting is a connect-the-dots story, because there were two beautiful, young women in Boston who married very successfully — one to Jock Whitney, and the other to the president of CBS. I'm forgetting his name. Bill Paley. They were called the fabulous crushing girls. And so the connection at CBS, well, guess what? Let's say you're in Houston and you want a CBS affiliate; how do you get a CBS affiliate? Well, maybe if Jock Whitney were able to put a little money into your company or owned the station, you'd get your affiliation. So five TV stations, which was the max you could have, became Corinthian Broadcasting, and it was an absolute cash machine. So the Whitney-Paley connection really was enormously successful there. And the other Jock Whitney connection which everyone always talks about— And this story is Benno at his best as a raconteur, because Benno talks about this guy coming in, and again, it was in World War II. The government was trying to figure out how to make an orange concentrate that they could use to send over for the troops. So, I can't remember the fellow's name, but he came in with a can filled with, as Benno said, "this orange mush." So they go into the dining room, and the partners are sitting around the dining room. This fellow has his can and he's making his pitch: "This thing has so many oranges in it, and it's gonna taste really fresh." They said, "Oh, let's open it up." Nobody has a can opener. So they find a screwdriver and kind of punch it open, and they tear it open, and they fill it in with water, and they're pouring it around; and Jock Whitney's tasting it like it's—

CK: *Fine wine.*

RP: Fine wine. You have this story.

CK: *No, no.*

RP: That's exactly what he says. As if it's fine wine, and he says, "Well, it tastes a little tinny to me." And Benno said, "My God, of course it does. Just look how we just took it out with a screwdriver, of course it tastes tinny!" So that was not Bird's Eye, it was Minute Maid. So Jock is a great friend of Bing Crosby Kraft Music, who, at the time has the most popular television program, the Kraft Music Hour, I think it was called. And this is actually in Bing Crosby's autobiography, too, where he made a fabulous amount of money on this. Jock, said, "I'll give you some stock in this company if you'll make us some radio commercials." So he makes all these radio commercials and that's all fine. But what really sends this thing off is he'd say during the TV commercials for Kraft — I guess Velveeta was the sponsor of the Kraft Music Hour. He'd say, "This cheese is so wonderful, but if you really want to have that cheese great, you ought to have it with Minute Maid Orange Juice." As the story goes, they said, "Bing, you can't do that. We're paying for all this, and you're pushing some product that we don't own; you can't do that!" And he says, "Well, fire me, it's in your contract, you can do that." They said, "Hell, we can't fire you; you're the most popular person on TV." And he says, "Well, I guess the poor folk will have to make a little money, too." And even though Bird's Eye was owned by a very big company, and this was a small stand-alone, it became the number one share of market, and maintained number one share all the way until it was sold to Coca-Cola. Now that was— Corinthian Broadcasting, Minute Maid, Spencer Chemical are the three companies that stand out in the early folklore of J.H. Whitney & Co.

Also San Jacinto Petroleum, which Walter Curley was on the board of. He probably talked about San Jacinto Petroleum. Actually Curley tells this story about, "Benno put me on this board. I went down to talk to them and I went down to say, 'It's really fine to be here at San Jacinto Petroleum.' They go, 'Hey, this is Texas, it's San Jacinta.'" (laughs) But I think the company did well in oil and gas. But those are the early days of the big stuff that I can tell you about.

CK: *So by the time you arrived, 1981—*

RP: Roughly.

CK: *—what's the culture of Whitney or the vision, the philosophy of J.H. Whitney?*

RP: I was shocked. I mean first of all, this is a firm that has, in the folklore, you know, it's the venture capital firm of the world and everything. Before I talk about that, I want to go back to how venture capital, according to Benno, the term venture capital was coined by J.H. Whitney & Co. Now, ARD will tell you they did it. But the story that Benno says is, "We were sitting around the table saying, 'What are we going to call this?' And somebody said, 'How about Adventure Capital?' That sounds a little, you know, too much like fun. How about if we just say venture capital?"

But when I came, "disappointing" would be too strong a word. "Amazing" might be better. For example, they knew I was coming two months early; I didn't have an office. And the place I was supposed to have an office was filled with all kinds of junk furniture. And finally, when I show up, they take all that out. And I don't have a phone for a month. I have to go to the conference room next door to make phone calls. I mean, completely no structure. No structure of any kind. No meetings. The firm had *a* meeting a quarter where you'd value the partnership. So literally you could sit around and we'd talk for four hours and we'd value thirty companies. Nothing in writing. No financials. And you'd say, "Well, I think," you know, the way you'd value it; Benno would value it to say, "What would you sell it for?" "Well, I wouldn't sell it for a penny less than ten dollars." "Oh, ten dollars." (laughs) There was no process, no process of any kind.

CK: *And what are you thinking of this personally?*

RP: What I'm thinking is, first, of the portfolio, putting Don's companies aside, is lackluster at best. I came in and Don was going to be the next managing partner, and he was going to be managing partner when Benno turned seventy-two, and Benno I think was seventy when I joined. To me the firm was Don and David Morgenthaler, Jr., and myself, if I was good. Now Benno — don't misunderstand — Benno has done, well after I joined, some of the most fantastic biotech deals in the world. And he leveraged his relationships at Sloan Kettering, where he was chairman. If you came to Benno with a biotech deal, it took him thirty seconds to figure out how good your science was, because that was his network. Benno did some fabulous deals in the biotech field. When I say nobody else — I was on the assumption that Benno was going to retire at seventy-two. So as long as Don and David were there, I saw the—

CK: *But he[Bennol was running the show, he was J.H. Whitney.*

RP: Yes. Benno had a secretary who'd been with him forever. She came in my office one day after I'd been there about two years. She says, "You know, Mr. Planitzer, I've been watching you. You're going to be a fine — you're going to do very well here, you're gonna be very successful here. I just want to give you two pieces of advice: When you're out in the world, you're a partner at J.H. Whitney & Co., don't you ever forget that." And then she paused, she said, "And also don't forget, there's only one partner at J.H. Whitney & Co. As long as you remember that, you'll be okay." That's Benno. You did not cross Benno.

CK: *What did you learn from him?*

RP: First of all, there's a Jekyll and Hyde to Benno, but the really great part about Benno was his absolute commitment of honesty and rigor. He said to me, "Always put the companies first; if you put our companies first, everything will be fine."

CK: *Loyalty.*

RP: Mm-hm. And an ethic, a code of ethics that I was completely compatible with from my Navy history. That's the great side of Benno. We all learned later on that probably when he died, he had severe Alzheimer's when he died, and clearly some of that was starting to — but he couldn't let go. And he couldn't let Don take over the firm. If two partners were in a room talking, it was like there was a cabal going on. For a man who was so successful and had done so much in life, he just had this fear of losing control. Or one time Don asked David Morgenthaler and I to go out to his place in Colorado and we'll spend a couple days and talk about deals in the future, et cetera. Benno heard about it and he raised the roof, "How could you do that? How could you do that without me?" "Well, Benno we were going to talk about 'nits and nats' of technology. Not stuff you're interested in. Clearly a roll-up-your-sleeves, working meeting. Nothing to do with anything other than kind of think about technology you're not completely interested in." We never had another meeting again like that.

CK: *The show couldn't go on without him.*

RP: The show could not go on without him. But Benno was absolutely larger than life. He had a wit that was spectacular. We had this dining room. All of our food was catered by Twenty One. So my lunch would come in, we had this cook and my lunch would come in on a tray, and I'd have a tuna fish sandwich every day. And she came in one day and said, "You know, Mr. Planitzer, you can have anything you want. I mean—" I said, "Well, could I have my tuna fish with whole wheat?" (laughs) And Benno always had some kind of fish every day. So when we had our partners' meeting, we'd then adjourn to the dining room, where we'd sit and have lunch together. So the partners' meeting ended, twenty minutes go by, and then we're all going to assemble for lunch. He came in and looked like he'd been thinking about something. "You know, I'd love to go up on a space shuttle. I'd really love to go up on a space shuttle." I said, "You know, Benno, that's interesting you say that. You know, [Mass Comp], our company — all those computers down at the Houston Space Center, they're all powered by Mass Comp systems." We're a lead investor in this company. Goes public and pretty successful. He goes, "I'd still like to go up on a space shuttle." (laughs) He just had a wonderful wit and a presence. When he came in the room, the room was different. He did a lot of philanthropic stuff. And he took a big piece of the firm for himself. And Don [Ackerman] used to say, "You know, I really love the fact that I can give the financial wherewithal for Benno to do all those things, and it makes me feel like I'm part of it."

CK: *That's one way to look at it.*

RP: Yes. You literally went in your office, you never talked to anybody else, you did your deals, and you met once a quarter. It literally could be as simple — one day you might write it up from a dollar to two dollars, and two quarters go, you say, "Well, the company went bankrupt." "Oh, let me write it down." It would be unpolitic to talk about somebody else's deals.

CK: *It's an unusual environment, for a venture capital firm.*

RP: Yes. Right. Because you're only as good as yourself. You've talked to some folks at Greylock, right? Maybe when you meet them individually, you wouldn't say that — when you meet them individually, you might not come away — this is a partner in one of the most successful venture capital firms in the world, but they had a process and a system that made them bigger than any individual. And we didn't. We were individuals.

CK: *It sounds like that would be pretty lonely.*

RP: Well, your ecosystem was your ecosystem. It was you and your entrepreneurs. It wasn't lonely per se, because if you liked the business and you liked working with entrepreneurs, and I've been blessed to work with some really interesting people.

CK: *I want to hear about that, about your deals. What companies? If you just want to give one or two examples. Start out with either the most challenging, or the most rewarding, or the best story.*

RP: By far, the best story, and probably the most rewarding, is Paul Severino's second company. Now, Paul starts InterLAN, we make this big hit, and Paul stays with the company, and he calls me and he goes, "I hate this. I can't work for these people. I hate it, I hate it." I said, "Well, Paul, you know the drill. You gotta have your replacement, have all that done. Call me." So he gets it all done, and he goes, "Okay, now I want to do something new." I said, "Fine, what do you want to do?" He said, "I don't know, but I want to bring a couple people with me. I don't need money, but they do." I said, "Well, fine, I'll tell you what: We've got a company called Pencept, and it's got some downstairs space that they're not using. So we'll put you down there. How much you need?" "I need a couple hundred thousand dollars." "Okay, fine. I'll write you a note for $200,000. And figure out what you're going to do, and if I like it, I'll turn that into part of my investment, or I'll give you the money back."

CK: *So you're investing in the entrepreneur, not even in a business plan.*

RP: I'm investing in Paul. Now, of course I've known Paul for twenty years. But this is authors without a play; this is the worst place you can be, because the pressure is on to think of something. So I'd go by once in a while, if I happen to be in Boston. I go, "Hey, what you doing?" "Nothing yet, nothing yet. Looking around, trying to figure it out." Finally they call me up and they say, "Oh, we got our idea." Said, "Great, can hardly wait; tell me about it." "We're going to do—" It was an IEEE 802 something, which was local area network for manufacturing plants. There was nothing you could do that'd be worse than that. Why? Because manufacturers are inherently conservative. You don't change processes. I said to Paul, "I love you, you've made a lot of money for me. I'll just tear up the note. Just forget about it. You don't owe me a dime. Just take the two hundred. If this is what you're gonna do, I don't want to be part of it; I think it's a bad idea. And I really want to support you, but no." So I'm off at MiniScribe in Singapore at one of their facilities, and I get a call from Paul. He goes, "I scrapped that idea, I got a better idea. I'm gonna do routers." I said, "Paul, what's a router?" He said, "Well, it's a bridge, but it's got more intelligence." I said, "Okay. Compared to your last idea, this is so much better; I'm in. How much you want?" He says two million. I said we're in." So we put in half the money, and another fund put in the other half.

CK: *Who was that?*

RP: That was Ed Anderson. Ed and I had worked together— Oh, no, no, I'm sorry, Ed was still working for Bruns Grayson, and Bruns was running ABS Venture Funds. So Ed was working for him, and he was on this board. So we put in that money. And it and Cisco invented the router market. And what was very interesting about it was we needed a vice president of sales and marketing, and a guy that had worked in one of my other companies, Gary Bowen, was just coming free. And Paul was about to hire this other guy to be vice president of sales, and he sent me the offer letter. I said, “Have you sent it yet?” He said, “No.” I said, “Okay, do me a favor. I want you to interview Gary Bowen. If Gary Bowen doesn’t work out, I’ll personally pay his salary for a year, if he doesn’t work out; this is the right guy for you.” The reason he was the right guy is that Gary worked for Mass Comp, which was the number three or four company in the workstation space. And he learned in that business that you don’t want anybody else to be in the business but you. Both Cisco and Wellfleet had this view that any new entrant, they wouldn’t let them, they’d never let them win any business. If they had to give away the equipment, they would. So they ended up in a duopoly in what became one of the largest markets in the world. In fact, I talked to Paul the other day. He said, “You know, Gary Bowen was the best hire. He changed that business. Because we had Gary Bowen, that business was really successful.” So that was Wellfleet, which is — I don’t know exactly how much J.H. Whitney made on it because I’d left the firm by then, but my guess is $100 million. It was ultimately sold to Nortel for billions. But I’m sure the firm didn’t have the stock then. I can’t tell you how much they made, but they made a ton.

CK: *What made you think you were well suited for venture capital? You seemed to have made your way there, and it wasn’t all by chance. But it takes a certain kind of person, I think.*

RP: Well, I was actually looking for a company to run; that's what I thought I was going to do. I was looking to run a company. And in some ways, I regret that I didn't take that, because the problem with venture capital is once you're in, you can never get out. There's always another fund, there's always another deal. And actually, I wish I had done my own start-up and been the CEO of it.

CK: *Of a company.*

RP: Yes. Now, I've been a CEO three times, but they're always in different circumstances. Never as, "This is mine and I want to start it and do something with it." So I kind of regret that. I may have gone into venture capital too early.

CK: *You were young, thirty-seven*, *I think?*

RP: Yes, probably thirty-seven. But if you think about what I did at Prime Computer, I was always helping other people, coaching. I was as much a coach as I was a player. And really you're a coach — if you're a good venture capitalist, you're a coach.

CK: *So that's what it takes.*

RP: Yes. A mental toughness about being the investor, that when things are really good, you gotta tell people that it's not as good as they think it is. And when things are really bad, you gotta tell ’em it’s not as bad as they think it is. And at the end of the day, you’re going to write checks when nobody else will. MiniScribe’s a great example.

CK: *Tell me about MiniScribe.*

RP: MiniScribe was a deal that sort of showed up on my desk over the transom at J.H. Whitney. They wanted to manufacture these disk drives for the PC. Well, if you look at computing and you know anything about history, you know that whatever you did in mainframes, whatever the largest computer does, it’s only a matter of time before you’ll do it on the next generation of computers, and the next. But it’s all about cost and efficiency, right? Nobody could imagine — today you have a couple gigs hanging off on your laptop computer. Well, MiniScribe did five-megabyte disk drives for personal computers. I’m trying to remember what they cost; I think it’s like $2,000, five megabytes. Big amount of storage in those days. *The* company in the market was Seagate. They were the king. Terry Johnson came, I think, out of the large disk drive company, Jesse Awieta’s company, StorageTek. Oh no, he came out of IBM, sorry. They started this company. He had some local investors in it, and they had a business plan where they were going to do $8 million in the first year. So the products work, I do some checks on it, call the customers, they like it. It looks pretty good. So I think I invested at like an $8 million pre-money value. You quickly learn in venture capital that the company you invested in is not the company you get, because they’re telling you all the good stuff, right? And in fact, I got to the point in venture capital where I'd make an investment, and in my first meeting I'd say, "Okay, I'm declaring amnesty." "What are you talking about?" "All those financials you gave me, you throw them out, throw them out, and when I show up the next time I want a plan that you're gonna make. And I'm not gonna say, you know, anything bad; I'm gonna say, okay. But I don't want a plan that you're not gonna make."

CK: *So this is my answer to how do you vet a company?*

RP: Yes. I don't care how much due diligence you do — a short period of time and you don't know much when you go in. So I had my first board meeting, and gee, they stick to the plan. "Well, we're going to do the $8 million and—" So the local board guys, "Well, I'm a little disappointed that you can't do better than that." A lot of hubris is going on. But it quickly becomes apparent to me that while they have a lot of orders, contracts, these contracts are long-term contracts in nature, and while it might say $5 million contract, you don't deliver anything without a purchase order. And I start looking at the gross margins and the purchase orders, and I go: "This company's going to be out of money in three months." One of the local investors turns to me and says, "How'd you do that?" I said, "All right. First of all, you can't be out of money in three months, it's not how the world works. Here's the things you've got to do. Before I come back, I want all these things done. Stop ordering, stop this, stop that; this money's gotta last for at least a year."

And he did all that, Terry Johnson did all that. Terry Johnson, he's a quick learner and he wanted to be successful. This wasn't adversarial, it was a fact of life. The business is kind of moving along in fits and starts until IBM decides that they want to put hard drives on their personal computers. When IBM does something, they do it in a big way. There's only three vendors: there's Seagate, ourselves, and Connor Peripherals. And they quickly conclude that MiniScribe's got the highest-quality drives of the three vendors, and they give them a $50 million purchase order for one year. So the company goes from hand to mouth to having to go to three shifts a day, seven days a week, just to keep up with IBM. One of the things about Terry, Terry was a real engineer and never visited customers. Hard as I tried, I could never get him to go out there and spend time with customers. But he was a real engineer, so the products really worked.

But IBM was telling him, "Terry, you got a great product here, *but* your costs are too high, and if you don't get offshore like your competitors are, you're going to end up not being our favorite vendor but getting the short shrift." So with this $50 million order, we start making money, and we're growing, and we take the company public. And just before we took the company public, IBM gave us a $100 million order for the next year. So the company went public, raised $20 million. I mean, this is high cotton. And I remember, I'm out there, we're having this big party, and everything's really successful. And the next day we get a call from IBM that said, "We opened up this warehouse and discovered it's filled with all these disk drives, so don't ship us anymore. They're not selling. So don't ship any more, please." It's our only customer of scale. And in fact, we couldn't get any other customers if we wanted to; we didn't have capacity. But we'd understood that this is Russian Roulette; you didn't want to be in a situation like this.

So the next disk drive that we're going to build was a 3.5-inch five-megabyte drive. If it's smaller, it's better. It takes less power, takes less space, and we're clearly ahead in the market on this 3.5, and while it doesn't quite work yet, we've got it out with other vendors. We deliberately don't show it to IBM, we show it to everybody else who competes with them, because we need to get other customers. But it's not ready yet. And IBM basically says: "Don't ship any more." And we've got probably a spend rate of, I'm guessing now, but it was probably $5 to 6 million a year. And I said, "Terry, you've got to go down and see these guys at IBM and explain to them they're your only customer, and that you just went public, and you're about to put out a press release that says you're going out of business. But we got them to stair-step it down, so that instead of going to zero, it declined over time.

CK: *Who went to talk to them?*

RP: Terry did. As I remember, the conversation's pretty interesting. They said, "Well, we're sorry about this." And he said, "Well, I didn't come down here to arrange my funeral; I came down here to try to figure out if there's some way we can salvage this." And what I got him to do is, I said, "Terry, you're going to bring them a press release, you're going to put it on their desk and say, 'I'm putting this out tomorrow.'" IBM doesn't want to be known for putting little companies out of business. So now we have a little time; we've got $20 million, and we've got fundamentally two problems. One is we have this new disk drive, but no customers, and it's not ready yet; and we have manufacturing in the United States, which is not going to work, because we gotta get offshore; and we've got a year of cash. And of course, we've now put out releases that we're not going to make our numbers, et cetera.

So I can't remember how we found this guy, but we ended up serendipitously finding a guy named Jess Parker, who had run the offshore manufacturing for one of the computer game companies, and they were leaving Hong Kong. So we were able to take their facilities, take Jess, and start doing overseas manufacturing. This is going to be an important part of the story, because it created huge angst in Colorado, as we fired all these people in manufacturing to take it offshore. The thing about overseas is all labor costs are 20 percent, at that time, including the cost it takes to build the factory. So when you start compounding all that, anything that has labor in it has an enormous cost differential. So we had to go offshore. So Jess Parker did a great job of building a Singapore facility, building up this Hong Kong facility, and driving that, but the cash is running out. The cash is running out. And we wanted to do a $10 million financing, and I said I'll put up the first two, or J.H. Whitney of course; I said J.H. Whitney will put up the first two. We couldn't get anybody else to put money up. When we started our conversation, I talked about how serendipitous things are—

CK: *You said it just came over the transom. I was wondering specifically how MiniScribe did come to you.*

RP: It was a business plan that they sent to a bunch of venture capital firms. When I say over the transom, it came in the mail. "Read this business plan." And by the way, I've almost never done a plan that came that way.

CK: *And you looked at it and said you liked it.*

RP: Yes. I knew the space well, knew it was going to be a big space. So now we're about to run out of money, and nobody else will invest. And I'm walking down Fifth Avenue, and I remember that my good friend, Bill Hambrecht of Hambrecht and Quist has just hired from IBM one of their disk drive guys, and he was going to do some venture investing out in Asia. So, I call Bill and I say, "Look, I can't tell you to make this investment, but I can ask you as a personal favor to stop what you're doing and get this guy you just hired to come look, because I believe this company's got the next generation of product, and if it can survive, it's going to be great." Bill looked, and he called back, "God, you're right, this is good. We want it. But, we got a few conditions. Condition number one is that we're gonna put in our own management team, because we have this turnaround guy named Q. T. Wiles, who is a genius. And he'll come in there and he'll run this business and will bring in his own team. We don't think it should be ten; we think it should be twenty. Put as much as you want in." And I think I still put in my two, maybe I went up to three.

But Q. T. Wiles came in with his management team, and it was almost a stacked deck in the following way: The way the investment was made, they wrote off everything that they could. So all the inventories they wrote to zero; anything they could, they wrote to zero. And of course, as this 3.5-inch drive started taking hold, all that inventory was money good. So the company started growing, and it was a rocket ship. I think we got it up to $700 million in revenue. The money I put in at $1.25 was worth thirty-seven. I mean, this is all gold. And I was the guy that saved the company. And I felt really good about it, right. Well, Q. T. also had sort of the Benno control issues, and he started losing it. This guy was a complete tyrant. He would demote people, change the organization, threaten to take their bonus, gave them low salaries, big bonuses, so if you did what Q. T. [wanted] it was good; if not it was bad, so it was very tyrannical. And the company lived on this 3.5-inch drive. It was just gangbusters. The management team wanted to build a high-performance drive. No company had ever done high-performance and low in the same shop. Because they had great engineering, they talked themselves into — we can build these high-performance drives, too, because when our customers need high and low, and sometimes they can't figure out which lines are going to be right, but if we deliver both, we can gain market share. So they build this high-performance 5.25-inch drive.

But I'll go back to this issue of offshore manufacturing. They convinced themselves that they could build it in the United States. And they were going to show those of us who had forced the offshore, including me, the offshore manufacturing — they were going to show us that they could do this and do it all in the U.S. So we're making all kinds of money in the facilities overseas. At that time, I put Jess Parker on another board, because I thought he could make a contribution, but I also needed to be able to see him in a different environment, where I could ask questions. And turns out that the company is losing its tail on this 5.25-inch; they can't get it to the high volume, and their scrap rates are enormous. And unbeknownst to any of us — we'd just done this big debt financing, convertible debt financing, raised $50 million or something, and we're in the midst of fourth quarter. This is now public record; it's all in the litigation that happened. They all sit around the table, and they got a $20 million cost hole they have to fill. They're all figuring out how to change labor rates and how to do this and turning all kinds of dials, and they can't fill the $20 million hole. They're $6 million shy. And instead of just saying, "Hey, we're going to miss the numbers" or — they literally ship $6 million worth of bricks disguised as disk drives, because a brick weighed the same amount as the disk drives. So one Saturday afternoon, the former chief financial officer, the chief financial officer, and about-to-be-named chief financial officer, all of whom are former Coopers employees, senior guys, sit in this warehouse and they make these fictitious shipments so that they can make their numbers. It is the most unbelievable story.

And I get a call from an analyst who followed the company who I knew well, and he said, “Something’s going on out there. They’re doing some barter deals, so I don’t think things are as good as people are saying.” And we have a board meeting where I basically say, “Look, I know things aren’t good, so what’s really happening here? What’s the quarter really going to look like? Where are we?” I don’t know about bricks or anything; I just know that the business is slowing down. And so we agree that it is slowing down, we agree that we’re going to put out a public announcement. And the next day, I’m back here in New York, and there’s a public announcement from their PR guy, who happened to be the son-in-law of Q. T. Wiles, saying, “All these rumors about the company slowing down are without merit. The company’s doing great, everything’s fine.” So I call Q. T. and say, “Q. T., was that the same meeting I went to yesterday? Remember, we were going to slow it down? We’re going to put out the word?” “Yes, well,” Q. T. says, “he didn’t know about that meeting.” I said, “That’s fine, I understand that, but that can’t stand. You gotta put a press release out now that says, ‘Investors can’t rely on those statements. They were inaccurate. And in fact, things have slowed down,' and you've got to put this out right away." "No, I'm not going to do that. I'll just slowly put out the word to people." "Q. T., you're going to put out that announcement or I'm resigning. And when I resign, I'm going to write in the letter why I resigned, and I'm going to send it to the SEC. You put out that letter today or I'm out." And he says, "F— you," hangs up.

So I start writing my resignation letter. And I get a panicked call from Bill Hambrecht, he says, "What's going on?" I told him, and he said, "Of course, you're absolutely right." So he put out the call. Put out a press release that disavows that whole thing, and that things are in fact slowing down. Bill sends out a law firm that he uses because he knows we're going to get all these suits from people on the numbers. And he's just out there telling people about this, just getting our ducks in a row, and the chief financial officer basically spills the beans, says, "We shipped these bricks." He couldn't live with himself. And then I get another call, and Bill says "We got a really serious problem." So we hire an outside lawyer from Fried Frank to do an investigation. From this moment on, our disclosure's pristine, but we had done this financing six months before. As the director, I had signed the financing statement, and Joe Jamail sues us in Texas for $100 million.

So I don't know whether that was the darkest day in my life, but probably one of the darkest days was the day I sat in that courtroom in Texas and was called a crook by Joe

Jamail. Now, as it ended up, I was found completely not at fault. In fact, Jamail singled me out as a director that really did his job properly, and that if all the other directors had done what Mr. Planitzer did, maybe this wouldn't have happened. However, time, money, it was horrible. And we lost the company. The company went bankrupt, all because this management team couldn't face the facts that the business wasn't as strong as they thought it was, and because they were trying to do something that they shouldn't have done, which was to manufacture outside of our own manufacturing processes. They kept Parker out of this, who was a genius at manufacturing. Horrible. So, one of my greatest successes became one of my greatest tragedies.

But I'll tell you my best story. I'll tell you the happiest, one of the best stories — and I think when all these people say they want to write books about venture capital and how wonderful it is, et cetera, this story personifies it. I was at a board meeting for Wellfleet, leaving the board meeting, and the woman who was a receptionist who'd been with us from the first day, I said, "You look awfully happy; what's going on?" "Oh, my daughter's getting married tomorrow." "Oh, great, tell me about the wedding." "Oh, it's a sit down dinner for two hundred." It's the kind of wedding you wouldn't expect a receptionist to be able to have. And she said, "And I did it on the one hundred shares of stock I got the day I joined Wellfleet. I gave my daughter the thing I wanted to give her most, and it's from that one hundred shares of stock." Now, that is to me what venture capital is about. It was about value creation. And none of us really did it to get rich. It wasn't, "Gee, if we start this company, we're going to be rich." "If we start this company, we're going to change the world. And by the way, you'll get rich along the way." It wasn't the money. It was the value creation. Leveraged buyouts is about money; venture capital is about changing the world.

CK: *So what continues to excite you and motivate you in venture capital?*

RP: I'm going to tell you, it's changed a lot. When you talk about the early days of venture capital, you could almost call it a cabal, because there was just a handful of firms; there were a handful of investments to make; and there might be three competitors in a space, but there wouldn't be twenty.

CK: *At Whitney, who would you go to if you needed to partner with someone?*

RP: You had your go-to partner. I would go generally to Dan Gregory at Greylock. He would do a first round and I'd piggyback on his deal, and then I would do a first round and he'd piggyback on me. So if you did ten investments, you might be the lead investor in five, but you had ten, where someone else was doing the heavy lifting on the other five.

CK: *Was there anyone else besides Greylock?*

RP: I did a lot with Bill Hambrecht. Bill Hambrecht had the best thing going because there were only two or three people that would take these technology companies public. And Bill had this rule, "I can't take anything public I'm not an investor in." So you'd take it to Bill about a year before you wanted to take it public, he'd invest, pass the hat around his firm, they'd take it public, and they'd all make money, and we'd all be happy because we had it public. So I did an awful lot with him. I did a lot with Oak, a lot with NEA. But somewhere along the line the business got institutionalized. It became an asset class, and when it became an asset class, everybody needed to have 1 percent of their assets in venture capital, and what was a $20 billion a year business became $100 billion. And when it became $100 billion, what happened was a lot of "me too" companies got formed. Suddenly firms that you used to do things with had their own; they had more than enough money to do it themselves, and they didn't want to share.

CK: *Networking was—*

RP: It changed. They had more than enough money; in fact, they had too much money, and they couldn't do $2 million financings anymore; they had to do $10.

CK: *So it's getting competitive in a—*

RP: Well, in a bad way, because the investor could use two, and he could use it wisely because he needed three, but when you gave him ten, he wasted five. And my partner

Kevin Burns calls it the West Coast offense. On the West Coast they'd chug money into — they'll start something, and if it looks good, they'll put tons of money in. On the East Coast we're counting every nickel and dime, and they're putting out sales forces that are ten times bigger, and if they win, they win big, and they're willing to take lots of losses.

CK: *Is that how you see the contrast between East Coast culture and West Coast culture?*

RP: I do, Yes. We call it the West Coast offense. You know, bet big. And guess what, venture capital in the last decade, if you put a dollar in over the last decade, you got eighty cents back. That was before fees. So if you paid fees, which you most likely did, you got sixty cents. Venture capital has lost money for a decade, and it's lost money because so much money was available and there were so many "me too" companies. And what's really happened now is we've shifted from— I'm sort of the, I'm the arms merchant in venture capital. I like to supply the bullets and the guns to somebody else's Army and let them fight on the front. The consumer-facing companies, now that it's gone consumer-facing, you're not an arms merchant; you're out there in the consumer space. And what's happening now is the companies that win, win enormously big, but there isn't two or three winners in a space; there's a single winner. There's only one Google, there's only one Facebook. And if you're in it, you're gonna win big, and if you're not, your fund is getting eighty cents on the dollar. So, it's completely changed. It's not nurturing little companies and building strong relationships with managers; it's a portfolio. You're a portfolio manager. You're putting in lots of money and tracking, seeing how you're doing against the returns that Cambridge Associates has.

CK: *Let's look at the time. I want to make sure I haven't overlooked anything. Was Benno a mentor in any way?*

RP: I loved Benno. Larger than life, brilliant, and like all people like that, he had his faults; but no, I adored him, and still do. Even though he fired me, I still do.

COMPUTER VISION 1993 – 1996 CHAIRMAN AND CEO

CK: *You left Whitney in 1993?*

RP: I got fired. I didn't leave; I got fired. Because I was the person who found the leveraged buyout of what was then Prime Computer, but really what we wanted was a business they bought called Computer Vision. Because Computer Vision was the number one company in CAD/CAM and acquired by Prime. Ben LeBow was trying to do a hostile takeover of the company. And our strategy was a simple one. We knew minicomputers were declining; it had a big service base, and it had this business called Computer-Aided Design. So you take the cash out of the declining revenue stream, you cash flow the minicomputer business, the service business pays the interest on the debt, and you fix the CAD/CAM business and take it public; that was the strategy. And we took it right into the head of a huge recession. And it was very big, it was very public, and Benno got nervous. He got nervous because Peter Castleman was whispering in his ear all the time that it was going to take the firm down. So Benno called me in one day and he said, "Russ, Computer Vision's in trouble and you're going to go fix it." I said, "I've been working on it. What's different?" "You're going to go up there full-time." I said, "Are you firing me, Benno?" "No, I'm not firing you, no." "So will I have an office here at Whitney?" "No, no, you won't have an office." "Will I have a salary here at Whitney? Will I be a partner?" "No, no." I said, "I don't know where you're from, Benno, but last I knew, that was firing; I just got fired." "Well, you could look at it that way, but you know—"

So, literally, it was hard anyway, but the firm which was the majority owner completely disassociated itself with this leveraged buyout. So I had no governance of any kind. The holding company where everybody from J.H. Whitney resigned — I'm running, I'm the chairman of it. I ended up firing the CEO and running the operating company myself, because he can't do it. So I'm hopelessly conflicted because I'm the CEO of this business, and I'm the only director of the holding company, and I have no power at the holding company because the majority shareholder won't talk to me. And I not only have to fix the operating business, which involved taking 2,000 people out of the company. I got it back to 20 percent profitability, did a good job with that. Over there is the CEO of the year award I got for doing all that.

CK: *1995, I understand that. So how long did this take, to turn this around?*

RP: Four years. And it was tough. I got all this debt sitting there. I learned a lot more about bankruptcy than I ever wanted to. But got it all done, got it all paid, got all the debt paid off. Never went into bankruptcy. Sold the company to a company down the street, PTC, which was also in the CAD business, but at the lower end; they could never get into the high end of the marketplace. And by the way, today if you went into PTC and said, "What's the product you sell?" they'll say, "We sell Windchill, which is the design automation of assemblies." That product was created by ComputerVision. I found these guys out in Minneapolis and staked them as a venture investment within ComputerVision, and they built this product that is now the mainstay of PTC.

THOUGHTS ON VENTURE CAPITAL

CK: *Russ, what do you think has given you your self-confidence?*

RP: Well, sometimes self-confidence happens because you have no choice. I remember when I was going to fire the guy running Computer Vision and talking at the board, and I said, "I'm going to have to go run this business." And John Cunningham, who is a dear friend and board member, said, "What makes you think you can run it?" I said, "Well, because I can't find anybody else. And John, I think you could do a better job than me, so if you'll do it, I'm happy to have you run it, but as far as I know it's only me, so I've got to go and do it." In my portfolio recently, we had a CEO in a company called NewRiver up in Boston, which I just sold to Broadridge — he wasn't working out; he knew he wasn't working out, and so we agreed we were going to bring in somebody else. So I tee up a new person to go run the business. He is all ready to take the job, the contract's ready to be signed, and all he has left to do is meet the management team. And when he goes there the management team says, "Don't take this on, it's a can of worms. We have all of our development and production being done by this guy in India, and he's a madman. You don't want to take this job, it's terrible." So guess what? I was the only one there. Got it all fixed; got rid of the guy in India; bought the business out; got my little Rolodex; got a guy in there to go run the Indian operation for us; brought in a team to run the business, and we sold it last August to Broadridge. And I got a call from Broadridge at Christmas time, they said, "You know, this is the best company we've ever bought. It's the cleanest. Everything about it you said is true."

CK: *So this is the advice you give when you make your speech about how much you need to know.*

RP: It's not what you expect, it's what you inspect. I have three things I tell CEOs. "When I leave you — someday we're going to part, and here's the three things I want you to know: Under-promise and over-achieve; it's what you inspect, not expect; and never ask a question you don't want to know the answer to." (laugh) It's been a wonderful career. I've had some very dark days. I remember sitting on the beach with my one-year-old baby daughter thinking that I was personally bringing American Express down because they were a big investor in Prime, and it was all my fault. John Kennedy said it right when he said “defeat is an orphan and victory has a thousand fathers,” because it was only me.

CK: *Tell me, it sounds like you get emotionally involved in these companies*, *with the entrepreneur.*

RP: I always tell entrepreneurs, “Look, if you don’t have a company that, when you go through a process like we just had in the economy where everything goes in shambles— If you don’t have a company where they’re buying from three vendors when they can only buy from one, if you’re not that vendor of choice, for a big enough constituency, you shouldn’t live. You don’t deserve to be there. So you better figure out what you are that you’re going to be the vendor of choice, and you better figure out that that’s big enough to build a business, because in venture capital we see three things: We see features, we see products and we see product families, and the only thing that really can win is a product family. So if all you’re doing is selling a feature or a product, you’re not a company.” CEOs hate this when I do it — I call them up, I say, “In my mind you’re a project until you have $10 million in revenue. I’m not going to call you a company until you have $10 million in revenue. Until then, you’re a project.” And they don’t like it. “Why do you think you’re a company? Are you self-sufficient? No, you’re on the dole. You live at the hands of these greedy venture capitalists who sit out there, and every day they're trying to decide whether to give you more money. So when you're self-sufficient, then you're a company."

CK: *You've been on quite a few boards over the years. How much of your time do you think is invested, percentage-wise, with board positions?*

RP: I'm winding this fund down. Venture capital doesn't belong in a bank like Lazard. So I'm winding this down. But typically you would think that you spend half your time on portfolio companies and half the time looking for other companies. And it's amazing, if you have a good portfolio, that's the genesis for what you're going to be looking for, for new companies. Because even if it's a different field, what they need and what their problem points are, pain points are, it's going to tell you a lot about what you should invest in in the future, particularly in technology. But it's not going to board meetings. Going to board meetings is four times a year, six times a year.

CK: *I'm talking about the hand-holding, the psychotherapy, everything that's needed.*

RP: It's a lot. And again, it's challenging them to be better than they are when things are good, and telling them that they're not so hot, and being there when things are bad to say, "I'm there for you. It's not as bad. This company deserves to live." It's this whole thing about, if there's only one vendor, if they can only buy it from one person, tell me why it's you, and tell me that there's enough of them to build a company on." I could never do what people do today. I couldn't invest in YouTube — no revenue model, just put it out there and see what happens. I'm old school. I wouldn't be qualified to be a venture capitalist today.

CK: *Because it's just changed, the whole environment has—*

RP: Yes. It's huge amounts of money investing in things that have no — if you build it, they will come, right?

CK: *I guess you answered the question how much venture capital has changed since the days of Whitney.*

RP: You can't recognize it today.

CK: *Do you have something to say about the lessons of the bubble?*

RP: Yes. First of all, I used to describe myself as the guy who was asleep for twenty years, Rip Van Winkle, because I left venture capital, and all of a sudden I come back into it and I don't recognize it. People are saying, one guy, "You've got to meet this company, they're great." "Oh, good, tell me about it." "Well, they have got their accountants to bless on the fact that they can take revenue on something and their customer can, too." I go, "What does that mean?" People are talking about how everything was on revenue, multiples of revenue. "Gee, if we do this, we'll be this big and we get ten times revenue."

I’m on a board where I’m talking, and these young guys are saying, “We can get eight times revenue.” “Wait a minute. What’s the gross margin on that?” “It’s 15 percent.” “You can’t brush your teeth in the morning in a company and live on 15 percent margins. If it’s not a 60 to 70 percent margin, don’t even bother.” And they look at me like I’m nuts. Those companies were all puffery.

CK: *So it’s become more about making money and less about changing the world?*

RP: I can’t say that because I don’t know what those people— My guess is they’re just as a little boy as I was, that they want to change the world, that they want to do something of importance. I don’t doubt that they feel that way. It’s just that the valuation criteria is so different. I always describe venture capital as seven-card stud. You put three cards down, you see what everybody else has; I’m going to fold them or put a little more money. If you could, you’d invest every day, and say oh, good, I’ll give you another buck. But you can’t, you do it in chunks of a year. But you don’t put out hundreds of millions or tens of millions of dollars. This company, Groupon; Groupon lost $400 million last year, and they’re on their way to lose another $400 million. I still have t-shirts for companies like that I never invested in, but I keep them, so when I— Kosmo, remember Kosmo.com? People used to laugh, “Oh, let’s get an ice cream from them, let’s see how long it takes to deliver.” Hundreds of millions of dollars, eviscerated.

To be fair, though, what happened in 2000 was the combination of Y2K, the deregulation of the communications industry, and the Internet. Now, that's the perfect storm for change. Think about the fact that all of a sudden you had all these companies now competing with the local telephone company. They all needed equipment, and they needed the hottest, best equipment, because they were going to sell at lower prices. So you had a huge market for optical equipment. When you sell to the telephone companies as they exist today, they're trained to take all the time in the world to make a decision, because once you put it in the ground it's there for twenty years. So they're the Navy of communications. They're paid not to make mistakes. But when you had this deregulation show up and all of a sudden you had all these local competitors coming up, thirsting for new equipment, huge market. Y2K, huge market. And then this notion of the Internet where you're going to disintermediate all the bricks and mortar. Amazon got created then. But how many others? I think the two things that are different is venture capital became an asset class, which means tons of money flowing into it, and the winner take all of consumer-facing, which is largely where people are putting their money today, consumer-facing. For every Facebook, there's going to be one hundred failures.

CK: *What do you do when you you're not thinking about venture capital?*

RP: Well, I've been trying to slow down, which is not an easy thing to do.

LAZARD TECHNOLOGY PARTNERS, FOUNDER 1998

CK: *But you started Lazard with Kevin Burns in 1998. What was your vision?*

RP: I didn't have a vision. I was just going to invest my own money and be a chairman on a couple companies and be on my own. So Michael Price, who was a partner at the time here, I was having lunch with him and I said, "Hey, you guys got any companies that need fixing? Because I'm pretty good at fixing things, and I'll put some of my own money in." "We've decided we're going to be in venture capital; you're going to run it for us." I said, "Michael, there's no possibility I'm going to Lazard; I've heard about this place." "No, no, no we really want you in. We'll put you alone, you'll be fine, everything will be great. I'll run interference for you." So they actually bankrolled the first four or five companies, which allowed me then to get a fund started. That was $80 million. Then we did the next fund for $300 million. We've done well. On a relative basis, we've done well. We've made money when other people have failed, but not enough money to make money. Our second fund is going to get probably 1.5 times the capital returned, which, if you went to that 2000 fund asset class, and you look at the comps from Cambridge Associates — eighty cents on the dollar. Twice as good as eighty cents on the dollar, but not enough to make money. Certainly not enough for the risk that you take. So I told the limited partners no, I don't want to do another fund. I can't make money and I can't make money for you. It's just not worth it. And I told Lazard, and I think Lazard also — we quickly learned that there's no synergy between what I do and what the firm does. The firm is a transaction business, and I'm in a ten-year cycle. Doesn't fit. But they've been very good to me and I like the partners, and we have a great relationship, but we sat down and said, "This doesn't make sense."

REFLECTIONS

CK: *What do you do when you're not doing venture capital — you've got to get release or relief somehow.*

RP: I have this wonderful little house on Fisher's Island. It's antithetical to what you see here. It's a sleepy place with — and I garden and I play golf and I sit out and relax and I read books. I'd like to get on a couple boards, maybe, but you know, my big fear is somebody's going to come to me with something big that needs fixing, and I'll be tempted to do it. It's just in my blood. And I don't know that I can slow down. We'll find out.

CK: *Maybe it's that energy level you've always had. Also, you were director of NVCA. What period was this?*

RP: That was probably late eighties. Venture capital and its role in creating jobs in America is not well understood. Too often it gets lumped in with private equity. The NVCA team and directors do a great job in reminding Congress about how different venture capital is.

CK: *I think Mark [Heesen, President, NVCA] is really working hard to—*

RP: Yes. I mean clearly, venture capital is in an asset class all of its own. It doesn't make a lot of money on a relative basis. And you don't find people coming in and buying up companies and putting 50,000 people out of jobs; you're starting with nothing to create something, and it's that something that's been very good over the last fifty years. It's Apple Computer, it's Intel, all these biomedical firms, and it's something that no other country can come close to. When I ran Computer Vision, I got to be very good friends with some of the heads of technology of these big companies like Rolls Royce Aircraft Engine, where we were big suppliers. And over dinner one night we were talking, it was two or three senior guys. And they said, "Why is it that all this works in America, and it doesn't work here?" I said, "You're not going to like my answer. The answer is that our capitalist system is ruthless. If there's a coal company in a town and it's going to shut down and those people are going to be out of jobs, over here you fund the coal company so those people have jobs; we let it disappear and figure those people are better off to retool themselves." That ruthlessness of venture capital is what has really created so much wealth here in America.

CK: *And progress.*

RP: And progress. It's interesting. I never feel bad when I shut down a company, because it's not working, and I'm wasting just not my limited partners' money; I'm wasting the time of those people. And when they all go away and you look a year later, they're all productively employed in something that's going somewhere. Why sit there and kid yourself and waste time and money — and the biggest treasure, which is their intellect — on something that's going to fail? Wind it up, dust it off, and go ahead.

CK: *Ruthlessly pragmatic.*

RP: Yes. Now, you have to have winners in there someplace. (laughs)

CK: *You're a little young to be thinking of a legacy, but do you have a sense of what kind of legacy you'd like to leave, having put in all this energy?*

RP: I'm not going to go down as one of the great venture capitalists of the world, and I'm not going to be one of the richest. Right? Yes, I've done my fair share of things, right and wrong, and I don't know. I hadn't really thought of a legacy per se.

CK: *Who do you see as the great venture capitalists? Who did you admire as you went through?*

RP: You have to look at Peter Crisp [Venrock]. I know Peter personally, very well. I think of him as the perfect venture capitalist, in that he made a lot of money, and he's given a lot of money. He's done a lot of great things. That's what you'd like to be.

CK: *But you've certainly have moved a lot of companies-*

RP: Yes, I think I've done my share. What always fascinates me is how many people I ended up firing who come back to me, and I fired them for a good reason, they weren't the fit or something. But it's never personal, sometimes I've helped them get another job, and sometimes I've brought them back to something else. I've had guys fire themselves. I would guess that when you talk to entrepreneurs that I'm working with, I think the first word they say is "tough."

CK: *Is it like tough love?*

RP: Yes. I don't pull punches. But you know, at the end of the day I want the company to be successful, and I want them to be successful. Somebody else can tell them how wonderful they are; I'm going to tell them what it's gonna take to be successful.

CK: *So there's a trust that you develop with these entrepreneurs and the people in these companies.*

RP: It's a sad thing to say, but when you start a company, five years out maybe the only people left are the board members, the investors. All the senior guys are gone. Think about it: They started the company and they came to you for money, and five years later you're there and they may not be there and you are. Now, there are other cases where CEOs are in the business less. But it's a rough business.

CK: *Thank you from National Venture Capital Association for taking the time to do this, and thank you from Chuck Newhall, because he's had the passion to get this started and continues pushing it forward.*

RP: Give Chuck my best and good luck on the project.

CK: *I will. Thank you.*