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

PHILIP S. PAUL

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 Philip S. Paul

Philip S. Paul is the Managing Director and Chairman Emeritus of Paul Capital Partners, which he founded in 1991. He more recently founded Top Tier Capital Partners. With more than twenty-five years of private equity experience, Phil has served on more than thirty venture capital-based boards of directors. From 1984 to 1991, he was Chairman and CEO of Hillman Ventures, Inc., one of the most active private equity investors in the seventies and eighties. During his tenure at Hillman Ventures, Phil was responsible for managing its venture capital investments as well as its fund of funds activities.

He was a founding investor in several venture capital funds including those raised by Kleiner Perkins Caulfield & Byers; TA Associates; U.S. Venture Partners; Mohr, Davidow Ventures; and New Enterprise Associates. He was also involved with direct investments in life science and technology companies such as Genentech, Hybritech, Pyxis, Tandem Computers, Teradata, Symantec, and Read-Rite.

Phil earned his JD from Southwestern University, a certificate in International Law from the Parker School at Columbia University, and a BA from Stanford University, The following is an interview with Philip Paul taking place at the offices of Paul Capital Partners in San Francisco, California. Today's date is October 12, 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

CK: *We have to go back and start with your early years: When were you born and where?*

PP: I was born in St. Joseph, Michigan, in 1938. I'm now seventy-three. My parents were uneducated. My father had a fourth-grade education and then went to work, and my mother did graduate from high school, but they were raised in the Depression era, and *really* hard times. So that's my family's background.

CK: *Did your father quit school to help his family?*

PP: Yes.

CK: *And what was he doing?*

PP: He was a tool and die maker, a machinist. And he moved from Michigan when I was about five years old to Southern California to find work as a tool and die maker, and did find work out in the San Fernando Valley at a Lockheed plant. I grew up in the San Fernando Valley, and those were my early years.

CK: *So by then it's wartime that he's working.*

PP: Yep. My dad was not in World War II, but was working for a defense contractor during that time when I was in grammar school. I had a modest upbringing.

CK: *Any brothers and sisters?*

PP: I had one younger brother, but he's passed away.

CK: *So are you the oldest?*

PP: I am the oldest.

CK: *What was the age difference?*

PP: Three years between the two of us. My younger brother suffered from schizophrenia, and in his late twenties he committed suicide.

CK: *You carried that around.*

PP: Yeah, and my parents carried that around. So in a way, I'm the only child.

CK: *That's right, that's true. Well, in some ways. What were your interests as a child?*

PP: Well, my parents were very permissive. By that, I mean they had no college education; they didn't push me one way or another education-wise. And when I look back at my high school environment, I was very fortunate to have been raised in a predominantly Jewish neighborhood, because to this day, my dearest, dearest friends are these same Jewish kids; and their parents in that era pushed them and me very hard for higher education. And as they were pushing for their sons to become doctors and lawyers, they pushed me, when I look back on it. And so I aspired to go to college, not for the ordinary reasons, but because all my pals were being pushed. That's also how, once I graduated from college, I got "pushed" into going to law school. My pals were going to Harvard and Yale and all these fancy places, and when they came back from early years in law school, they and their parents said, "Phil, you've gotta go to law school." So with their encouragement, I did. While working, I went to night law school in Los Angeles.

CK: *So what kind of neighborhood was this? It sounds like it was a nurturing environment, for sure.*

PP: Yes. It was North Hollywood, and there was a poor section, and we lived on a dirt road in a 900-square-foot home. And then there was a rather wealthy section, because most of my pals' parents were in the movie industry, in Hollywood. They were producers, directors; most were very substantial people in the movie industry.

CK: *So you were exposed to all of that. Do you remember how you felt about it?*

PP: Well, it had a very positive effect on me, and I became competitive. I became competitive in sports, and competitive in school; if they're going to go to college, I'm going to get good grades and go to college. But it all came from the neighborhood influence, not from my own family. As a result, I did well in sports, and I got relatively good grades.

CK: *What kind of kid were you? A book-reader, a tinkerer? More sports?*

PP: More sports — football and track. We had a championship football team, a very good team. And that was a great experience for me, too, because I became competitive, just learning how to play the game on a very competitive team.

CK: *So would your friends have described you as competitive, high-energy, exuberant?*

PP: Yes. We're still dear, dear friends to this day; we still get together about every six months. How would they describe me? (laughs) We laugh and joke, but, we've all become successful in the context of financial security, if that's how you define success. They're very successful lawyers and business people. And I've become successful over in this private equity arena.

CK: *So in the neighborhood, the parents, as you said, were your role models or mentors or they influenced you. Was there anyone in particular that—? A Dutch uncle or—?*

PP: Yes, there was one family, the Balaban family. Michael Balaban went on to Harvard Law School after Berkeley and became a very prominent attorney. He went to the Justice Department in the Kennedy Administration and was very successful. After law school, these high school pals of mine formed a firm of six lawyers in Beverly Hills on Wilshire Boulevard. Now, these are six young whippersnappers. But they invited me in because they said they needed a goy front. Are you Jewish? (laughs) So our firm was called Balaban, Berman, Taylor, Selan and Paul. And they had a phenomenal practice right off the bat. We had the Fonda family and other Hollywood celebrities, because their parents were all in the movie industry. But I soon found that I, personally, wasn't happy practicing law like this, even though I was in this spectacular setting. They, on the other hand, were terrific lawyers, and they've gone on to have kind of a who's who clientele throughout their careers.

CK: *I just want to go back a minute: When you were in high school, were you working?*

PP: Yes. I worked in a gas station. I had a job after school, from 3:00 p.m. to 7:00 p.m. everyday. I had to work that in and around my sports. And then when I'd come home from college — the very day I got home, I went to work for the Teamsters Union. One of the kids' dad I played football with worked for Jimmy Hoffa in Los Angeles and headed up the Teamsters Union. His dad knew I needed work to make my way through college. So he put me at the head of the line in the Teamster hiring halls. So I made terrific money from the day I got home from college to the day I went back.

CK: *What were you learning about the world beyond North Hollywood and what you had experienced? Was there something you were seeing that might have influenced you about the direction you wanted to take?*

PP: No. It wasn't what I saw, but what was foisted upon me by these families and friends. They said, "Phil, you've got to make it through college;" and "Phil, you've got to go to law school." It really wasn't anything I saw; they pushed me and encouraged me. But then when I'm out practicing law with my pals, I could see that I don't have a lawyer makeup. I don't like dotting i's and crossing t's. So I left this Beverly Hills law practice to be a regional attorney for Honeywell in a corporate office.

STANFORD 1956-1960 BA/Pre-Med

CK: *I was curious, because on your questionnaire you said you had a BA; you were pre-med. So you went to Stanford and graduated in 1960. Why did you choose Stanford and what were your plans with a pre-med curriculum?*

PP: Well, it gets back to your question, what did I want to be? When you're a young kid and nobody in your family has more than a high school education, you have no role models.

So when I went to college, you had to sign up to major in something, and I thought, Well, maybe I'd like to be a doctor. But, to answer your question, I worked at hospitals in the summers to see what doctors did, and I found out when it was too late to change my major — that — I'm not going to like being a doctor. I had completed all the science classes, but I had to get out of college, so I shifted quickly to something else just to get out in four years.

CK: *Was there something else that you found interesting while you were at Stanford?*

PP: No.

CK: *Did you find any mentors among the professors?*

PP: No, not really. (laughs)

CK: *You were just trying to finish.*

PP: Right, and get out.

EARLY WORK EXPERIENCES - SOUTHWESTERN UNIVERSITY, JD - COLUMBIA UNIVERSITY SCHOOL OF INTERNATIONAL LAW

McKesson Chemical 1960-1967 - Southwestern University, JD 1966 - Balaban, Berman, Taylor, Selan and Paul, Attorney 1967-1969; Honeywell Information Systems, Dir. Legal Dept. 1969-75 - Honeywell Corp – Dir of Operations 1975 -77 - Parker School of International Law, Columbia University - National Computer 1979-1980 - Wabash Data Tech 1980-1982 - Machine Intelligence 1982-1984

CK: *When you graduated, you went to work for, is it McKesson Chemical?*

PP: Yes.

CK: *And how did that job come about?*

PP: Well, it was McKesson Chemical, and if you remember, I was pre-med, and I had this science background. So, with the chemistry and biology courses I had taken, I qualified as a chemical salesman. I worked there for six years. And, while there, they put me through law school; I went to night law school at Southwestern University in L.A., and they paid my way.

CK: *When did you decide you wanted to go to law school?*

PP: When my pals came home for summer vacations from Harvard and Yale law schools. They'd say, "Phil, you've gotta go to law school." They said, "We're going to form a law firm and you gotta be part of that firm." They pushed me and encouraged me, as did their families.

CK: *So you went to Southwestern University at night, and got your JD in 1966. And then went on in international law? At some point?*

PP: Yes. Well, you just skipped a period. I practiced for a little while with my Yiddish friends on Wilshire Boulevard, and left them to join a corporation, Honeywell, as a regional attorney in L.A. And at that time — this is 1968-ish, about — Honeywell was merging its computer business with General Electric Company; they formed Honeywell Information Systems through this merger, and based it in Waltham, Massachusetts. And talk about another lucky career break— They didn't want to anoint a GE guy or a Honeywell guy to head up the law department. They didn't want any politics. So the president of Honeywell picked me to be the head of the law department of forty-two lawyers; and I was the youngest of the forty-two!

CK: *Well, there was something you did that impressed them?*

PP: Now, this gets to what I do like to do. I'm very much a leader when it comes to projects or businesses, and Honeywell, in the western region, recognized me as someone that could get complex computer deals done. And so yes, the western regional managers at Honeywell recommended me. Now I'm going to answer your question: I went to Boston, moved my family to Boston, became the head of the legal department. My boss, the president of Honeywell, said, "Look, you're going to be traveling internationally and putting joint ventures together with companies like Toshiba, NEC, and Siemens. You ought to go to Columbia University and get an advanced degree in international law." So it was Honeywell who sent me to the Parker School of International Law at Columbia University. Thereafter, I did run all over the world putting together joint ventures and businesses for Honeywell's computer business.

CK: *Where did you get this ability or where does it come from — someone who can put deals together? I mean as a young man, not growing up in that environment where you were hearing this around the dinner table, meeting people, dealmakers, that you were able to navigate this world so comfortably.*

PP: I don't know, but I've always had leadership instincts. I was president of my high school club; I was vice president of my senior class; when I got to college, I was president of the freshman honor society; president of the sophomore and junior honor societies; I was president of my fraternity. I don't know where it comes from. But if you're around me long enough, you can see I'm not short on opinions, and I tend to be a good leader. I don't know where that comes from.

CK: *Maybe you were born with it. And it was nurtured—* .

PP: I guess I was born with it. And it was nurtured. This gets to the Hillman story.

CK: *So you were with Honeywell from '66 to '79 in various capacities. Is there a story as to what you learned? Were you shifting in your responsibilities or your interests as you—?*

PP: Well, it's more that the president of Honeywell, an Irishman named Clancy Spangle, just took a liking to me, and whenever he and other senior Honeywell execs had significant and sometimes secretive projects, they trusted me; and he'd send me all over the world to negotiate joint ventures and acquisitions. And I did that for many years. We just had a good relationship. This is an important point here. I was more than a lawyer for him, and that becomes important later in the story with Hillman. They could just trust me to figure out complicated projects, negotiate deal terms, and achieve their business objectives; it was less lawyer work, and more business creation-type work.

CK: *So you also had this, obviously, strong aptitude for finance.*

PP: No, I'm not very good at finance. I mean, I understand finance, but that's not my strong suit. I'm a business organizer and leader. And this turns out to be a trait vitally important in the development of the venture capital industry.

CK: *So more management and—*

PP: Development. It's more than management. It's more market development and market discernment and developing a vision. But it's not financial.

CK: *You don't need the finance to—*

PP: Well, I know where to get the financial, and I can read a balance sheet and an income statement. But that's not my strength.

CK: *That's not of primary importance in doing what you were doing. What were you learning about yourself during these years?*

PP: Well, I kind of surprised myself, in that I fit very nicely into this role that Honeywell was carving out for me. It wasn't a lawyer role; it was a management development role. And it surprised me that I could get all that done, and that they trusted me to get it done.

CK: *Clancy, would you consider him a mentor in any way? In that he trusted you or in his expectations?*

PP: Yes. He died recently, but yes. He trusted me with, first, secret corporate objectives, and complicated situations. And one after another, I just seemed to be able to get them done for him. Sometimes we didn't. But he trusted me.

CK: *Then you're moving over in 1979 to National Computer Systems, and moving to Minnesota?*

PP: Well, this is how that happened: There was a step through Scottsdale, Arizona first. Did I put that down? Or Phoenix.

CK: *Was that with Honeywell? You were the operations director?*

PP: Yes. For the seven years I worked for Clancy Spangle, I kept reminding him that he was a Yale-educated lawyer, and someone gave him a chance to get off into operations and run businesses. And he kept saying, "Yeah, yeah, yeah, just go do your job." And I pestered him for, I think, about seven years. And on one occasion, I had gone off as his lawyer and acquired another division of the General Electric Company that, in the year we, Honeywell, acquired it, lost $8 million on $28 million of revenue. So he called me into his office and he said, "Phil, do you still want to go run a business?" I said, "Yeah." He said, "Well, you know that Process Control business we just acquired out in Phoenix, Arizona?" He used colorful language, and he said, "I don't think you could screw that up too badly." So he let me go out and be part of the senior management team that ran it. And that was my transition from lawyer to operations. I was a division general manager after that. And then Honeywell surrounded me with terrific manufacturing/engineering teams.

But again, back to my leadership abilities, we as a team turned that business mess around to be the most profitable division in Honeywell (of the twenty-six divisions in Honeywell). So then that team and I got a reputation for being "turn-around guys." That's not good; because once you help turn something around they send you to another operational mess. So they shipped me and my family from Phoenix up to Minneapolis, and I helped turn around another mess. But up there, I was recruited outside of Honeywell to this National Computer Systems, because I had developed a reputation for being a very good operating guy, and also, a guy who can manage manufacturing and technology businesses. Everything I was thrown into had a technology aspect to it. So I helped National Computer Systems turn around some of their operational issues.

CK: *So you were there just for a year, and then you're on to Chicago.*

PP: Right. I got recruited down to Chicago. I left my family in Minneapolis, by the way, because my kids were getting up to high school age and we didn't want to disrupt their high school relationships. I commuted Monday through Friday to a Chicago job where I was CEO of Wabash Data Tech. And this is important, in that it's another technology company. We made floppy disks and competed with Verbatim at the time. You remember those days? (laughs) And the investment bankers in New York that owned Wabash made a lot of money on the sale of that business. And then I was out of a job, looking for something to do. There was a recruiter looking for a CEO in Silicon Valley. So I moved my family to Sunnyvale, California, to become CEO of Machine Intelligence Corp., a high-tech start-up with venture capital money.

CK: *So you were in Chicago for two years, and you're getting back to the West Coast.*

PP: Yes. Elaine and I were trying to get back to the West Coast, so it had that appeal. And then it was a technology company, and it had this venture capital appeal. I'd always heard about venture capital but didn't know anything about it. Now, here's where the door opened to the Hillman family. On my board, I had a representative from the Hillman family. They had money in this venture capital start-up called Machine Intelligence; I also had a representative from Kleiner Perkins, and I had a representative from Robertson Stephens — the classic venture capitalists of the day.

CK: *And who were these representatives?*

PP: My representative from Hillman was Steve Banks. My representative from Kleiner Perkins was a partner named Jim Lally, backed up by John Doerr. And Paul Stephens was our board member from that firm.

CK: *So you're all of a sudden in a different—*

PP: Entirely different. And it's all new to me. I didn't know venture capital from shmapital. I didn't know this Hillman family, I'd never heard of them.

CK: *And what was Machine Intelligence Corporation doing?*

PP: It wasn't doing much, that's why they recruited me. They, the venture capitalists had poured $8 or 10 million into this high-tech start-up, which in that timeframe was a lot of money. It was six PhDs out of the Stanford Research Institute (SRI) that had brilliant technology backgrounds in artificial intelligence, robotics, but they didn't know where to apply it, or what markets to go after. So they recruited me to "turn it around."

CK: *Did they have a mission statement?*

PP: Yes, but it still wasn't going anywhere. But this does get back to your question about what am I good at? I'm good at formulating strategies — some people call it a vision — and then leading people in that direction, whether they understand it or not.

CK: *Call it a visionary.*

PP: Yeah. Well, that embarrasses me. I'm certainly not a visionary, but I'm good at leading technologists to market opportunities.

CK: *Okay, well, I said it.*

PP: But that's what I did. And then there's another cute story here, before I get to the Hillmans. On my board, I had two Kleiner Perkins partners, and they were relatively new to the venture industry themselves. John Doerr and Jim Lally came out of Intel; Tom Perkins recruited them. So they were sort of learning the ropes themselves at that time. Jim Lally, after a board meeting, said that one of the SRI scientists had an innovative approach to security software; and he said that "if we set him up in a cubicle outside my office, we could start another company with him." So we did. Do you know what that company became, with that one guy? Symantec! Today that company has about an $80 billion market cap. That's how the partners on my board started Symantec and made tons of money for all the venture investors involved. So, now this leads to the Hillman family.

HILLMAN VENTURES - CHAIRMAN / CEO 1984-1991

CK: *So Symantec is a part of Machine Intelligence?*

PP: No, it's spun out. Jim Lally and John Doerr formed a separate company, and that company took some Hillman money, as well as some Kleiner Perkins money and made it a separate company. But that paid for everything the venture capitalist had sunk into this Machine Intelligence. Isn't that interesting?

So Mr. Hillman started to fly me back to Pittsburgh. He's a very hands-on guy. I learned this over the eight or nine years I worked for him. He wants everybody in his office on Monday morning, and he doesn't operate by memo, or the way we used to run things at Honeywell, by budget. I never saw a budget or a memo in the years I worked for him. A very hands-on guy. And so when I was CEO of Machine Intelligence, he'd fly me to Pittsburgh and he'd say, "Phil, what are you doing and why are you doing that?" And he was very curious about how Jim Lally and John Doerr were developing this vision for the protection of software, Symantec's mission.

CK: *Who was the scientist out of Stanford that—*

PP: His name was Gary Hendrix; he had the technology ideas, but Lally and Doerr recruited a guy named Gordon Eubanks to be the first CEO, and Gordon led that business to early success and an IPO. Okay. So every week he'd fly me back. I was supposed to be running Machine Intelligence, but he wants to know what I'm doing, why I'm doing it, how did Kleiner Perkins get this Symantec going? He was just very curious about the venture capital process. I learned later that he was the primary source (LP) of capital for the first Kleiner Perkins fund.

On one trip back there to Pittsburgh, he says, "Phil, you ought to come run my private equity business." I said, "Mr. Hillman, I don't know anything about finances" (which was my answer to your very first question, if you recall). He said, "Well, you don't have to know anything about finances." He says, "I have a staff here of the best and brightest out of Carnegie Mellon and Harvard and Yale. They understand finances," he says, "but I like the way you and the Kleiner Perkins partners develop companies with private equity." So he anointed me chairman and CEO of Hillman Private Equity, which I later learned — now, this is back in early eighties, and this gets to Chuck Newhall's point — was the biggest private equity provider in the world. Families, like the Rockefellers, the Whitneys, and this Hillman family nobody knew about, were the largest providers of private equity, and Hillman was bigger than anybody. Not many people know that, and he's a very private man.

So that's how I moved from an operating or CEO job into this private equity arena. And I did two things during that eight years I worked for Mr. Hillman: I funded a long list of private equity funds, like Kleiner Perkins, Kohlberg Kravis and Roberts. I found out how Mr. Hillman chose general partners — like Dick Kramlich and Chuck Newhall, NEA. And then I had this staff of very bright people, and we did direct investing alongside these general partners. There wasn't all that much money available in those days. So when Tom Perkins started Genentech, we followed him and put in as much of Mr. Hillman's money as we could, and in that way we became the biggest holder of Genentech.

CK: *You became a limited partner.*

PP: Both. I was a limited partner, and then I was a direct investor with Mr. Hillman's money. That was the clever part about it.

CK: *I just want to go back to the point of Henry Hillman offering you this position. Is this a "pinch me" moment?*

PP: It was more than a "pinch me" moment. I honestly said, "Mr. Hillman, I don't know anything about venture capital or private equity." I really didn't. I'm a lawyer, I'm an operating guy. I don't know what he saw in me, but he said, "We have a lot of bright financial people here." He said, "You are a lawyer, you know how to structure deals." And he didn't put it in these words, but over time he said, "You're a leader and sort of a visionary, and you know how to work with the likes of John Doerr and Tom Perkins, and other general partners around Silicon Valley."

CK: *So did you have to make a decision, did you talk to your wife? Did you say, "I'm doing great with what I'm doing?"*

PP: Oh yeah. I not only went home and talked to my wife; I put her on an airplane and said, "We've got to move from San Francisco to Pittsburgh." But, I had moved my family multiple times, and she'd had it. And she said, "I'm not going to do that," although the Hillmans entertained us and showed us around Pittsburgh. So I went to Mr. Hillman, I said, "Gee, I'm not going to be able to move here, Mr. Hillman; my family's just not in a situation where I can do that." He said, "Okay. If you promise to be in my office every Monday morning at eight, then you don't have to move here." So for about eight years, every Sunday night I'd fly to Pittsburgh — I had an apartment — and go to his meetings. He had all his senior people, his real estate guy, and he had a group vice president of his operating companies. And we'd talk, and then I'd get on a plane Monday afternoon and go somewhere else. That's how I got so many frequent flier miles on American Airlines.

CK: *Was it unusual for someone to be — you're changing jobs — but in those days, most people were kind of company men. Was it unusual for someone to be—*

PP: Yes. In fact, the company men around Honeywell thought I was nuts, because I had moved way up the corporate ladder to be the head lawyer. I was in my twenties. They thought I was nuts to, first, want to get off the corporate ladder into a lower level operating job. And then it was unusual to take different operating jobs: manufacturing, field service, general management.

CK: *Well, do you see yourself as a risk taker? Along with leadership and high energy and somewhat of—*

PP: Yes. I am a risk taker; to the point where my peers thought I was nuts.

CK: *And you needed to be. So in what ways did you think you were well suited for venture capital?*

PP: I wasn't. Honestly.

CK: *Although you're competitive.*

PP: Yeah. And, most importantly, Mr. Hillman though I was well suited.

CK: *You're a risk taker; you have broad interests.*

PP: And I'd been living in Silicon Valley, and I saw how Symantec was formed, and several other companies, like Genentech and LSI Logic. So I just took a liking to the entrepreneurial process that I was a part of observing, thanks to Henry Hillman.

CK: *So that excited—*

PP: Really excited me.

CK: *And so tell me something about Henry Hillman.*

PP: He's an amazing human being. First, in terms of his risk taking. If he were sitting here, he'd start by saying, "I was born rich." But he had this propensity for risk taking. And way back in the early days, when he got back from World War II he moved into his family's business and began to diversify away from the coke and coal business that the family had started with around the steel industry in Pittsburgh, to real estate and then private equity. He literally started Kleiner and Perkins before there was a Caulfield and a Byers, literally started it. And single-handedly started Kohlberg, Kravis and Roberts, while there was still a Kohlberg!

CK: *Do you know the story of how that happened?*

PP: Yes. It's a fascinating story. And he also started Kohlberg, Kravis and Roberts before they were able to raise a fund.

CK: *What are those stories?*

PP: Well, I was at Kleiner Perkins last night, and I knew you'd ask me that, so I confirmed the story with Brook Byers. Tom Perkins was at Hewlett-Packard working for David Packard, and Gene Kleiner was at Fairchild Semiconductor, a brilliant scientist. And the two of them got together and decided to go into venture capital. This is back in the late sixties. And Tom said, "Well, the way we've got to do this is raise money, and since we don't know how to raise money, and we don't have a track record, we'll retain Sandy Robertson." Do you know the firm Robertson, Coleman, and Stephens? Sandy confirms this story, too. Sandy's advice to Tom and Gene was, "Well, we've got to raise a fund that's manageable, since it's your first fund, and you have no track record. So let's try to raise $10 million. And we've got to start with a 'bell cow,'" Sandy called it. "So I suggest we go back to Pittsburgh since this Hillman family has been known to take risks in this private equity area." Hillman had started TA Associates and Kohlberg, Kravis and Roberts prior to the formation of Kleiner Perkins.

So Tom Perkins, Gene Kleiner, and Sandy flew to Pittsburgh and told Henry about their ideas about creating businesses in Silicon Valley; it was all new to them. And Henry said, "Okay. I'll be your bell cow. How much do you need to attract other money?" And they said, "Two million dollars. If you give us two" — they went through who else they had lined up and concluded they could get to the $10 million goal. So a year later, they stopped by to give Mr. Hillman a status report, and they said, “We’re up to four-and-a-half million.” And Henry says, “Did that include my two?” And they sheepishly said, “Yeah, it’s tough out there.” Henry said, “You’ve got to stop fundraising. Just tell me what you need and we’ll cap it.” So they capped their first $10 million fund at $8.5 million, and Henry took $4.5 million of the total! That’s the story. Is that a story? Tom Perkins started Genentech out of that first fund; Mr. Hillman made more than ten times on his money.

CK: *What did Henry Hillman see in these two young men?*

PP: That’s a big, complex question. I tried to learn for the seven-plus years I worked for Mr. Hillman, to answer that question. Because I brought to Mr. Hillman other prospective venture capital firms like NEA, USVP, Mohr, Davidow, and a long list of people where I thought he’d see those traits in them, too. We saw, for example, the same traits in Chuck Newhall and Dick Kramlich at NEA. But that’s a very deep question. What did he see? I could write a book about it. Whatever he saw was usually correct.

CK: *Did he ever talk about it?*

PP: Yeah. Because I had to get it out of him, because if I was going to bring in other venture capital firms for Mr. Hillman to fund, I had to explain to him why I thought they had the attributes that he would like.

CK: *So what did he see?*

PP: Well, again, it's so hard to summarize. One thing he saw — and these aren't in any particular order — was vision. He wanted to understand why Tom Perkins had a vision in Genentech that nobody else had at that time. Tom, for example, started talking about Genentech and how you could create a pharmaceutical company out of DNA, an unheard of, improbable concept. So, Mr. Hillman went and tried Tom's theory out on the CEO of a big pharmaceutical company. Mr. Hillman and this pharmaceutical executive served together on the board of General Electric at the time, and that pharmaceutical executive mocked the thought that anybody could create a pharmaceutical company in that manner. But Mr. Hillman came back to Tom and said, "Tell me more about your vision." Tom, at the time, was collaborating with a Nobel Prize-winning scientist out of Berkeley, and that vision takes many layers of explanation — technical, scientific and business-model layers. Out of these discussions, a vision was formed.

Then there's the element of risk taking, and I try to explain this in the context of a big ego. Tom Perkins has an enormous ego, but not in the pejorative sense. It takes a big ego to advocate a vision that other people mock. You feel like an idiot if you don't have a big ego and enough courage to say: I don't care about your criticism or what you think, I'm going to do this because I have a vision that I'm confident in. And then there's kind of an intellectual brilliance beyond IQ. This is a third element, and it's also hard to explain. But Tom Perkins is, again, my prototype. He has engineering degrees from MIT and a graduate degree from Harvard, where his favorite teacher there, by the way, was General Doriot, who's generally credited as the pioneer in venture capital. But Tom's smart beyond the intellect, and it ties back to the vision thing. He doesn't accept the status quo or conventional wisdoms as he's thinking through new visions and/or talking to people about their new business concepts. Tom can combine technical, marketing, leadership, and novel visionary concepts in a way very few others can. And I haven't met many people like that.

That's why I sort of mock Harvard Business School students or Stanford Business students — "the best and brightest" — when they tell me they want to be venture capitalists. I know they're bright, a lot smarter than I am, and financially they're brilliant, but they don't have a clue as to what this venture capital/entrepreneurial process is or means. And that, by the way, that naïve approach is some of what's gone wrong with the venture capital industry in the last ten, fifteen years. Everybody, and for too much money, got into it. But honestly, they're very smart, but they don't know what they're doing. There are very few Tom Perkinses out there.

CK: *So is venture capital a science or is it an art?*

PP: It's an art. Maybe that's a better way of saying it.

CK: *Can someone learn to be a good venture capitalist?*

PP: Very few. I think it's possible to learn. But very few have the patience to develop the entrepreneurial instincts; very few are willing to roll up their sleeves and cope with factory, engineering, sales, marketing, and field service issues.

CK: *You have to have that—*

PP: That combination of operational talents and intellect, combined with an entrepreneurial passion and instinct.

CK: *I'm thinking of things like intuition and curiosity.*

PP: Yes, I agree, intuition and fundamental curiosity that challenges the conventional wisdoms, and vision.

CK: *But something else.*

PP: Something else. It's that combination, and then some operating experience. Having been in the trenches, working within the various functional levels of an organization. Back to Tom Perkins, he worked for David Packard of HP, and helped that firm develop its first computer products in the technology business.

CK: *What were your immediate challenges when you started with Hillman Ventures?*

PP: Learning from Mr. Hillman how he evaluated general partners: Who to fund and who not to fund; learning to identify what set Tom Perkins apart from other wannabe venture investors (GPs).

CK: *You were just talking about ego and the fact that you have to have a big ego in order to face the failures that come your way.*

PP: Yes, because failures are just a natural part of this business. And it takes a strong ego to overcome and survive and take criticism that's constantly there. But I forgot to tell you the second part of an answer when I said Mr. Hillman was instrumental in starting Kleiner and Perkins. There's also a story with a very different message and insight when he started Kohlberg Kravis and Roberts. When Kohlberg Kravis and Roberts left Bear Stearns in the late sixties, to form what today is called a leveraged buyout fund, they were unable to raise money. They were trying to raise $35 million for their first leveraged buyout firm and were unable to convince institutional investors that their leveraged buyout concept would work.

CK: *And they're in New York.*

PP: They're in New York, although George Roberts has since moved to Menlo Park. But Henry Kravis is in New York. So this gets to a further characterization and insight I learned from Mr. Hillman. KKR Partners were unable to raise a fund, and so Mr. Hillman said to them, "Well, how does this leveraged buyout concept work?" It wasn't called that then, by the way. And they tried to describe it, when Henry said, "Have you targeted any companies that we could go try this on?" Do you remember a company called the Lily Tulip Cup Company? One of the partners said, "Well, we think we can buy this Lily Tulip Cup Company using this concept." They did. And long story short, they made a lot of money. And they were still unable to raise a fund. So Mr. Hillman said, "Well, let's do a couple more of these, and then institutional investors or families will see how this works, because you've got a new concept here." So they did two or three other deals, all with Mr. Hillman's money. Talk about a risk taker, backing a new concept. And after these initial deals with only Mr. Hillman's money, they were able to raise their first $35 million fund; and Mr. Hillman took seventeen and a half of it.

I have to add to the story — because this tells you something else again about Mr. Hillman's assessment of general partners. That $35 million fund was extremely successful. I forget what the multiples on the money was, but Henry and everybody else made lots of money. And so Henry Kravis flew up from New York on his private jet to see Mr. Hillman again to say: "We're going to raise another fund." And as they were introducing the second fund off the terrific successes of the first, they got to talking about the terms of their second fund, and Mr. Hillman said, "Well, I don't think it's fair that you're taking fees upon fees upon fees; you're taking investment banking fees, you're taking management fees, and you're taking—" And Kravis said, "Well, that's the way we run things. You're making money; I don't know why you're complaining." And Mr. Hillman said, "Well, I think I'll not participate in your next funds," and he didn't. And you know what happened? I'm mixing stories here. But after Hillman decided to drop out of Kohlberg Kravis Roberts, Kohlberg went back to Henry with his son and they formed their own firm, agreeing with Henry on more reasonable fees and carried interest. So now they call it KKR because Kohlberg is no longer with Kohlberg Kravis Roberts. Henry believed strongly that the GP's financial objectives ought to be consistent with those of the LPs.

They aligned their fee structure so that the LPs were much happier, which today is a big issue. But it tells you something again about Mr. Hillman's assessment of general partners. He believes in integrity, terms that are aligned with LP's interests, and he's insistent upon that. And he has certain principles he won't violate. And some people would call him stupid for having missed out on KKR's two, three, four, five, six, seven funds — how many funds did they have? — because they made a lot of money. But it again tells you something about how he assesses general partners.

CK: *So let me ask you a question about Henry Hillman. He didn't need money.*

PP: He was born rich.

CK: *Right. What was he interested in? What drove him to do the things that he did? He obviously spent a lot of time and energy and—*

PP: Well, he's a terrific investor. He's a risk taker, he's a good judge of character, and a good judge of investment opportunities. Not that all of them have worked out. But that's what he's passionate about: first, about diversifying his family's portfolio, which again was in the barge business and coke and coal business, aligned at the turn of the century with the steel business. But he's passionate about, first, diversifying; and then he's a risk taker in real estate, acquiring businesses, developing financial institutions like Chemical Bank in New York and PNC in Pittsburgh.

CK: *Is there something he's trying to prove to himself?*

PP: What really drives him — no. Well, I don't know. You're asking a psychological question.

CK: *Is he interested in amassing a huge fortune?*

PP: No. On the contrary — he's very interested in philanthropy. He set up various charitable trusts, and the largest part of his money goes, like Warren Buffet and Bill Gates, into philanthropy. But Mr. Hillman does the largest part of that anonymously. And by the way, he doesn't want any credit for it. Isn't that interesting? His name is on buildings at Carnegie Mellon, Yale, among other educational institutions, but I know he prefers to keep his name out of papers and articles like this.

CK: *So, do you understand his reluctance to have a public identity in this area?*

PP: I never figured that out, but he's adamant about keeping a low profile. He was quoted in *Time* Magazine once, saying "the spouting whale gets the harpoon" and he avoids any sort of publicity or recognition.

CK: *Is he shy?*

PP: A bit. He'd have trouble interviewing with you. He only trusts certain people, and that's after he gets to know them. Takes time. But I really don't know what lies behind his privacy. That's another psychological inquiry I'm not really qualified to speculate about.

PAUL CAPITAL PARTNERS 1990 - FOUNDER

CK: *Does he have siblings?*

PP: He has half brothers and half sisters. Three or four. But here's an interesting family aspect: He had two boys and two girls; all four were not interested in his business. I don't want to go into the personal issues, but he did not encourage them either. So, that sort of ties to that part of the story where he flew Elaine and me back to Pittsburgh, when he offered me the chairman job of private equity. He later, eight years later, flew Elaine and me back to offer me his job. And as luck would have it, my wife was diagnosed with multiple sclerosis almost at the same time, in 1990. And I, as gracefully as I could, declined. I often wonder what would've happened if I'd moved to Pittsburgh. But he said, "Well, Phil, if you're not going to move back here, then I'm going to begin an orderly liquidation process of my assets." And I said, "Well, gee, if you're going to sell your private equity assets, I know I have a conflict, but I'd like to buy 'em." And that's how I created this firm, Paul Capital Partners, in 1990. I acquired from the Hillman family forty-three limited partnership interests in KKR, Kleiner Perkins, NEA, USVP (all the firms we had funded with his money), and set up Paul Capital Partners. Unwittingly, by that move, I started what today is called the secondary market in private equity. Do you know that term?

CK: *I know the term, but I'd love you to explain it.*

PP: Well, that's how it started. A secondary market is trading in illiquid securities, i.e., limited partnership interests, that CalPERS, Bank of America, the Hillman family, the Rockefellers, the Harvard Endowment, et cetera, all hold. And for whatever reason, these big institutions and endowments need to sell these illiquid assets. In the Hillman's case, it's just that he wanted an orderly liquidation. In the case of CalPERS and CalSTERS these days— Do you know of the "denominator effect"? Anyway, their liquid portfolios (public securities) of hundreds of billions of dollars have gone down in this recent economic crisis so far, that their percentage of private equity has gone up. And their boards of trustees said, "You're not supposed to have that much private equity." And their managers said, "Well, we didn't mean to, but the equation changed." So they've been forced — not only them, but hundreds of public pension trusts have been forced to sell these illiquid limited partnership interests — in Kleiner Perkins, NEA, Blackstone, all of them. That's the business I stumbled into. And it's a huge and growing business. We've been in this business over twenty years now. And we have had about $9 billion under management. And I started it in this San Francisco office, but we now have offices in New York, Paris, London, Hong Kong, and Sao Paolo, Brazil. It's a worldwide, international, booming business.

CK: *So how does it contrast with what you were doing with Hillman?*

PP: It's a stark contrast. This secondary business is a financial business. My partners in this business don't care if it's a Tom Perkins deal or a Henry Kravis deal; they just look at the underlying investments that have been made. They're acquiring illiquid assets that are held in these limited partnerships. And they don't care who invested in them or what those investors' vision is. Instead, they're very sharp financial people (unlike me!) and they want to know value the assets are currently held at (net asset value), and what are they going to be worth in three or five years; because if I buy illiquid assets, they're going to continue to be illiquid. So it's all financial analysis, which you'll remember is *not* my strong suit. Right? Remember I told you, I am not a financial guy. But I've got sixty brilliant financial people working on these types of issues, and they're very good at that kind of financial analysis.

CK: *Just like Henry.*

PP: Yeah. Well, I gotta finish this story about my wife. So I made my wife my top priority, and I didn't move to Pittsburgh. So Mr. Hillman said, "Well, if you're not going to move here, then I'm going to fund these charitable trusts." And I was in the right place at the right time to buy his illiquid interests. And I started this firm in '90. I remember speaking on panels in '91-'92, where the title of the panel was "Is There a Secondary Market?" It wasn't at all clear twenty years ago. There might be these onesie, twosie

Hillman deals, but CalPERS wasn't having these problems, and banks weren't faced with divestiture issues they confront today.

So I wasn't able to raise a second fund 'cause it wasn't clear there was a market. And so we just did onesie, twosie deals, and I'd go back to my LPs, who trusted me, and say, "I got another deal. I don't have a fund, but I got another deal." And they funded three or four of these. And I did that for four years, from '90 to '94. And then these illiquid securities became more popular, and the few of us that were doing them were getting very good returns for our investors. Then I was able to raise our fourth fund, and now we're onto our tenth. I was going to make a point there.

Oh. So in about '95, five years after I'd formed this firm— Do you know the disease multiple sclerosis? You have any friends that have it? Well, there's no cure, and it's a deteriorating disease. And my wife was going from a crutch to a walker, and she's continued to deteriorate and is in terrible shape now. But as she was deteriorating, I said to my partners, "Look, I'm making Elaine my top priority. I'm going to move her back to Southern California, where she and I grew up, where she has a good support system. And you guys" — I didn't put it in these words, but — "you guys run this financial analysis-type business." And so they really get the credit for having built this huge and very profitable, successful business.

As I did that, the government of Singapore came to me; they were one of my limited partners. And way back in the early eighties, when I was chairman of Hillman Private Equity, they came to me and said, “Mr. Paul,” they didn’t put it in these words, but, “would you become an advisor to us? We want to get into the private equity business and we’re opening a Redwood City office here, and we’ve done some research, and we know the Hillman family is a pioneer and among the biggest private equity providers.” So I became an advisor to the government of Singapore, and I helped them with staffing, and I helped them with lessons I learned from Mr. Hillman. So I had a very close relationship with the government of Singapore from early eighties until the mid-nineties.

So when I decided to move Elaine and me back to Southern California, they heard this and they approached me and said, “Mr. Paul, you’ve helped us get into private equity, and you’ve helped us get into funds. But we have a list of” — they called them “top tier” funds — “that only you can get in because of your Hillman relationships.” Not everybody can get into NEA, USVP, the KPCB, et cetera, the very cream of the crop. They said, “If we allocated to you $500 million, would you get as much of that in our top tier list?” So I struck a deal with them, and I got them into all the top tier funds on their list. I got $280 of their $500 million into all twelve.

So as I'm doing this, my partners said, "Well, Phil, you've just proven you have access to the premiere funds in venture capital. Why don't we form a separate organization?" So we had this secondary business going, and we formed what we call a "top tier fund of funds." It's very narrowly focused on Silicon Valley, early-stage, Kleiner Perkins kind of venture capital funds, because that's where our relationships are. So I hired David York out of Hambrecht and Quist, because again, I don't have time to manage this. And we now have a second business, it's called Top Tier Capital Partners, and there are about six to eight people who focus on funding the best performing VC funds with lessons learned from Mr. Hillman.

Then we have a third business, as long as I'm explaining what Paul Capital has become. My partner, David de Weese, whom I hired to open our New York office, was a successful entrepreneur in Silicon Valley and has a medical/healthcare background, and ran some early-stage healthcare start-ups — Chuck Newhall knows him. I went to him and I said, "Hey David, Paul Capital is growing and we're going to open a New York office; and you're experienced in this venture capital business, so why don't you manage our New York office?" So that's how we expanded the firm in the mid-nineties.

I hired him, and he successfully built our New York office, which is bigger than this office now. But here's the point: He had a professor at Florida State University that he'd done some medical deals with in the healthcare field. And the professor came to David and said, “My wife and I aren’t getting any younger, and I’ve developed this cancer therapeutic drug called Taxol. And we’ve just worked it successfully through clinical trials, and it’s about to take off commercially. And my deal with Bristol-Myers Squibb, who sponsored my research, is I get royalties now it’s through the FDA, and I think I’m going to make a lot of money because the market is big and it’s taking off.” And he said, “My wife and I aren’t getting any younger; I want the money now.” And again, he didn’t use these words, but he said, “Can you do a discounted cash flow on the future revenue royalty streams?” We looked into it clinically and medically, checked out the FDA research, and went back to him and said, “Okay, we’ll give you a check for $10 million, but we’re telling you that if you stick around, you’re going to make about twice that.” He said, “No, I’m happy.” So we bought this future royalty stream. And then the university heard what we were doing (Florida State University), and they said, “Well, we’re a co-beneficiary of this royalty stream, and we’ve got building projects; would you give us $10 million for the future $20 million you estimate you’re going to get over the life of the patents?” We agreed.

And David de Weese and I stepped back after the Taxol transactions and thought, This might be a good business. There are royalty streams out there that could help finance young business. By the way, Chuck Newhall at NEA thinks this is a great idea. So we created a third private equity fund within Paul Capital and called it the Paul Capital Royalty Acquisition Fund. It's become very successful, very profitable, and we have very smart people: MD, PhD kinds of people that can understand the underlying technology and the clinical trial/FDA process. We don't want to take many risks in this business, so we only consider those healthcare royalty streams that have made it through FDA clinical trial steps.

CK: *So you're doing life science.*

PP: Life science. We've been approached to do other kinds of license royalties, but we don't want to move out of our comfort zone. So we have three businesses. And they all started with me buying out the Hillman forty-three limited partnership interests, pioneering what today is called the Private Equity Secondary business.

CK: *How are you able to maintain Henry Hillman's connections? You moved in there when he had already established a lot of his investments—*

PP: Yes. I have to work at it, is the short answer. But just take Kleiner Perkins for example. They knew me early on when they sponsored me in this Machine Intelligence Corp.; so they knew me even before my years with Hillman; and they knew my operating skills, if you will. And so when Mr. Hillman picked up the phone and called Tom Perkins and said, "I'm hiring Phil Paul to be chairman of my private equity group. I want you to take him under your wing," which Tom did. Tom is so beholden to Hillman for having helped start his firm, he'd do anything for Hillman. But to answer your question, I leveraged my own relationships and Mr. Hillman's relationships over these past thirty-five years, investing alongside the partners at KPCB. I took Dick Kramlich and Chuck Newhall in to see Mr. Hillman when they were getting started, and as a result, I've been on their NEA Board of Advisors for almost thirty-five years, another very important relationship that began with Hillman, and which I work hard at maintaining.

CK: *How did you meet the NEA founders?*

PP: They were looking for money like a lot of venture capitalists, so I evaluated them, and I liked their backgrounds and experience, and decided, This is somebody Mr. Hillman ought to meet.

CK: *Did someone introduce you or— What I'm getting at is this networking—*

PP: I don't remember. Everybody knew, when I was chairman of Hillman in the eighties, that Hillman was the biggest source of private equity money. So I really didn't have to get the word out in that time frame.

CK: *So that helped, but you still had to nurture these relationships so they come back for fund two and fund three.*

PP: Oh yes, and I want to be the lead investor in Kleiner Perkins and NEA forever. It's a valuable position to have the inside track.

CK: *You mentioned Cisco, was another story.*

PP: Yes. That goes back to my Honeywell days, believe it or not. When I was general counsel for Honeywell's computer business, the head of marketing was a guy named John Morgridge. Both of us were working for Clancy Spangle. He became the first CEO of Cisco back in the days when Don Valentine of Sequoia was just trying to figure out what to do with the husband/wife team that started Cisco in the laboratory at Stanford. When Morgridge left Honeywell, he got into some Boston-based entrepreneurial activities and did well and then moved out to Silicon Valley, and he looked me up. His wife and my wife — we're all good, personal friends. And he said, "Phil, I want to get back into running something." And so I introduced him to two or three venture capital-backed deals where I was on the board with Tom Perkins or Brook Byers. And John evaluated the deals; but then I introduced John to Don Valentine, the founder of Sequoia. You know that firm?

And there's a whole separate story here. But Cisco was a mess. It was founded by a husband and wife team out of Stanford who were going through a divorce. And so I introduced Morgridge to Don Valentine, and Valentine introduced Morgridge to Cisco, and Morgridge said, "I'll do it if you give me a big percentage of the company." Valentine did, and John Morgridge today is worth about $8 billion. With a *b*! But what a story, John turning around Cisco. He's a wonderful operating guy with great entrepreneurial instincts.

CK: *And another company you mentioned was Apple, that you were involved—*

PP: Apple. You know, it was before all this popular, laudatory stuff has come out about Steve Jobs. And now it's in the papers everywhere, and on the cover of every magazine. Right? But I saw and worked with Steve Jobs back in the days when he got fired. And I had dealings with and negotiations with him. And again, it makes me sound so prescient, but I just loved the guy. I describe Steve Jobs the way I describe Tom Perkins: "He's not a nice guy." Both are "all business" and do not have time for chit-chat. And in negotiations, both are inflexible. Both are so tough, so driven, and have such a vision. I could see this in Steve long before it came out into print; back in '83. Of course, now everybody knows that.

CK: *Did Hillman put money into Apple?*

PP: No. I wish we would've. We didn't. Tom Perkins would say the same thing: "I didn't put money in Apple; I wish I would have." But I raise that, I think, in the context of what I'm passionate about. Entrepreneurs turn me on, and people with vision turn me on. And

I'm actually turned off by financial people. And this gets to what Mr. Hillman always looked for, and it's what I've learned to look for: people with vision, big egos, and that extraordinary passion for developing new markets. Steve Jobs obviously has that vision and passion.

CK: *Did Henry Hillman have a philosophy about his investing? Was there anything that guided his investments? You said he was a risk taker. Would you say it was risky or measured risk? Did he do his due diligence? Was he West Coast, fly by the seat of his pants? He's Eastern.*

PP: Right, he's Eastern, and never left, by the way, he doesn't leave Pittsburgh very often. I had to be around him for that eight or nine years to answer that question, what is his philosophy? And it took me a long time to learn it, and I don't know that I ever captured all of it. But I have to break that into a piecemeal analysis. He's a risk taker, he's a shrewd judge of character, both ways: He knows who not to deal with, who to deal with. He's smart at another level. If Tom Perkins is articulating a vision to him that neither he nor I understand, he has this intuitive sense to buy in. He may not comprehend it intellectually, but he knows intuitively where he's going. He believes in people with a passion

CK: *So you say intuition?*

PP: Intuition.

CK: *Yeah, that's interesting. I mean it's been quite an experience for you and what it exposed you to.*

PP: Yeah. I'm so fortunate and blessed to have learned from him and to be where I am today.

CK: *How was it different in '88 when you said that Henry Hillman shifted his interest to medical research, and so the investments were directed in that area. Did it feel any different to be involved in medical technology, when you were investing in that? Is there a different kind of payback, emotional reward?*

PP: Yes. By the way, his movement toward cancer research stemmed from family issues, where he lost family members to cancer. But that's kind of where it started with him. But to answer your question, there's a distinctly different thought process that goes into Chuck Newhall's analysis (in healthcare) versus Dick Kramlich's (in technology). On the health care side, you're dealing with FDA risks, the FDA timing, which is out of your control, which escalates the cost of sponsoring health care. So it's very different. And in this environment, currently, there are less and less health care investors for that reason. It's so uncertain and so lengthy. It's sad, really.

CK: *They're holding back the progress of—*

PP: Yeah, it really is.

THOUGHTS ON VENTURE CAPITAL

CK: *And the rewards? Are there any examples of investments that you've made in the health care field that—*

PP: Oh, there are some fabulous examples. I mean, Genentech, to start with. But there's a whole series of investments I made with Tom Perkins and Brook Byers down in the San Diego/LaJolla area. I don't know if you ever heard of Hybritech, but that was a fabulous investment for the Hillman family in the early eighties. And out of Hybritech spun many other companies and technologies that have since been very successful. The senior executives at Hybritech spun out after the sale of their company to Eli Lilly, to form a small healthcare investment firm which, in turn, spawned one of the most vibrant healthcare investment environments in the country. And the Hillman family sponsored both the firm and each of the healthcare companies that were founded by that firm.

CK: *And when you're looking at a company, what questions are you asking? Because you're investing in two different ways: You're investing in the firm, and you're investing in the product, so there's due diligence needed in both areas.*

PP: Yes. Funds involve evaluation of the general partners. But with direct company investments, I harken back to my own operating days, and I want to know if the CEO who's presenting an investment proposition to me, first, has a vision; where he or she is in the development of that vision, because visions morph over time; and where they are in the execution steps. Are they leaders? Have they planned it out in a business plan format? And if there are different business models that have evolved over time, I want to know which model they're advocating and why. Yes, I've learned from GPs like Tom Perkins and Dick Kramlich and Chuck Newhall to be a tough audience.

CK: *So it's the people.*

PP: Oh, it's absolutely the people. That's what separates winners from losers. There are some brilliant technical ideas that will never get funded because the right people aren't around them. That's best illustrated by the Cisco story. For years the husband/wife team that developed the technical concepts went nowhere. Enter John Morgridge, an experienced operating executive who developed a vision with a marketing plan, and the company skyrocketed.

CK: *When you do finally make a decision, do you have any sense or — this kind of goes along with where'd you get a sense of confidence — the foresight to know that the timing of this is right?*

PP: You really don't know. And you don't know if it's going to be a failure, 'cause as we talked earlier, venture capital's statistics show that even the best and the brightest fail three, four times out of ten.

CK: *You know, Chuck often talks about — talking about your networking — about people in the venture capital business working together as kind of a "band of brothers." Would you agree with that?*

PP: Yes. But I'd advise Chuck and other general partners to be very careful about who they included in the band, and the larger group they ought to exclude, because it can be disruptive as well. But Chuck knows that.

CK: *I'm just wondering, that sense of a band of brothers, has it changed over the years?*

PP: No. That's an interesting insight. The old bands of brothers, and the one that pops to my mind is John Doerr and Mike Moritz at Sequoia. They started a long time ago, and they're still doing Google-type deals together. You know, there's a trust, or band, that has to develop, because you go through good times and bad times. And it's hard to break into that clique, too. It is a clique. So, no, I think because of the trust that has to develop over time, new relationships are hard to form.

CK: *Do you think today's younger VCs are developing those trusting networks in the way that your generation did?*

PP: No. There's this whole new generation of social networking kinds of deals, and they have a different investment philosophy. And maybe they're right, because some of them have made a ton of money. But it's different.

CK: *When you say right, are you saying right for the times?*

PP: Yeah. Maybe that's the future right. Maybe venture capital's changing, and I'm just an old guy. But I only subscribe to the collaborations that I've seen work over the years.

CK: *Would you say perhaps they're less collaborative on an ongoing basis?*

PP: They're collaborative among themselves, but it's a whole separate group. They don't collaborate with — well, I don't want to make too general a statement. But they're not eliciting the collaboration with the old-line firms, like Kleiner Perkins.

CK: *They're going to their own—*

PP: Um-hm. And they may be right, 'cause they've made a ton of money.

CK: *You know, over the years you've been on a lot of boards. I'm wondering how much time you spend when you're on a board.*

PP: A lot of time. This is something I learned from Tom Perkins. He had eight rules, and when I was in a Kleiner Perkins general partner meeting, somebody'd just say, "Oh, it's number four." But among his eight rules were: "Never go to a board meeting to find out what's going on." That was a rule. If you didn't know as much as the CEO when you attended the board meeting and have your own initiatives apart from the CEO, you weren't doing your job. So to answer your question, it takes a lot of time and considerable effort to be a good board member.

CK: *And is it email? Phone calls?*

PP: It's all that. It's visiting the company, dealing with the management, trying to figure out answers to their — they've always got problems. Being right in the middle of their day-to-day issues.

CK: *And how involved do you get, emotionally, in a company that's either struggling or just starting?*

PP: Well, it is emotional, because you know the passion that you have for these entrepreneurs is real; and once you buy into their plan and their passion, it really hurts if it's off-track or not going well.

CK: *So have you been able to maintain relationships with the entrepreneurs? From your role?*

PP: Some. But I've had to fire others. That's another hard part.

CK: *Do you have an example of one of these challenges in business that—?*

PP: Yeah. Tom Perkins and I were on the board of a company a long time ago; but he and I decided that it needed a new leader, so he told me to fire him. I told you Tom's not a nice guy. But we both came to the judgment, he said, "Well, you do it." (laughs) But I've done it more than once. I mean, if the CEO isn't adapting to the constantly changing circumstances and challenges, you've got to get a new CEO. It's a tough business.

CK: *Do you sleep well at night?*

PP: Oh yeah.

CK: *We've talked about Paul Capital and how you first got started, your funding. How were you able to secure these commitments? This is 1991?*

PP: Right. That's also an interesting story. And remember, there's no such thing as a secondary fund or market. So I come up with this Hillman deal, which was a very large deal at the time, money-wise. And Mr. Hillman said to me, "Where are you going to get the money?" So remember, for eight or nine years with Mr. Hillman, I'm doing two things: I'm funding funds, and then I have this staff and we're following the best and brightest GPs (like Tom Perkins, Dick Kramlich, Chuck Newhall) around, and we're investing alongside them with Mr. Hillman's money, as much as we can. We're doing two things. And, again, the Hillman family was, if not the largest, in the top three funder of funds. People like the government of Singapore, and AT&T Pension Trust, and the DuPont Pension Trust would come to me — not to me personally, they were coming to the Hillman family, saying, Hey, we want to get into this private equity business. Can you share with us how Mr. Hillman's done it over the years? And answer the questions you're asking: How does he evaluate GPs? And so I worked closely, not only with the government of Singapore, as I told you, but with Tom Judge at AT&T Pension Trust, in particular. Do you know Tom?

CK: *I'm meeting with him next week.*

PP: Great guy. So he was an early corporate AT&T pension trust risk taker in the private equity market. He relied on the Hillman family and me to a great degree, because they hadn't done it before. So to answer your question: In 1990 I got this opportunity to do one of the first secondary deals, which nobody in the institutional investor community had ever heard of. I went to my friend, Tom Judge, and I said, "Look, the funniest thing has happened, Tom. Mr. Hillman wants to turn his assets into charitable philanthropic funds, and he's going to sell all his assets in an orderly way, not a fire sale. But I'm in a position to buy these LP interests." And I said, "I need some money." So Tom trusted me, and he gathered four other LPs — the DuPont Pension Trust, Howard Hughes Medical and the Howard Hughes Corporate Pension Trusts, and the fifth was the Bank of Boston. So that's how I got the money. I didn't have a fund. They just pooled their monies to help me buy those assets. By the way, they made a ton of money on my deal, so they're tickled they did it. And it was that group I went back to with other early secondary transactions, since I couldn't form a fund. So every time I'd find another interesting deal, I'd go back to Tom, I said, "Let's do another deal." So it was all piecemeal.

CK: *This is real networking. This is an example of your band of brothers or going back to the same people that you—*

PP: Yeah. Ask Tom about that. When are you going to meet him?

CK: *Next Wednesday.*

PP: He's a great guy. And also, he trusted me, obviously. It was a lot of money at that time.

CK: *So I think that's a great example of networking and those relationships.*

PP: I couldn't have done it without him.

CK: *So you pioneered this institutional secondary private equity market.*

PP: Um-hm.

CK: *Did you have a vision for Paul Capital?*

PP: No. I honestly didn't. Remember, I spoke on panels where the title of the panel, "Is There a Secondary Market?" I mean, it wasn't at all clear there was such a market back in 1990. And I was also approached by NEA and other prominent venture capital firms to join them as a general partner. For years, I had been investing Mr. Hillman's money alongside these partners, serving on boards with them, and because I'm an operating guy, Chuck Newhall and Dick Kramlich, for example, thought I'd be a good partner. So I was evaluating, what I was going to do. And in the midst of this thought process, my wife was diagnosed with this MS, so that threw a monkey wrench into all of my personal plans.

CK: *So rather than commit to a venture capital group, this allowed you a little more independence?*

PP: Yes. A lot of independence. So I put off the general partner considerations at various firms, and I hired real bright, young people at Paul Capital.

CK: *You mentioned a partner. Do you have a partner with Paul Capital, or is it a group?*

PP: I did this on my own with, I had an associate named Nick Harris, but he didn't stay with me long because it wasn't clear there was going to be a job there. But he was the one associate I brought with me from the Hillman Company to form Paul Capital.

CK: *How has Paul Capital changed, and how did it fare during the bubble and burst, since you were right there?*

PP: Right. Well, first, in the formation days, we couldn't raise a fund, and I wasn't even sure I wanted to raise a fund. So we did secondary deals piecemeal, and I'd run to my pal Tom Judge at AT&T and say, "I got another one." And it worked okay. But then about four years later, I think it was '94, we were able to pool $250 million, and Tom Judge and GIC, government of Singapore — all my secondary deal backers pooled the money. And I started to hire bright, young, financial, analytical people, who are still here. And they really get the credit for having built this enormous business. And to your point about the bubble bursting: When you cut through it all, we're in the business of buying distressed assets, and in these tough economic times, almost everything's distressed. Banks and endowments are getting out of private equity, CalPERS, CalSTERS and other large institutional investors are reorganizing their private equity portfolios. So our market opportunities are growing, and I actually believe they're going to get even bigger and better in the near future.

REFLECTIONS

CK: *I'd like to take some time that we have left to be a little reflective about looking back. Chuck always likes to see venture capital as a romantic quest. I'm wondering if you would, how you feel about that term.*

PP: Yeah. I earlier characterized it as more an art than a science. And in that art milieu, I'm passionate about it, so it has some romanticism associated with it. I just have had more fun with entrepreneurs and their visions and the energy with which they go at building companies. It's just really fun.

CK: *Is there anything you would like to have done that you didn't do? Having had a really varied career.*

PP: I've had a checkered career.

CK: *(laughs) Is there anything you think, "I could've really done this well," that you didn't?*

PP: No, I just feel very blessed that I am where I am. I do wonder once in a while what would've happened if I'd gone back to Pittsburgh to take over Mr. Hillman's empire. But certain things are beyond your control, like my wife's multiple sclerosis, and it didn't happen.

CK: *What was your personal relationship with Henry Hillman now that you mention that? You said he was a mentor, and you certainly learned a lot from him, and it was trusted. But was there something that you felt that the two of you had together as partners?*

PP: Not really. You'd have to really know the Henry Hillman side of that equation. And as I described him earlier, he's a bit awkward in all of his — and shy. And it took years to engender the kind of trust relationship that I had with him. So he's an unusual mentor, I'd say. Not demonstrative, not directional. You had to ferret out from him the way he looked at things, what the lessons were. You had to be intuitive, because he didn't articulate them.

CK: *Right, he wasn't paternal in any way.*

PP: No.

CK: *Or a buddy. But you certainly got a lot from the relationship.*

PP: Oh, I did, I did.

CK: *The other thing is that you've been involved with a lot of VC firms aside from what you do. Are there any venture capitalists that you admire for any specific reasons?*

PP: Sure. It starts with Tom Perkins. And I've described to you how unique he is, starting with the fact that he's not a nice guy. But I learned *so* much from Tom, as have his partners. Frank Caufield used to develop "Tom's eight rules." He ran partner meetings in a steel-fisted way. It gets back to "he's not a nice guy." But if he'd get on a point with any one of his partners where he wasn't satisfied with the answer, he pounded on it. (laughs) And me and the partners would often go to lunch afterwards and just sort of go, "Whoo, that was a rough session." He was not personal, but evenhanded in his criticisms; but if you didn't have an answer, that wasn't good enough. He was a hard-driving guy, because that's his thought process. "Hey, we're developing a vision here. What's the next step or two, three steps? And have you thought about this?" He was a tough taskmaster.

CK: *Which you admired.*

PP: Very much. Because look at what he's accomplished. And Dick Kramlich also is one of my heroes. Dick started working for Art Rock, as you know, and didn't have the most pleasant of experiences with Art, and then set out to start his own firm with Chuck and Frank Bonsal. But I've spent a lot of time with Dick, personally and otherwise. And he just has a set of values and insights that you don't find in many people. He, too, is a visionary; he inspires entrepreneurs to develop their visions further, Like me, he's not a numbers guy, and he, like Tom, doesn't go to board meetings to find out what's happening. He's very involved, almost on a day-to-day basis, with the companies and entrepreneurs he sponsors.

CK: *You were talking about Dick Kramlich and how hard he worked in preparation for board meetings, and about how Henry Hillman, himself, assessed general partners.* ***.*** *And he'd do his due diligence before—*

PP: Yes. He did homework. But Henry had a style that drew people out in conversation. So it wasn't so much the homework in his case as he knew how to drive toward certain points.

CK: *Is there anyone else that you wanted to include on — certainly a short list.*

PP: It's a short list. I would put Bill Davidow on that list. Do you know the firm Mohr Davidow? In fact, an interesting part about the list is that when I think about it, Tom Perkins asked each one of these people I'm about to name to join his firm. Dick Kramlich was asked to join. Bill Davidow was asked to join his firm. So Tom saw something, too. Bill Davidow spent his early career at Intel, where he was head of marketing. But he's more than that. He's written four or five books on marketing, the most recent of which is about the development of the Internet.. Bill formed a firm which Mr. Hillman and I sponsored called Mohr Davidow, and was very successful. More recently, Bill retired. But Bill, having been raised at Intel, was very knowledgeable of the semiconductor market and its early development, and he himself had a vision for its future development. He's another great entrepreneur and mentor.

CK: *So what are your personal rewards from what you've done over these years?*

PP: Well, I've had financial rewards, but I'm just as happy to have found something I can be passionate about. That's the biggest reward: To love what you do. And it took me many years to develop that entrepreneurial kind of spirit, but I finally got there, and I love it. I helped a young man start a company down in Southern California, where I'm now living. He was in his dorm room at USC, getting a master's degree in engineering, real bright kid. But his mother knew Elaine and me and said, "Would you talk to my son? He's got a business idea, and I know you've been in venture capital." Anyway, it's a long story, but—

CK: *What happened?*

PP: He's CEO of a Silicon Valley firm now, called Lookout, Inc. The venture backers moved him to Silicon Valley, and it's doing extremely well.

CK: *What did you say to him?*

PP: Well, it took me months and months and months to say various things to him. But I first had to ferret out his technology thesis and help him get patents and copyrights. Then, working with him, I had to ferret out a business model, because he's in a novel software business. And then when I got it to that point, I had to get him financial sponsorship, so I brought him up to Kleiner Perkins and let him present his business plan and technology developments. Anyway, it's a great story.

CK: *And did Kleiner Perkins bite?*

PP: Yep, they did. Although he took money from Vinod Khosla, a former KPCB partner, in the end. And he's such a nice, energetic, motivated young man.

CK: *It's going to give you a lot of satisfaction.*

PP: Yeah, it really does.

CK: *That's really giving back.*

PP: Well, in a way, but he gives to me, too. He's running all over the world; last week he called me from Singapore, because he trusts me and he bounces ideas off of me. And next I hear from him in New York City, or Europe, or wherever he is. He's a great kid.

CK: *So have you invested in him?*

PP: Yeah.

CK: *And are you on the board?*

PP: No. He asked me to be on the board, but I really don't have time since care giving my wife is my primary responsibility. But I'm on his Web site; he acknowledges me as a mentor and a founder, which is nice.

CK: *Well, that's like being a teacher and your teaching never stops, it just trickles down. What a wonderful experience for you and for him.*

PP: Yeah.

CK: *So what do you do when you're not here? You must have other interests that go outside of—*

PP: Well, honestly, my primary interest and most of my time is devoted to care giving for my wife. I mean, she has twenty-four/seven caregivers, but she's very emotionally dependent upon me. And so that's where most of my time is spent.

CK: *And you mentioned something about KidsWorks? What is KidsWorks?*

PP: Well, remember, I grew up in North Hollywood. And in our neighborhood was the Donahue family. Do you follow football? Well, Terry Donahue for years was the UCLA head football coach. Anyway, in my neighborhood, I grew up a few houses away from the Donahue family. And so we've been close from those childhood days. And that group that I get together with every six months, childhood friends, includes one of the

Donahues, Terry's brother, Dan, and he's done very well in developing real estate. And so he started a KidsWorks in our Orange County area, and it's become a wonderful child development center. They take care of hundreds of kids after school and kids who are abused. And it's sort of a home after-school teaching environment. So, through Dan Donohue, I've gotten involved with that.

CK: *And are your kids around the area?*

PP: Two of my three are. I dropped one of my kids in the Midwest. As we were moving from Minnesota to San Francisco, he was finishing high school. So he said, "Dad, I get in-state tuition, and I can go to the University of Minnesota." So he met a girl there, and now he's stuck there with four of my six grandkids, but the other two are out in Newport Beach. My daughter's a lawyer.

CK: *So wait, your son in Minnesota, his name is—*

PP: Chris. And then my daughter, Amy, is out in Newport Beach with us, she's a very successful lawyer. And my other son, Mark, has a finance degree, and he's looking for a job. He's out of work. Everybody's looking for a job these days.

CK: *Six grandchildren; that certainly enriches your life.*

PP: Oh, it does. But only two of the six are local. So my wife gets to see them at a regular Sunday night barbecue. So that's fun.

CK: *Oh. Well, this has been just delightful, and I enjoyed meeting you.*

PP: I hope it helps.

CK: *Oh, it's an enormous contribution.*