Oral History with Scott Sandell

NVCA-Venture Forward Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

Scott Sandell
Interview Conducted by
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Carole Kolker, PhD
May and November, 2006 and May, 2011

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

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

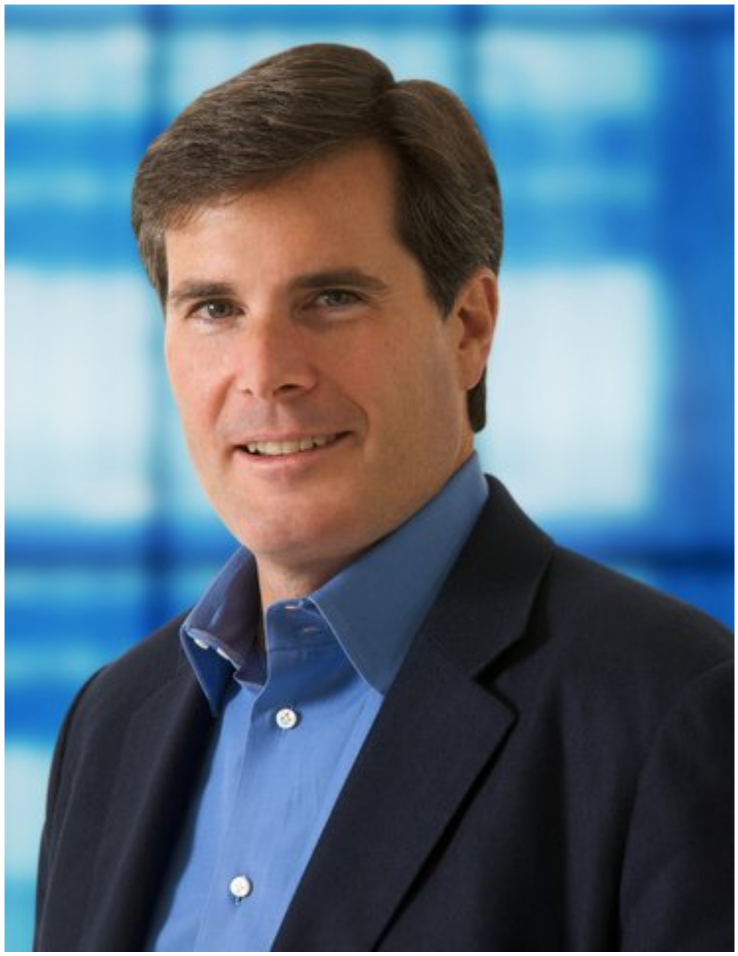
As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments representing just 0.2 percent of U.S. GDP have fueled the creation of 12.1 million American jobs and $2.9 trillion in sales. Yet even these figures, while significant, greatly understate the collective accomplishments of the venture capital industry.

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

I'd like to extend a special note of gratitude to each interviewee for generously contributing time to this initiative and for candidly sharing memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry.

Charles W. Newhall III 2014

VENTURE CAPITAL GREATS



A Conversation with Scott Sandell

Scott Sandell joined New Enterprise Associates in 1996 and became a General Partner in 2000. He leads NEA's Technology Practice, which represents about two-thirds of the firm's invested dollars. During Scott's tenure at NEA, the firm has raised over $12.5B and is one of the largest and most active venture firms in the world. Among the earliest and most successful investors in Software-as-a-Service (SaaS) and cloud computing, Scott's portfolio has generated more than $3B in liquidity through public market exits or acquisitions, including market leaders like Salesforce.com (NYSE: CRM), WebEx (NASDAQ: WEBX, acquired by Cisco); Data Domain (NASDAQ: DDUP, acquired by EMC); Workday (NASDAQ: WDAY); and Tableau Software (NYSE: DATA). Scott also led NEA's investments in 3ware (acquired by Applied Micro Circuits Corporation); Amplitude Software (acquired by Critical Path); Fineground Networks (acquired by Cisco); Fusion-io (NYSE: FIO); Neoteris (acquired by Juniper Networks); NetIQ (NASDAQ: NTIQ, acquired by AttachMate); Playdom (acquired by Disney); and Spreadtrum Communications (NASDAQ: SPRD, acquired by Tsinghua).

Scott's private company board memberships include Bitglass, Bloom Energy, DreamFactory, Datrium, Cloudflare, Coursera, and Sentons. He is the incoming Chairman of the NVCA, serving the 2014-15 term.

Prior to joining NEA, Scott was a Product Manager at Microsoft, where he worked on Windows 95. Before attending business school, he joined C-ATS Software as the company's first salesman and later co-founded and ran the company's European subsidiary. Scott began his career at the Boston Consulting Group. He holds an MBA from Stanford and an AB in Engineering Sciences from Dartmouth College.

Today is May 4, 2006. This is an interview with Scott Sandell at his office at New Enterprise Associates on Sand Hill Road, in Menlo Park, California. My name is Mauree Jane Perry, oral historian. A follow-up interview, conducted by Carole Kolker, took place on May 16, 2011, at NEA's office in Chevy Chase, Maryland. These interviews have been edited by the interviewers and reviewed and edited by Scott Sandell.

Mauree Jane Perry: *Thank you for your time, Scott. I'd like to begin with where and when you were born and a little bit about your childhood?*

Scott Sandell: Sure. I was born on September 3, 1964, at about five o'clock in the morning in Troy, New York — at the Good Samaritan Hospital, which is found on the campus of RPI [Rensselear Polytechnic Institute]. My father was there studying for a master's degree; he later went on to do a PhD there as well. I was the firstborn to my parents, Dave and Kathy Sandell. We lived in Troy only a short time. My father was an officer in the Coast Guard. He grew up in Baltimore, went to Baltimore Polytechnic Institute, which was a magnet public school for the more technically inclined. Later he went to the Coast Guard Academy and spent the bulk of his career as an officer in the Coast Guard. After serving in Antarctica and other parts of the world for four or five years, my father had the opportunity to obtain a master's degree in mathematics and then teach at the Coast Guard Academy for three years. He was then selected to go on and get a PhD.

In the first three years of my formal schooling, I was in three different school systems — one in Waterford, Connecticut; one in Eagle Mills, New York; and then lastly in the East Lyme public school system in Connecticut. It was not an easy time. I wasn't a particularly good student, and I didn't take very well to school at all, at least not until junior high school. The most painful year was third grade. I failed third grade, and still cannot remember anything from that year, although I can remember lots of things from earlier years. Many years later, at age 42, I learned that I am dyslexic, which almost certainly accounts for my early difficulties in school. But in junior high school I had a succession of teachers who were really extraordinary and had a big impact on me. The first was Mr. Littlefield, in sixth grade. He taught social science and history. He was just a fabulous teacher. I totally connected with him as a person, as a teacher, and he really inspired me to do well, which I did.

East Lyme, Connecticut, is a middle-class community on the coast of eastern Connecticut. It has proximity to the Groton–New London area, which is on either side of the Thames River — it's pronounced the *Tha-aims*, unlike the Thames, but spelled the same and clearly one is named after the other, this being New London, Connecticut. The defense industry dominates the local economy. The Coast Guard Academy is there; the Groton Naval Underwater Systems Center is there; the Groton Submarine Base is there. When I was growing up, it was the largest submarine base in the world. Pfizer Central Research is there. So in my neighborhood, growing up, we had submarine captains, Coast Guard officers, and very serious research scientists. The scientists in my neighborhood alone developed some of the most important drugs that Pfizer has ever produced. The children I was playing with were their offspring.

We lived in Laurel Hill Acres, which was a residential development. It was on a hill, and it was generally viewed as one of the more exclusive places to live, although by any standards you'd see around here, you'd think I was kidding. Nevertheless, it was a very nice place to live and grow up. Nobody locked their cars, nobody locked their houses, and kids ran around everywhere. Our house was adjacent to an open lot and wooded space. If you did it the right way, you could walk out of my back door and go three miles without hitting a road.

MJP: *Sounds pretty happy.*

SS: That part was very happy. I spent a ton of time in the woods. I would get home from school and be out in the woods, and playing sports in the neighborhood. There was virtually no organized activity. I tried Little League, but I quit. I thought it was the most dreadfully boring game imaginable. Almost nothing seemed to happen. You'd stand in the outfield in hot Niantic, Connecticut, spring or summer, sweating under the beating sun, you know, every half an hour someone would hit the ball in your direction. This was just not my idea of a good time. So I quit. It's actually a funny story. I was usually out in left field. And since most batters bat the other way, the ball didn't go to me very often. So I would stand around with my hands on my knees, waiting for nothing to happen. I obviously wasn't talented because they put me in this position where nobody had to do anything. But on this occasion, the guy who played third base couldn't make it. So they put me in, and there I stood, ready for nothing, my hands still on my knees. The batter hit a line drive to the second baseman, who caught the ball. And he started yelling at me because the guy who had been on second was running to third. I was so out of it, I wasn't even paying attention to the fact that the ball had been hit, let alone that there was someone running at me whom I needed to tag out. Finally, I figured out what was going on, and I turned, but it was too late. The guy threw the ball toward me, but by this point the runner from second had run past third and was running towards home, and I wasn't quick enough to get the ball to home to tag him out. The parents went ballistic. I will never forget it. It was an unpleasant experience, to say the least. So that was the final hurrah of my Little League career. I went home and I said, "I'm not doing that again."

MJP: *Because you wanted to win?*

SS: No, it just wasn't fun. And no fun followed by humiliation is even worse.

MJP: *What were your parents like during these years?*

SS: Well, my parents— I'll never forget, my father said, "Well, son, it's fine if you want to quit Little League, but don't make a habit of quitting." That was all he said. And I've only ever quit one other thing in my life subsequent to that. Generally speaking, to answer your question, they did not push me in any way, shape, or form. They were extremely supportive, very loving, but no pressure. They were fabulous. I'm very fortunate. I try to emulate them as a parent, but the bar is very, very high.

My mother stayed at home. She was an incredibly devoted mother, and still is to this day. My father was more or less a workaholic, but also incredibly devoted to his family. A completely selfless person. His biggest flaw was that he didn't know how to say "no" to people who asked him to do things, which is why he ended up working so hard. He was really good at almost anything anybody ever gave him. He was so good at everything that I didn't want to try to follow that path. And it came home to roost. There were a number of things that proved this out in my life to me quite clearly. One day I won't forget was when I was in high school.

My dad started in the math department, then he became assistant chair of the math department, then he became head of the math department, then he became associate dean, then he became the dean. Being dean was the highest job he could ever have because he had elected, after that PhD program, to become part of the permanent teaching staff at the Academy. When he did that, he gave up the opportunity to ever become an admiral. He had graduated second in his class at the Academy, so he would easily have been on tap because class rank dictated a lot of their future career orientation. He was always a leader. The guy who was first was a geek, and my dad was the leader of everything: four varsity letters, president of the class, you know, he just could not be more outstanding. When I was in college and he was the dean, I went to visit him. The Coast Guard Academy, like any of these sort of places, has this huge, imposing administrative building — this one was brick — and you walk up the front steps, and you look in, and you look in either direction, and there's a huge hallway with marble floors and thirty-foot ceilings, massive, wide thing. You wander down one direction, and you walk into a gigantic office with a couple of anterooms and conference rooms and all that kind of baloney.

[One day] I was sitting there waiting, and it looked like it was going to be a while for him to finish up whatever he was doing, so I wandered up and down the hall. And in that particular hall, they have the plaques for every award that's given out every year in the school. I started at one end, and I started walking down the hall. And there were probably fifty plaques on the wall from one end of the hall to the other, and I went down to the year 1961 and my father's name was on almost every single one. I went, holy smokes!

MJP: *What difference did that make in your life?*

SS: He did not wear this on his sleeve at all. In fact, he is one of the most genuinely humble people I have ever met. Consequently, I was relatively unaware of his success most of my life, which was nice. Coming back to your question about school, though, I started to do better in junior high school, considerably better. We had a tiering system which was relatively fixed. You really had to blow the doors out on something before they move you up to the next level. So one subject after another I would do really well, and ask to be in the top section, and by high school I was in the honors section for about half my subjects. By my sophomore year, I was in all the honors sections but one, English. I had some great teachers.

MJP: *What motivated you to achieve?*

SS: I think I was motivated by the teachers. Some willingness to please was part of it, but I really got hooked on the reward of doing well, and learning. Those were the three factors, I would say. And then the satisfaction of succeeding, just succeeding in an absolute sense, and then coming out on top. I didn't need anybody else to know it. It wasn't about anybody else in my class knowing that I was the top student. I was very embarrassed when Mr. De Graf stood up and said, "I just want to tell all of you what an amazing thing happened on this final exam, Scott Sandell got the highest score anyone has ever achieved, blah, blah, blah." I just wanted to crawl under my desk. But to me it was really fun to win.

I would say going forward, I was never a person who gave it my all if I wasn't really interested in the subject matter; in those cases, I did enough to get by. Getting by was a fairly high standard, but I only gave it my all when I was really interested, and usually a great teacher was involved.

MJP: [Describes several experiences in wrestling and rowing] *You were incredibly competitive.*

SS: Yeah, I can't emphasize that too much. I don't know, Mauree Jane. I really like winning.

The *thrill* of competition is really, really fun.

MJP: *How do you feel about not winning?*

SS: I hate losing. I get upset at myself for losing. Really upset if it's something I care about. My parents said, "You were just born driven. You just went at everything." And I said, "Gosh, that's so funny because I feel like in school, I wasn't much of a success early on or anything." They said, "No. We never felt that we had to push you. You just pushed yourself like crazy." So, I don't know what it is. Part of it is fear of failure. I don't like losing, that's a big motivator. I enjoy winning, not for the glory but for the satisfaction, if you understand the difference.

MJP: *These are great stories, but tell me, were you entrepreneurial as a teenager at all? Did you work during the summers?*

SS: Yeah, some. My parents gave me a very modest allowance, but I didn't like taking their money. And I started working at some minor things, but I think I really started working hard sometime in high school and mostly during the summer. I would have summer jobs. I was a caddy at a country club. And it wasn't just any country club. We had to take a ferry every day from New London to Fishers Island, New York, and go out to the Fishers Island Country Club, where we would caddy for the day and then return home at night. I was about fifteen. That was my first exposure to people who were a lot better off than we were. And Fishers Island, as you probably know, is an extremely exclusive place. [NEA cofounder] Frank Bonsal's family has been going there forever, by the way, and has a house there. So Frank comes from this world I was just exposed to for the first time. And just hanging around caddying, you learn a little bit about how people got to where they are, and there was some motivation, I think, that came out of that. I didn't want to be viewed as a second-class citizen to anybody. That was probably part of it. It's important to note that my mother's father was also pretty well off; he was a very successful entrepreneur.

I knew him quite well. He was in Pittsburgh and they had a summer house on a small lake in Pennsylvania, and it was a great place — I still go there. I'm going there for a family reunion in July. My grandparents bought it the year I was born. And all of the grandchildren would go there and my grandmother would stay there the whole summer. My grandfather would fly out from Pittsburgh on the weekends, usually a three-day weekend. He worked till the day he died, when he was eighty-two. He had started a business when he was forty-eight years old, called Weld Tooling Corporation in Pittsburgh. He bought a patent — he'd been in the welding business. He was an engineer at Case Western Reserve, then Case School of Technology. My grandmother was at Western Reserve. Those schools later merged. They were both only children, they graduated in 1929. He became a salesman because it was the best way to stay alive and traveled 280 days of the year, all over Canada first and then the United States. He sold a whole bunch of different stuff, including welding products. Some time after the war, he bought this patent for this system that could hold a welding machine on a track and automate welding. He built a business in sixty or a hundred countries around the world, based on, ultimately, twenty-six different product lines of that technology.

MJP: *Was he a model for you?*

SS: Oh, definitely. Aside from caddying, that was my only other exposure to people who'd made a lot more money. We had a fairly modest income as a military family. So at some point I became aware that because of my grandfather's generosity, we were able to do things we would not have been able to do otherwise. For example, when I went to college, he paid for a third of my education, my parents paid for a third, I paid for a third.

I applied early to Dartmouth; but I didn't get in early, I only got in by regular admission. And it turned out that when the Dartmouth letter came, and I got in, I didn't get any financial aid. My father was too good at saving his money, apparently. I had some savings and I took on student loans and all that; that's how I paid for my third. I also had ROTC scholarships, which I could take at most of the other schools, but Dartmouth didn't have Navy or Air Force ROTC, and I really wanted to go to Dartmouth. I had a burning passion to do that. Cornell was my second choice, and at Cornell I could have used my Navy or Air Force ROTC scholarships. The whole thing would have been free. So here it is, you pay full freight and go to Dartmouth, or you go to Cornell and it's free.

I remember I got the admissions letters: one said you got in and then the other one said you get no money. I was really struggling. My father came home from work and sat me down and he said, "Where do you want to go?" I said I wanted to go to Dartmouth. I thought hard, but it a quick response. And he said, "That's where you should go. [Crying] We'll make it happen."

MJP: *He loved you so well, didn't he?*

SS: I said, Well, I can only do this because of my parents' generosity [and] my grandparents' generosity. I have to make it possible for my kids because their grandparents won't have the money. They have a perfectly nice retirement salary from the military, but I knew I was going to have to make money to do that.

So that was the point where I said, I'm going into business. That's what my grandfather did, and I thought I would be an entrepreneur. So, that was very clear, very important.

MJP: *What moves you right now; what is it that touches you so much? What touches you?*

SS: That gift. [Crying] He saved so much, he sacrificed so much for his kids.

MJP: *You've honored him well.*

SS: I have a long way to go. But, you know, I fight for my family first. It's a very competitive world. At some point we'll talk about globalization. It's going to be a lot tougher for my kids than it was for me. And I want to leave them well prepared for that.

MJP: *Right. Of course your world is tougher than your father's world. And he armed you with values. He might not have had the full cash to give you college tuition, but he gave you what he could, which was all that he could, and he gave you some pretty enduring values.*

SS: [Crying] Most honorable man I've ever met.

MJP: *That's quite a turning point. So let's move on to Dartmouth.*

SS: There's one last chapter, though. In addition to my father and my grandfather, Boy Scouts was a really big deal for me. It was something that I was really good at right away. That may sound like a funny thing to say in respect to Boy Scouts, for heaven's sake, but basically it was about leadership. I was immediately catapulted into leadership positions, way ahead of anyone my age. I disliked Cub Scouts. It was all indoor activities and silly stuff. Boy Scouts was about campouts and adventures and the outdoors, which I love. And that's one of the ways I discovered it. Our troop went on a campout every month, through every season, every single month, and I don't think I ever missed one. By the time I was in eighth grade, I was the head of the troop; I was the senior patrol leader, which was about three years younger than anybody else who'd had that job in a while. By my sophomore year I was an Eagle Scout. I wasn't so much oriented toward merit badges as I was toward leading the troop. We did a lot of fun things together and I think it was just a tremendous experience. After my sophomore year in high school, I was pretty much done with it.

The other big thing is that my involvement in crew ramped up. In high school I played three sports, actually. Soccer initially in the fall and later football, and then wrestling in the winter. Ultimately, I dropped wrestling after my freshman year and just trained for rowing during the winter. By the time the spring season started, I was in much better shape than anyone on the team. I rowed in my first national championship when I was fifteen. Six events in one day.

MJP: *Did you ever dream of being a professional athlete?*

SS: I dreamed of rowing in the Olympics. But I herniated two discs in my back my sophomore year in college two weeks after I was invited to try out for the U.S. National Rowing Team. So that ended my dream.

MJP: *How did you decide to focus on engineering?*

SS: When I got to Dartmouth, my father encouraged me, actually fairly strongly, to think about engineering. His argument was that I was good at what it would take to do it, and that I could make a good living as an engineer. It is worth noting that he had been an engineer at the Coast Guard Academy, and my mother's father was an engineer, and my father's father was a self-trained engineer although he never graduated from high school.

Dartmouth has an unusual engineering school. The gist is that you have to pass all the undergraduate requirements of the college that everybody passes — foreign language, some humanities, some social science — all that stuff plus engineering. It's clearly the hardest major in the school. There is a separate engineering school, the Thayer School of Engineering, which is a pretty serious place. And the workload per class is a lot higher than anywhere else in the college, but nevertheless you had to pass all that stuff, too. You don't take more courses; you take fewer engineering courses than the students at MIT would take because you're taking French and you're taking history and you're taking all this other stuff. It's a rigorous program. And the great thing about it for me was that I enjoyed learning how things worked, and I thought it would be useful as a background for jobs in business, which it has been.

And of course in addition to engineering, I was really keen on rowing. So I got to Dartmouth, where rowing is basically a year-round sport. I went out for the team. I actually showed up a couple weeks early and trained with the varsity team for a few weeks before class started.

MJP: *Why am I not surprised? (Laughs)*

SS: And by the end of the first week, I was stroking the JV boat. It was pretty clear to me that I was on par with the top three or four guys in the varsity boat. And it was pretty clear to them too, I think. In a seat race, there were probably one or two guys that could beat me, but that might be it. And I was seventeen. So the upshot was they then put me back in with the freshmen because it was an Ivy League requirement that the freshmen row alone. Of a thousand kids in a class at Dartmouth, two hundred tried out for rowing. In the fall, there'd be vast armies of boats going out on the Connecticut River every day and flailing around, and eventually at the end of the fall season, we'd row against Yale, who'd been doing the same thing all fall.

MJP: *And out of the two hundred, how many end up at the end of freshman year?*

SS: Sixteen. And of course there're only eight in the first eight. In the beginning, I had to check myself a bit, and make sure that I wasn't perceived as being better than the rest of the freshman, or that I didn't see myself that way. Because here I was, the first day that they show up, I'm out rowing with the varsity, right, and people knew that; people could see that. So, I had to kind of figure out how to play it. And what was hard about that is, because it's a team sport, you have to be part of the team. So it was an important lesson — you can't be above the team.

The following is the second interview with Scott Sandell at his office in Menlo Park, California. My name is Mauree Jane Perry, oral historian. Today is November 29, 2006. In our first interview, conducted last spring, we focused on Scott's early years, highlighting experiences and values that led to his career in venture capital.

We will begin today's interview with Scott's decision in 1996 to work in venture capital. We will focus on four areas. One, what led him to venture capital at NEA; two, the story of WebEx and Min Zhu; three, his experiences with the bubble; and four, venture capital today, including globalization and recent changes in the VC world.

MJP: *There's an interesting story about how you entered the world of venture capital and joined NEA. Can you tell me briefly about it?*

SS: Certainly. The first thing I would say is that I, like everyone in venture capital, somehow got lucky enough to be in the right place at the right time. That's the short version of the story, and I tell that to anyone who asks me how to get into venture capital. In my case, I was doing consulting projects for a variety of CEOs and startup companies under the name Yankee Pacific Company.

I was really looking for a mentor at that point in my life, and, with one exception, I didn't find that any of the people offering me jobs had that much to offer me as a mentor. After working on some ideas to start Internet companies, I ended up taking on a project with a couple of entrepreneurs in Houston who needed to raise venture capital. [Lewis and Jim Woodhill, who are brilliant, identical twin brothers.]

We approached a number of venture firms, including NEA. I helped put together a presentation, and did most of the presentations to the venture firms. We went to NEA in Baltimore one week, and back in those days you had to go to both offices, because there was no such thing as PictureTel. The next week we came to Menlo Park, and the week after that Tom McConnell called me and said, "Are you free for lunch?" And so we went to lunch at Evvia in Palo Alto. Tom said, "We are not interested in investing in that company, but would you be interested in exploring whether to join NEA as an associate?"

MJP: *Just like that.*

SS: It was over the course of lunch, but yes. And I thought that was an interesting idea because I had had a couple other opportunities to get into venture capital, but I never found a firm I liked as much. NEA was the first place where I had resonance with the value system and the people, and it was immediately obvious to me.

MJP: *What was the value system; who were the people?*

SS: First of all, it was the notion that the venture capitalists are not superior to entrepreneurs; it might even be the other way around. (Laughs) And that treating everyone with respect is paramount. I think it comes from a genuine sense of humility, which you will find in almost everyone at NEA.

And the importance placed on integrity and honesty and dealing fairly with people, which isn't necessarily being soft, but being fair. I think that there was one other aspect of NEA's values that really appealed to me, and it came out, ironically, most clearly in a conversation with a woman named Nora Zeitz, who was then the director of research. I'm telling you this partly for Chuck [Newhall's] benefit because I think he'll enjoy hearing it.

Nora was in the Baltimore office, and she was my last interview. I'd already met everybody in Menlo Park. I remember she was up in this little tiny office way up on the top floor of the Baltimore building, which is a fabulous building. Apparently she thought that I was going to be offered a job and wanted to make sure I knew what I was getting myself into with NEA. She said, "If all you want to do is make money, this might not be the right firm for you," and I said, "Why is that?" And she said, "Because if you sit around the partners' meetings long enough and you watch the way decisions are made, you'll find out that a lot of decisions are made in ways that are sub-optimal to purely making money. And in particular, NEA will tend to side with what's good for the company, even if it's sometimes not in the interest of NEA, because the people here are more interested in building companies than they are in making personal fortunes." And this, as it turned out, was highly appealing to me.

It was a very important signal, and it made me very attracted to NEA because I didn't see myself as a financial person. In fact, of all the disciplines of business, that's probably the one in which I have the least interest. I saw myself as an entrepreneur or a business leader, but not as somebody who was going to be an investor necessarily — I was much more interested in the process of creating great companies, and this was a role through which you could help do that, and potentially impact a lot more of them than you could do being stuck in one of them. So that was what really got me excited about venture capital.

MJP: *Who at NEA would become your mentor?*

SS: I don't know if there was ever an official one. Chuck was very good at formalizing mentorship and team-building, but the process was naturally a bit less formal on the West Coast. There are pros and cons, probably, to both approaches. The pro here would be I got the benefit of mentorship from a lot of people. I would say Dick [Kramlich] and Mark [Perry] are the two most important, and maybe to a little lesser degree, Peter Morris. Peter more from the standpoint that he was sort of where I wanted to go and gave me a lot of helpful clues about the path ahead.

MJP: *In terms of industries, sectors?*

SS: No. I mean he started as an associate, worked his way up to being a general partner. He didn't come in as a general partner. Dick and Mark obviously came in as general partners.

And so the lessons that they could offer were different from how do you get from the bottom to the top?

MJP: *I was going to ask if you had a goal, and apparently it was to be a general partner?*

SS: No, the first two years I came in, I wasn't totally sure I wanted to be in the venture business. And that might've been evident to others here because after two years they asked me whether I really thought I wanted to be in the venture business. I was probably flopping around a little bit at that point. It culminated in being asked to leave the firm two and a half years in, which may not be something you know about, but it's not something I'll ever forget. Mark and Dick and Peter sat me down on a Friday afternoon and said, "We just don't think you're going to make it here. You know, it's not that you have to leave tomorrow, but you're just not going to make it."

MJP: *Were you surprised?*

SS: I was very surprised, partly because it was a significant departure from feedback that I had received up to that point. And I was very upset about it and disappointed. And one effect was that it crystallized for me that I really wanted to be in venture capital, and I really wanted to be at NEA. Over the course of the weekend that followed, and a lot of discussions with my wife, I realized that, and I came in on Monday morning, and I went to Dick.

It just so happens that I was scheduled to go to a board meeting with Dick that morning, and we were driving down together, so I had a little time with him. And I said, "You know, I don't know if it's possible, but I'd really like a chance to prove to you that you're wrong."

MJP: *That old competitive spirit of yours, you're just not going to give up.*

SS: I don't think I was quite as forceful as that, but that was the message. And he said, "Well, I don't have a problem with it."

MJP: *What did you have to do to stay?*

SS: The first thing I did was talk to every general partner, and I said, "Look, I don't know whether it's possible to turn around this decision, but irrespective of that, I'd like to learn from it, and so I just want your honest feedback. What do you see that I do well, what do I not do well as a human being, as somebody who's trying to contribute to this firm, and lastly, as it might relate to whether I would stay here, and if so, what do I have to do to turn this decision around?"

And that was a really good thing to do because two very important things came out those discussions. One is that people were generally quite candid, and I don't think I really had developed strong relationships with any of the East Coast general partners in particular up to that point. I had a relationship with some of them, but not at a level where they would've necessarily felt comfortable telling me what they thought. To them, I imagine, I was some guy out in the Menlo Park office. They wouldn't necessarily feel it appropriate or in their normal course of activities to go out of their way to give me feedback, and they would've expected the Menlo Park partners to deliver the messages that needed to be delivered.

But as you know, the group is very diverse, and they all have their individual opinions. When it's distilled down to one or two people giving you the final feedback, you're going to get one viewpoint, and a very limited amount of the actual data that's available. And so by going around to each of them, I was able to get all their opinions, which were, of course, quite different.

And that was quite instructive, to not only see that there were all these diverse opinions, but much more importantly, that there were many lessons I could learn from each one of them. And so I got a great deal of feedback and subsequently established relationships with each of those partners. I think those interactions had a significant impact on the way I was perceived and helped my case for staying at NEA.

NEA is full of wonderful people who actually care about people, and that's one of the most attractive things about the firm. They care about other people's success.

MJP: *What is it about venture capital that you felt impassioned about?*

SS: Creating new enterprises and trying to help them succeed. I think it's the most challenging kind of investing. It's certainly the riskiest; it takes courage, discipline, perseverance, and creativity. So, if you're interested in business, and you want to hone your skills to the highest level, there's no better place to do that than starting companies. To me the choice was either to start a company myself or be in a business where I could help in the formation and success of some number of companies greater than one. It was that last aspect that really put venture capital ahead of entrepreneurship for me, personally. I think I correctly calibrated that my effectiveness would be greater at that level of engagement, which is appropriate when you're only partially involved in a number of them, rather than wholly involved in one.

And that has to do with my ability to see the bigger picture and to be able to draw lessons from one company to the next. There are a lot of things buried in that. But it was both more interesting and, I think, a better match for my skill set.

MJP: *What do you think your skill sets were? What were the great strengths that you, Scott Sandell, brought to this partnership?*

SS: I think I'm pretty good at learning new stuff quickly and figuring out what's important. And so I could pretty easily get to the core issues of any new business. I wasn't afraid of understanding the new technologies, which not all investors are able to do. So, that was one of my strengths. I could go in and form my own opinion. I was an engineer once, and I never invested in anything that I couldn't understand, that wasn't better than its competitors, or that wouldn't be able to keep its edge.

MJP: *I had a recent conversation with Mark Heesen from the National Venture Capital Association in which I described this [oral history] project. I asked him what he would want to ask these venture capitalists? He said, "You know, the first venture capitalists were all businessmen. They started investing before technology was the core thing in which to invest. They were businesspeople, they had money. Now there's a second and even a third generation of venture capitalists. I'd like to ask individual VCs how they identify themselves. Are they businessmen? Are they core technologists, or are they a combination of both? And if they are, which comes first?" Scott, you're a perfect person to answer this question. First of all, do you agree with his observation that the VCs have changed?*

SS: I agree that the people who have populated the industry have changed. Just in terms of numbers. Clearly they weren't technologists to begin with, but a lot of that very first generation hired a bunch of technically savvy young whippersnappers as associates twenty years later because technology had become so important.

The bigger question is whether those technology-savvy young whippersnappers will make good general partners. And my answer to you would be I don't see myself primarily as a technologist at all. I'm much more of a businessperson than a technologist. But I'm capable of understanding technology — certainly enough to determine what the important questions are, and who might be able to answer them.

So I'm kind of in the middle. I'm a little bit of a hybrid, but if I have to pick between those skill sets, technologist would not be the one I would pick. I think the general business skills are much more important, and within that bucket of general business skills, certain business skills are really important. I think the ability to reason in a general way and make good judgments based on whatever facts you have and can distill in a situation quickly are essential. Having the ability to be confident in your judgments is one of the most important things.

Another thing that I think is really critical is the ability to assess people and make judgments about them, but also establish very quickly a relationship and a rapport with them, and figure out how to deal with each person for who they are, recognizing they're each different. That ability to relate to people very quickly and in a fairly significant way is fundamental, because these small enterprises, these new enterprises are made up of a small number of people, and the entire business depends on them. If you can't figure out how to get those people to work effectively together or work with them effectively yourself, you're not even going to get past the starting line.

MJP: *So, you have to have some people skills, too.*

SS: I'll give you another way I think about it. The reason I wasn't an engineer after college was because as much as I liked engineering, I didn't think that I was the best engineer in the world. I thought I was pretty good, but not as good as some of my classmates, one in particular. And I didn't want to be in something where I didn't think I could be the best. But the other one was that I thought the problems associated with people were more interesting than the problems associated with engineering. They are inherently much more complex and require a different set of skills.

I thought those were my strengths, much more than the engineering strengths. That's why. So, I wouldn't describe them necessarily as business skills, but people skills. And I think those are really important in this business.

MJP: *In the beginning, how did you approach your investment choices and priorities? You all are bombarded with so many opportunities to invest.*

SS: Early on, I tried to look for things that were in areas I knew something about, maybe more than other people would know about. So, my first investment was Mission Critical Software, which was a systems management software solution for Windows NT. I had just been at Microsoft a few years before, so I had an unfair advantage over others in Silicon Valley in knowing what could be done around Microsoft's products. I think most venture capitalists would have worried that Microsoft would develop this product themselves, but I had some insights that made that seem highly unlikely.

Secondly — and this is more a comment about the things I was looking for generally — I knew the product was valuable when we invested. I figured we could sell it for more money than we paid on day one. So, we were not going to lose money. It was only a question of how much money we were going to make. And that turned out to be the general thesis that I followed for the first three or four years in the business. As a personal career strategy, I figured that I needed to make money and not lose any along the way.

MJP: *You figured that out on your own?*

SS: No one ever told me. I basically figured that my job description over the course of three or four years was to turn $10 million into $40 million, and that if I did, I would get to play at the next level.

MJP: *That's pretty strategic.*

SS: That was my synthesis of my job description. I think on the one hand, it was accurate. No one else has ever put it that way. But I wasn't too smart about just helping other partners early on. I did help people, but I wasn't as focused on that as would've probably been savvy from a career perspective. I can see that now as I watch other people try to do the same thing.

Getting that balance right's really important. I think I erred too much on the side of trying to make sure that this $10 million that I was entrusted with would turn into $40 million. The way it played out was that we invested in that company and they did really well for about nine months, and then the management screwed it up. And because I figured if that company failed I'd lose my job, I spent all the next two years making sure that company was successful, to the detriment of everything else. So I didn't help anybody else. I mean, I did, but just on balance, I probably made too much of an effort to save that company.

MJP: *But you saved it?*

SS: Not alone, but yes. And it wouldn't have survived without me, I'm pretty sure of that. So that was a good thing because it returned a hundred times our original $1 million.

MJP: *That's more than four times!*

SS: At the high. I don't think we got out at that. But we got $60 or $70 million on a $4 to $5 million investment or something like that. And with the second round it was probably eight or ten, I don't know, it doesn't matter. But it was a nice deal; it was clearly a good deal. So, I learned some lessons from that, both ways.

MJP: *That leads me to one of the best investments you made, WebEx. You joined NEA in 1996. At what point did you learn about WebEx, and how did you learn about it?*

SS: I think I learned about it in 1998.

MJP: *So you'd cut your teeth.*

SS: Yes, well, I was taking the advice of others who had been in the business a long time. You know, learn from everybody else, and take baby steps the first couple years you're in the business because you don't know what you don't know yet, so take it slow.

On the one hand, I had been allowed to make my own investment, Mission Critical, and to go on the board with Peter Barris's help as an observer in my first year at NEA. On the other hand, I was pretty slow and methodical over the course of time, and basically sponsored only one investment in each of my first three years.

All those turned out to be good investments, so being careful wasn't a bad idea. But the way WebEx came about began with an introduction from my father-in-law, a venture capitalist who had started a three-person firm in Greenwich, Connecticut. We invested in Mission Critical Software together.

MJP: *You mean outside of NEA's investment.*

SS: Yes, he was our co-investor, and he and I were the board members in a firm that had identical twin brothers as co-founders.

MJP: *Pretty close, lots of blood there.*

SS: It wouldn't take anybody long to figure out that there were lots of obvious red flags that people should be worried about, including both of our wives, Jennifer's mother and Jennifer. But it was one of those counterintuitive decisions that turned out to be great because my father-in-law was a very significant mentor to me in the venture business through that engagement.

MJP: *What is his name?*

SS: Douglas Ayer. And maybe, in the first five or six years he was a more significant mentor than anybody at NEA. Partly because in the venture business you work with people in other firms sometimes more than you work with people in your own firm, particularly if you're in a company that has gone dramatically wrong. You work with them really closely.

But also because of our family relationship. They have a house out here at Sea Ranch, in northern California. So we'd see them a lot, and he was out here for a lot of other board meetings. I typically saw him once a month, in person. He is also a very good mentor, and is interested in the mentorship process. So his advice was invaluable to me, still is to some degree.

But in that particular company, we'd gotten to know each other really well, and his other partners had gotten to know NEA a little bit indirectly. Since they were on the East Coast, when they saw something in Silicon Valley, they would think of us as a possible co-investor. So, one night he was at our house for dinner, and he mentioned that one of his partners, a guy named Ajit Huthseesing, had heard of WebEx. Doug had been sent by his partner Ajit to see WebEx that very day.

WebEx had developed a piece of software which, over the Internet, could connect two computers and allow those computers to share basically whatever was on the screen, back and forth. And they could do it not just for two computers, but up to a thousand all connected together at the same time.

So, they created this virtual meeting space on the Internet, called Online Meetings Today. Turns out that's a very, very hard thing to do because you have multiple, simultaneous real-time connections over an inherently unstable or unreliable network called the Internet. I heard what they were capable of doing, and they were selling it on a subscription basis. They'd sell it to companies who would buy the capability of having so many concurrent meetings at any one time.

Anyway, I don't remember exactly what he said, but I was immediately compelled by it. I said, "Okay, so when can I go see this company?" And he said, "I don't know, but this is the guy's phone number." So I got up from the dinner table and I called him. It was Subrah, and I asked him what he was doing the next morning. He said, "I'm free at 9:30," or something like that. And I said, "Where's your office? I'll be there," and I canceled whatever I was doing, and I went down to see him.

I've come to realize that it's a good sign if you can tell you want to invest in a company in the first twenty minutes, and that's what happened with WebEx.

MJP: *Like falling in love.*

SS: Exactly, love at first sight. In the first twenty minutes of this meeting with Subrah and the cofounder, Min Zhu, who's Chinese, I was immediately sold on this whole thing, and so I went into sales mode. How was I going to get this deal?

What I didn't realize is that they'd shopped this deal up and down Sand Hill Road. Kleiner Perkins had turned it down, Benchmark had turned it down, everybody had turned it down. It was partly because these two guys were not out of central casting. They were brilliant immigrants from different places who didn't have the standard resumes, and didn't speak English with a perfect American accent. But if you got beyond that, you could see they were totally brilliant, extremely effective, and incredible entrepreneurs. The long and short of it is, I had decided immediately I wanted to invest. And I convinced them they should take money from NEA.

MJP: *How much were they asking for?*

SS: I don't remember. But it would've been on the order of $10 million. We put in maybe six or ten or something like that.

MJP: *But you were the lead investor?*

SS: We were the lead. There was another guy from Deutsche Telecom, whose name I'll try to remember. He had actually gotten them to agree to a term sheet, but he was only going to put in $1 million, so we took the board seat. The lead was essentially open, but the deal was negotiated. One of the things I liked was that he had negotiated a really good deal, for the most part. It needed some refinement, but the price was attractive, especially given how the business had developed since the term sheet had been signed three months earlier. At least I thought the price was attractive until I brought it up with my partners.

MJP: *Because they—*

SS: They thought the valuation was high. This is a company that had maybe $3-400,000 in revenue at that point, but it was subscription revenue, recurring revenue, which is a better business model than just selling products. And the valuation was 66 Pre — a $66 million valuation. And that seemed high to people. But to me it seemed cheap because I could see that they had a proven model for expansion, and I thought the risks were relatively low.

I had gone through the technology, I could see it was differentiated, hard to replicate. I could see the need for it in the market. The customer adoption was fabulous, the customers loved it. It was a viral application. Every time somebody set up a meeting with somebody else, they introduced a new potential customer.

So, it was just a natural, it seemed like an awesome business to me. I loved it. The leverage in their business model was incredible because once they had these servers set up and some connections to the Internet, the only margin costs of serving customers were customer acquisition costs and support costs, and these were relatively low. But it was the first business that had this recurring revenue business model, now made famous by Salesforce.com and some others. But back then nobody really understood it. It was a new business model, and I like new business models.

MJP: *Why?*

SS: Well, there's more opportunity to be disruptive if you have a new business model in any business because the existing competitors, by definition, have an old one. And if your new one has some advantage to it, it can be as significant as the technology. Think of eBay, for example, the business model.

MJP: *There's also something else that was happening then. It was 1998, and the world was starting to get really hot.*

SS: Starting to get hot, but it wasn't totally hot yet. You're asking how we got into WebEx. There's one other really important detail in this story, and that is that Peter Morris knew a guy named Joe Graziano, who was the former CFO of Apple, and he had a sterling reputation. And somehow, what I later pieced together but wasn't obvious at the outset, is that Joe Graziano had been a consultant to WebEx and was given a fairly generous stock option package. He had gotten into a serious disagreement with the founders and quit. He was actually poisoning the well on Sand Hill Road for these guys, and he was just really angry at how this altercation had unfolded. Somehow he found out that NEA was looking at this deal, and so he took it upon himself to call the guy he knew here, Peter Morris, and tell Peter what despicable schmucks these guys who founded WebEx were.

Peter then brought it up in the tech team meeting. He said, "Whoa, you better watch out. This guy I know and trust thinks these guys are dishonest and terrible people and all this stuff. Scott, I'm really worried about this." So, the whole tech team was concerned. But I wasn't too concerned because I decided these guys were trustworthy, so I brought them in for a final presentation.

MJP: *Min Zhu and—*

SS: I brought in Subrah Iyar, the founder of WebEx, for the presentation and during the presentation, Joe Graziano called NEA and had someone track me down. They slipped me a note and called me out of the partners' meeting. Joe then proceeded to tell me for the next half hour all sorts of despicable things about these guys, and how he thought they were dishonest and this and that and the other thing. Of course, I knew a little bit about it from Peter, but this guy was really agitated. Peter hadn't beaten it over my head. He would say, "Scott, I got a call from Joe Graziano, he has some concerns, you might want to follow up," that kind of thing.

But when Joe called, I couldn't even hold the phone next to my ear, he was so negative. And he was just going on and on and on. The lesson there was that I realized you always have to judge a data point for what it is, and what kind of filter needs to be applied to it. Dick taught me to beware of experts because they get nothing for saying something's right, they only lose if it turns out to be wrong, and they advised in favor of it. That's the problem with experts. But the problem with this guy was that he had an agenda. He wasn't calling to be friendly to NEA. He was calling to be hurtful to these guys, and that became obvious to me after the first ten minutes of this conversation. So, I kind of collected the facts through the conversation, but of course I had to report it back to the partners.

I go back in and I report it to the partners, and this big discussion ensues. Art Marks says, "Well, God, this thing, you know, I've seen three other companies that failed in this space, the space is littered with dead bodies, and Joe Graziano thinks these guys are dishonest," and all this stuff. Of course, I don't want to invest in a company that's run by dishonest people, it's the last thing I want to do. But I had this strong feeling the guy was wrong. And all of my data points were that the guy was wrong. And I had established a very strong rapport with these guys. This is where you have to be able to trust your judgment about people. So, the bottom line is I recommended we go forward, and we did. But it was extremely controversial.

MJP: *It wasn't unanimous.*

SS: Oh, definitely not unanimous, and maybe others voted against, I don't remember, but Art [Marks] certainly did. At the end of the day it turned out to be a great company, and it's worth $2 billion today, long after the boom.

MJP: *How long did it take for it to go public?*

SS: Not long, about a year and a half. It went public in July of 2000. I think we invested right at the end of 1998, if I remember correctly, it was about November of '98. It went public in July of 2000.

MJP: *In a very difficult environment.*

SS: Indeed. It was one of the last companies to get out.

MJP: *Tell me about that, and your role. Was it tense, exciting, easy, obvious?*

SS: There's so much to talk about with WebEx, I could talk for days about it. But as it relates to the IPO, Goldman Sachs was the lead underwriter, and I don't remember worrying too much about whether it was going to get out. I remember being worried about the valuation. And in fact, that was a justifiable worry, because just as it was hard for Subrah and Min to sell the conventional wisdom on Sand Hill Road, it was also hard for conventional Wall Street to understand. In fact, I don't think the guy who was the analyst for Goldman Sachs understood it.

MJP: *But it seems so obvious to understand, or is this after the fact, looking back, that of course conferencing on the Web with multiple users—*

SS: Trust me, Mauree Jane, it wasn't obvious at the time. The only reason it got public was that the financials were attractive, and it was valued at about a third of what it should've been valued at. And it was heavily shorted. And it was really controversial on Wall Street, and everybody was a naysayer. Goldman Sachs didn't know how to tell the story.

Anyway, it took about five years before the stock was really appreciated. Now, as I said, it's worth about $2 billion, but for the first three years it was probably worth $300 or $400 million.

MJP: *Why did you decide to take it public when you did? The profits weren't there.*

SS: The window was closing.

MJP: *And you all knew that, that's what I'm trying to get at. You knew the window was closing?*

SS: Yeah, we knew.

MJP: *How did you know?*

SS: Because the NASDAQ had peaked on March 14 of that year, and we took it out in July. And it was not a simple environment to take a company public, don't get me wrong. It wasn't easy. But we were sort of going on the wisdom that you get out when you can, and if you have enough money in the bank, the financial performance of the company ultimately will be rewarded when the cycle comes back.

MJP: *Are you saying you didn't lose sleep over this company?*

SS: Oh, I lost enormous amounts of sleep. But the going public itself part probably wasn't the reason I lost sleep.

MJP: *Did you lose sleep after that? How long did you stay on the board?*

SS: I stayed on the board another two years, probably.

MJP: *So, Min Zhu was still there.*

SS: Oh yes. I was the lead board member for that period of time. And there were some very interesting people on that board. Jan Baan, the founder of Baan Software, was on that board. He's a fascinating guy. And Vivek Ranadive, the founder of TibCo. Mark Leslie, the CEO of Veritas, who I recruited to the board, and the guy who was the CFO of JDS Uniphase — I won't bore you with all of them. But it was a pretty impressive board. And Min and Subrah, who had a fascinating partnership with each other.

MJP: *Tell me about that. Subrah Iyar and Min Zhu.*

SS: It would be an oversimplification, but Subrah ran the business as CEO, Min ran the technology and operations piece as President and CTO. But this business was unlike most businesses because they didn't just invent a technology and sell it to other people. They invented the technology; they created a service, which they then sold to customers. And in each part of that, they were pioneers. In a normal technology business, you make a piece of software or a piece of hardware, and you sell it to some enterprise, or maybe you make some kind of networking box and you sell it to service providers.

But very seldom does a company make a technology and also pioneer a new business model, and also a new sales model, and be the service provider that provides reliability to their customers. And that was a very tricky undertaking. And one of the implications of it was that it was very hard to hire a standard run-of-the-mill executive, because you'd say, "Well, I want somebody to run sales and marketing" — well, no one's ever created a sales and marketing operation like this one before. Or, "I want somebody to run technology," but most VPs of engineering are not also responsible for running the service. Because the technology's evolving, the person has to do both, which is what Min did. So there were all these complications, which meant basically we were inventing everything on the fly.

And one of the other things that were novel was that Min and Subrah basically ran the company as a partnership between the two of them. And because there were so many new things to invent all the time, it was much better to have two people working closely together with complementary skills, than just one who is clearly number one.

They never made any major decision without a lot of consultation with each other; they had a fabulous partnership, and they often disagreed about a lot of things. They had offices that were kind of like Forest's and my offices, that were right next to each other, and they would spend literally three hours a day talking to each other, back and forth. Well, sometimes they got into really big disagreements with each other. And guess who sorted those out?

MJP: *You did.*

SS: I spent a lot of time listening and trying to understand each of them. And that was one of my key contributions for four years. I spent a lot of time, nights, weekends, vacations and the like, because they worked all the time. They were entrepreneurs, immigrant entrepreneurs, who don't know things like vacations and holidays.

MJP: *Did you enjoy it?*

SS: I loved it, I thought it was great.

MJP: *Were you exhausted?*

SS: Of course, but it was challenging and rewarding because I knew I was making a difference. And I had such respect for these two guys. They were both older than I was. Subrah's maybe five years older, Min's about fifteen years older. So, to have the trust and respect of two people who are older than you is a big deal, and I took that responsibility very, very seriously. I formed a very close relationship with both of them. There were a couple of specific times when they were both, individually, at different times, incredibly pissed off at me over some stand I had taken.

MJP: *That didn't intimidate you?*

SS: Oh, Min, man, when he gets mad, very few people can take the wrath of Min.

MJP: *Why did you go off the board?*

SS: A couple of reasons. One is that I sensed that I wasn't adding as much value in the context of a sizable public company, which is what it had become.

MJP: *At what point, what size is it at this point?*

SS: At this point it was probably $100 million a year recurring revenues, growing 40 to 50 percent a year. And the kinds of people that had been recruited to the board were super powerful, big name folks. That was one reason. So I was sort of open to leaving the board, but I got into an altercation with Subrah, and he asked me to leave the board, and that's why I left the board.

MJP: *At that point it had gone public; NEA was out of it, so there was no reason to stay? What happened?*

SS: The altercation came about because I had been advocating that they should raise more money, that one of their problems was their balance sheet wasn't strong enough. And I in fact said that I was willing to sponsor a PIPE into the company. Subrah assumed I was advocating this because it would be advantageous to NEA.

I think it was difficult for him to understand that my agenda might actually be pure and simply for the purpose of the company, or at least that I thought it was advantageous whether NEA profited from it or not. What Subrah suspected was that I just wanted to invest more money and make more money because the stock price had been beaten down, and they felt that it was unfairly valued.

So I was saying, "Just let us invest at $8 a share, I'll put in $20 million or $10 million or something." The partnership had approved it. But they said, "No, the price should be

$10." The stock was trading at like seven, eight, maybe. So, I said, "No, look, the market says $8, it should be $8." So they got Alex Brown to raise a private placement for them. And it got done at $10. And they left us out. But the fact that we were part of it up until the point it got done helped them get it done, of course, and then they left us out. I felt a bit used. Subrah was pissed off because he thought I was lowballing him and taking advantage of the fact that we were already investors, and that we, by virtue of our position, we were getting an unfair shot at the company.

MJP: *It's interesting that you have — obviously, what I know about Northern Light and your relationship with Min Zhu — you have stayed in a working relationship with Min Zhu. How did that take place?*

SS: Interestingly enough, I had really pissed off Min before that, but we were back on good terms.

MJP: *You're very honest, and I appreciate this.*

SS: Well, it's important to understand because this happens. I think one of my strengths is the ability to maintain relationships through very difficult things, even when they sometimes get very strained, and go back and repair them. I don't have many enemies out there, I think, because I care a lot. If I care about somebody enough to build that kind of relationship, I don't want to lose it. And even if they do something terrible to me, I will very seldom burn that bridge. I can't even think of somebody that I've done that to.

MJP: *You left Subrah—*

SS: I left. It was a peaceful thing.

MJP: *The time was right.*

SS: So, fine, I leave. Then Min starts coming to me with all these startup business ideas he had that he thought were great startups that we should fund, and he would fund alongside us, and stuff like that. A lot of them were from the Chinese network that he had.

MJP: *And at this point it's 2004?*

SS: God, no, it couldn't be that much. I left in probably 2002. It was right before Enron, whenever that was. It was probably February, and Enron blew up in March or April or something like that because the other reason I got off the board, honestly, was it started to appear to me that being on public boards was a dangerous place to be. So, I got off Mission Critical, which was then Net IQ, at the same time. I had tried to get off Net IQ a year earlier, and they wanted me to stay on because they were doing a CEO transition, so I agreed to stay on a year longer than I wanted to on that one because that's what the company needed.

MJP: *The partners wanted—*

SS: No, the board members at Net IQ wanted me to. Suffice it to say that as early as 2001, it started becoming clear to me I didn't want to be on any public boards. And so when this worked out the way it did, and Subrah said, "You know, maybe you should step down," I said, "Fine with me."

MJP: *Tell me the story of how you continued with Min.*

SS: Min started bringing me these ideas.

MJP: *And assume I don't know about Northern Light, which gets into globalization and all sorts of other things.*

SS: So it does. One footnote on globalization: When I left the WebEx board, they already had 800 engineers in China. They had a subsidiary, a Chinese company that employed 800 people that worked for WebEx, and it was run and owned by Min and his wife, which was a subject of great controversy on Wall Street because they thought there was some kind of corruption, which there wasn't.

But it was speculation on all the Yahoo! message boards. So, anyway, the upshot of this is that Min comes to me, and he's now interested in being an angel [investor] on the side, so he's bringing me all these ideas. But to begin with, most of them were just wildly silly ideas, I thought. He hadn't calibrated his gut as an investor at all.

But Min is incredibly enthusiastic about anything he gets interested in. So, it quickly became my key skill set to figure out how to gently keep Min from investing his money in all these things, or at least not investing NEA's money alongside him. He did make a bunch of these investments, and I don't think very many of them worked out early on.

But what I noticed was he started getting better. (Laughs) And he's such an incredibly brilliant guy, and can see things most people— I mean he can see what's happening in the future from a technology perspective like very few people. And he is just an incredible entrepreneur.

MJP: *There is very interesting background information about Min Zhu and his experiences in China on the farm, and his educational—*

SS: Have you talked to him about that?

MJP: *No, I've never met him, but I did enough research, and I think it fills out your story.*

SS: Well, I can give you some of his story if you want, either today or another time. He's got an amazing life story, one of the most interesting I've ever come across. When I left the board, Min started inviting me to go to China with him, and eventually I agreed. And he took me on a one-week trip to China.

Min and Paul Hsiao [a young associate at NEA] and I went to China for a week. I had brought Paul on as a Kaufman Fellow at that time. By the way, it's not an accident that I brought in a Chinese Kaufman Fellow before I ever went to China. I had long thought China was going to be an important place for us, and to me it was only a question of calibrating that and figuring out if and when and how.

So, I went to China, I got real excited about what I saw. On my very first trip there, Min introduced me to an old buddy of his named Datong Chen, who was the cofounder of a company called Spreadtrum. And in that very first meeting with his cofounder, Ping Wu, it became clear to me in the first twenty minutes that we should invest in that company, which we did, and it was the largest ever first-round investment that I've sponsored, $23 million, bought 20 percent of the company, maybe more than that, I don't remember exactly.

And that was also at about 60 pre at the time, which seemed like a really high price to a lot of people. But one of the characteristics of that and the WebEx investment was my certainty that they were going to work. It was very clear to me that they were going to work.

MJP: *Why? Because the technology was needed, and the world would tap into it?*

SS: And the business model was proven. I could just see it happen. And other people were still looking at what was missing, and to me it was obvious that those things would be filled in. And when they do, the price will be much, much higher. So we better get in now. And that was the basis on which I made the investment. I love to make investments on that basis, to just calibrate the risks really differently than everybody else. But the key characteristic is being able to have conviction that something will happen.

MJP: *What's the name of that investment?*

SS: Spreadtrum Communications. These guys invented the first single-chip TDCDMA base-band chip for cell phones, and the software that runs on top of it. So, to me the investment thesis was the largest semiconductor market in the world, base-band chips for cell phones, the key computing platform of the decade and maybe the next one, the cell phone. All the innovation in computing is happening there, and they have the equivalent of Intel and Microsoft in their company for that. And they have a new business model, which is a hybrid company where—

MJP: *And why is it that they have Intel?*

SS: Well, they make the chip. Intel makes the semiconductors for PCs, and Microsoft makes the operating systems. Spreadtrum had the same thing for cell phones. Now, they didn't have the dominant platform in the industry. There were other companies much bigger than them who already made such chips. But they had the most integrated and advanced architecture.

MJP: *This was when?*

SS: I met them in 2003, we invested in April of 2004. And they also had just taped-out the first TDSCDMA-based band chip, which was a fully integrated, single-chip solution to China's first mobile standard, TDSCDMA. Three weeks ago when I was in Beijing, the government had just announced that they issued the first licenses to the carriers for TDSCDMA deployments, which is very exciting.

MJP: *And we know what the market is, potential market is.*

SS: Largest and fastest growing mobile market in the world, China. Their business model, which involves designing the chips in Sunnyvale, California, and putting the rest of the company in China, where labor is cheap, targeting the Chinese market, which is much more wide open to new vendors, for reasons I won't bore you with in this conversation, but which were obvious to me at that time.

So, I was very certain this was going to work at some level, and that, back to my old thesis, I could sell this tomorrow for more than we paid for it. But in this case I was looking for something a little bit more because I had turned my attention away from minimizing the downside and hoping for a good upside; or from things that I thought would be a decent upside and might have a great upside, to things that I thought would have really big impact, would be potentially really big companies, that would be material to NEA's funds of the current era, which are of course much bigger. And I was willing to bet bigger dollars to get there. So, that one definitely went through some real struggles.

MJP: *Inside NEA.*

SS: Yeah. I don't remember it being enormously controversial, although it was certainly challenged.

MJP: *Where did it go through the struggles?*

SS: The company struggled. It took longer to get into the market successfully, took a lot more energy, team-building. But that one is now on a really good track, and Morgan Stanley's signed up to take them public. I'm flying to China on Monday for what I'm hoping — and I'll find out at the end of today — will be our last board meeting before we file to go public.

MJP: *Exciting, Scott. So by the end of 2006 it will go public?*

SS: 2007, it'll go public in Q2 of next year according to our current plan. Who knows?

MJP: *But this wasn't an investment with Northern Light. Tell me about Northern Light.*

SS: That came later. Spreadtrum was my first investment in China. And because we had quarterly board meetings and some other ones as well, it got me on a regular schedule of going to China, and I recruited Min to become a venture partner, and along that path—

MJP: *Because you wanted an ally inside China.*

SS: Definitely. He was moving back, and he was leaving WebEx, that's another long story. But he left WebEx, he wanted to be an angel investor. I convinced him to become a venture partner. He went back to China, we started making co-investments together, his personal money and NEA's money.

And we formalized that later into something called Cybernaut, but initially he was going to be a founder of Northern Light, which he is one of the founding investors in, but turns out not to have become a founder of it. But he did bring the concept to me. And the concept involved five famous Chinese entrepreneurs, three of whom I knew personally.

They were going to form the first venture firm in China founded by successful Chinese entrepreneurs. They'd each founded a company worth more than a billion dollars in the U.S.: Omnivision, which was a chip company; two were the cofounders of Netscreen; one was a founder of Linksys; and Min was the cofounder of WebEx. All were massively valuable companies. Each of them made hundreds of millions of dollars, I believe.

The five of them were brought together by a guy named Feng Deng. In Chinese it would be Deng Feng. Americans pronounce it Feng Deng, and put the first name first. If he came in here and introduced himself, he would say "Feng," because that's how you would pronounce his name, but in China it's "Fung," and I always call him Fung.

Feng is a super compelling guy, and I had been introduced to him by Min and also by Kittu Kolluri, who is now a general partner with us, but had been in four NEA portfolio companies, one of which I was on the board of. I immediately spotted Feng as a really compelling guy, and I started trying to get to know him.

The reason Kittu knew him is that his company, Netscreen, bought Kittu's company, Neoteris, which was then merged into Juniper, where Dick was on the board. And the CEO of Juniper didn't like the CEO of Netscreen, so he got rid of him, and he took Kittu, who was the CEO of a much smaller company that Netscreen had acquired, and made him the head of Netscreen and Neoteris, and Feng was the CTO of that group, so they worked very closely together and knew each other very well.

So, Kittu, who was always bringing me good things, said, "Hey, you really ought to get to know this guy," so I started getting to know him. I tried to recruit him to be a partner of NEA. I thought this would be a great way to start our China practice, but he wanted to start his own firm. So, then I started cooking up this idea together with Feng and Min, and I don't remember who—

MJP: *Because you're the NEA point person in China, aren't you?*

SS: Yes. So, what coalesced was the idea of creating this new venture capital firm called Northern Light with these five founders. We were going to do it with Sequoia because Sequoia had backed Feng in Netscreen, his first company. In the beginning, Feng was really high on Sequoia, but he came not to be so high on them through this process, and ultimately they parted ways and they weren't part of it.

So, then I introduced him to Greylock and Aneel Bhusri and John Doer at Kleiner Perkins, and both of them wanted to do it, but Aneel beat John to the punch, so he got the deal, and he and I are on the advisory committee with Don Pascal from Common Fund and the guy who's the head of the Princeton Endowment, Andy Brown. Anyway, we just had our first LP meeting in Beijing a couple weeks ago, that's why I was there, and they're off to a very good start.

MJP: *How large is the fund?*

SS: $120 million.

MJP: *And how much is NEA spending?*

SS: Ten, and Greylock is in for ten, the founders are in for twenty, some strategic individuals are in for another ten, and the rest is from LPs. They have got some very good LPs.

MJP: *Why didn't NEA invest more than $10 million if you believed so strongly in it?*

SS: It's a good question. NEA has had a bad experience in earlier years with affiliated funds, and so I didn't want to go too far out on a limb there. I thought $10 million was about right.

A lot of people asked me, "Why would you want to create a competitor?" But what I saw in China was that there weren't enough good local partners, so I wanted to create a good local partner. If they become wildly successful and we've helped them be successful, I figure that would accrue to us eventually. That's sort of how it's playing out. Anyway, that's how Northern Light came to be. But by the end of it, Min decided he wanted to be on his own, and he didn't end up being a founding general partner, he ended up being—

MJP: *Did the lawsuit, which we don't have to go into right now, have anything to do with his decision?*

SS: Quite a lot.

MJP: *Just a little sidebar there.*

SS: That's another three-hour conversation, which I'm happy to go into.

MJP: *We'll see. Maybe it's another interview; I'll ask Chuck if he wants it — it's on the Internet to a certain extent.*

SS: It's on the Internet, but the full story is definitely not on the Internet, not even close. The accusations are on the Internet, but the real story isn't on the Internet.

MJP: *And the fact that there's a resolution, and Min paid an out of court settlement, as it were, something like that. That's the conclusion, right?*

SS: I don't feel like there's a resolution. I'm quite confident that if Min wanted to challenge what's been accused about him, he could successfully do so, but he would have to drag his family through the court system, and he's not prepared to do that, and that's why he's not at Northern Light. Because in order to satisfy the limited partners in Northern Light, he would have had to do that.

MJP: *Interesting. There's always a story, and then there's another story, and then there's a story under that. Well—*

SS: I have spent months of my life in that story, over many years. Some of which the NEA general partners know about. They know about the important stuff, but how much work it took, it's a lot.

MJP: Are you doing business, other business, with Min Zhu?

SS: Absolutely.

MJP: *Describe Min Zhu. You said he was intense.*

SS: He's 58 years old, he's about six feet tall. He's got a very athletic build, he's very fit for a man his age. He's a very distinctive-looking guy. If you ever met him, you wouldn't forget him again. He is intense, incredibly passionate, very excitable, quite emotional, much more so than your normal reserved Chinese person.

Culturally, he's more exuberant, I would say, than is often the case in China. He had such a difficult life, the short version of which is that he was selected as one of the smartest high school students in all of China his senior year in high school, which would've led to great things were it not for the fact that the Cultural Revolution happened at that moment, and intellectuals were then banned to the countryside and put in forced labor camps. And having been singled out as one of the smartest, he was treated among the worst. He was sent to a labor camp for eight years. And that's a very long and interesting story, which he's told me parts of. But at the end of the eight years, he came out of it married with a child, and was able to win a scholarship to university.

And when he finished university, at the age of thirty-six, he won another scholarship to come to Stanford University. He left his family behind for the first year because he had no money, and the meager scholarship that was provided by the Chinese government, I think, to come to Stanford was not nearly enough to support living here. So, he worked all kinds of odd jobs and lived in a hovel somewhere in somebody's backyard for the first year in Menlo Park, of all places, while he went to Stanford. Second year, he became an apartment manager of an apartment complex in Menlo Park, which gave him, as the manager, an apartment where his family could live, and he brought them over.

When he graduated with a degree in what amounts to engineering management, he got a job at IBM in their research center, the Almaden Research Center, which is a pretty famous place, without knowing anything about computer science. At that time his job was to be a computer researcher. So, his son, who was fourteen years old, who had also been, interestingly enough, selected as one of the smartest kids in China in high school in his junior year back in China, while Min was here at Stanford at graduate school. His son was selected as one of thirty students to go one year early to Tsinghua University, and instead they brought him here and put him in Los Altos High School, which was a complete bore. And so the next year, at age sixteen, he went to Stanford, graduated first in his class in engineering. And while he was there, he won the Terman Engineering Prize, which is a really big deal.

He's a great kid now, by the way. He's working with his dad back in China. Lei is his name. Min has, by his own admission, been too tough on his kids, just really demanding and having super high expectations, as you would expect maybe from Asian culture, but multiply it by ten. He's no tougher on them than he is on himself, but he's brutally tough on himself. Anyway, he had his fourteen-year-old son, who had become very smart with computers, teach him everything there was to know about computers, so that he could become a researcher at IBM and succeed. He didn't know anything about computers through his educational experience, until after he had gotten out of Stanford, and he's totally self-taught, and becomes one of the most visionary computer architects ever to walk through Silicon Valley, starting in his late thirties.

Because he started in his late thirties, and spent eight critical years in a labor camp, he always feels like he's in a hurry to do things. So, anyway, he worked at IBM and eventually started this company, which had the core technology of WebEx, and it got sold to Quarterdeck, I think it was. And when he was at Quarterdeck, he met Subrah.

MJP: *He was at Future Labs, right? Future Labs, I think, is the thing he created.*

SS: He co-founded Future Labs, one of the first companies to produce multipoint document collaboration software.

MJP: *Okay. And then Quarterdeck acquired Future Labs in '96, and Min went on at that point to found WebEx with Subrah.*

SS: Right. Subrah was a business development guy at Quarterdeck, and he and Min cooked up the idea because Quarterdeck was ignoring Min's technology. They said, "Well, we'll spin it out," so they did, and that became WebEx. It was originally called something else. Anyway, they got Jan Baan to put in $10 million after struggling for a while. He was a real visionary in seeing the potential long before anybody else, and it was two years later that we came in.

MJP: *That's a great summary, and it's a great story, so thank you for that. With the remaining time, I'd love to talk about the bubble. Here are a few statistics, to put this in context. Chuck wrote in his book, "The decade of the 1990s is a time of incredible growth for information technology venture investing. Capital under management by venture funds increases from $31 billion in 1990 to $228 billion in the year 2000, and the number of venture capitalists increases from 3,800 in 1990 to 8,000 in the year 2000." So, my questions to you are: What caused the bubble? How did you experience the bubble? And, if you can, tell me some stories that would capture the drama, the excitement, the challenge, the pain, the joy.*

SS: Wow. Of course, the bubble was all about the Internet, and the Internet for me started in 1993. Or was it 1994? I graduated from Stanford with an MBA in '92, then I went to Microsoft, and I left Microsoft sometime in late '93. So this was the spring of 1994, and I was doing my consulting stuff at that point. I had this one consulting project which I got fired from in March of 1994, which is another story unto itself, but since we're not talking about that today, we'll come back to that some other time.

But there I was, I had nothing to do, and I went windsurfing in Venezuela with a bunch of friends who were in their second year at Stanford Business School, in Marguerita. It's an island off the northern coast of Venezuela. Never been windsurfing in my life, went there for two weeks, learned a lot about windsurfing, had a great time, and licked my wounds and thought about life.

When I came back, there was a message on my answering machine from one of my Stanford classmates. And somehow, the Valley being small (I left three days after I was fired), word had spread. This classmate had found out that I had been fired, and he called me to let me know that he had been offered a consulting position by a guy named Pehong Chen at a small startup called Broadvision. He couldn't take the job on, so he wondered if I was interested. When I got home, I picked up the phone, I called Pehong. He said, "When can you come see me?" I said, "When are you available?" He said, "9:30 tomorrow." I said, "I'll be there." He had this little office in Redwood Shores overlooking a lagoon there.

And I went in, and he hired me on the spot. Pehong had founded a company called Gain Technologies with another guy who's a professor at Berkeley. Pehong got his PhD at Berkeley in computer science. And these guys were technologists, they invented some technology, and they hired this young guy named Tom Siebel as their first sales guy, who of course went on to found Siebel Systems, another high-flying company, soon to follow.

They flipped Gain to Sybase, and each made $100 million inside of about a year and a half. So, Pehong was a very wealthy man back in 1994, and he had this falling out with the other guy, who went back to Berkeley, and Tom Siebel didn't get very much out of that deal, which made him really hungry to found Siebel Systems.

Pehong, though, had started this company funded by Sutter Hill, and I think Mayfield. On the back of a napkin, he raised $7 million because he'd been so successful with Gain, everybody was falling all over themselves to give him money, really didn't have any idea what he was going to do with this company, but had had this idea of interactive television, which of course Silicon Graphics delved into a little bit, too. You know that side of the story.

By the time I came along, Pehong was probably a year into this company, and there were seven or eight people at the company. What I didn't know, but he did, is that he'd figured out that interactive television was probably a dead end. And he hadn't told his board that, he hadn't told anybody that. But meanwhile, he noticed there was this thing called Mosaic Communications, which became a thing called Netscape. And it was funded by Jim Clark. And so he was intrigued by it because he thought Jim Clark was a pretty clever guy. But somewhere in his past, he'd had dealings with Jim Clark and Jim Clark didn't like him very much. Pehong wanted me to learn everything there was to know about the Internet. That was my assignment, in the beginning of 1994, starting in about— Well, let's see, I got engaged in February, fired a month later, got hired in about April. And for the following four months before my wedding, I did this project. One of the things that Pehong wanted me to do was go talk to Jim Clark, and find out what he was doing. So, I remember going, it's the first time I met Jim, and I later got to know him pretty well through Neoteris because we were on the board there together.

But he was giving a lecture at Stanford Business School, and I went to the lecture, and I just waited for everybody in the auditorium to leave at the end of the lecture, and I went up to him and I told him that I was working for Pehong, and I was interested in the Internet and what he was doing, Mosaic Communications.

He said, "You're working for who?" I said, "Pehong Chen." He said, "I don't want anything to do with him. If you want to talk to me representing yourself, that's fine, but I don't want to talk to you if you're working with Pehong." Like, whoa. But that was a data point, and that led me not to work with Pehong. Not too much because of anything he did to me, but I picked up vibes out there that made me nervous. He later offered me a job at Broadvision, and I decided not to do that.

MJP: *So we're talking about the Internet and the bubble, leading up to the bubble.*

SS: We are, in fact, but these are important figures in the Internet, and this is very early in the life of what became the Internet. This is before anybody knew what was going to happen.

Meanwhile, back at NEA, Jim Clark brought Dick Kramlich that deal called Mosaic Communications, and the guy who was my predecessor, called Alex Sluski, was assigned by Dick to make sure he didn't drop that ball.

NEA quibbled over the price, Dick offered $12 million pre, and Jim said, "I want 18." This of course is written up in the book *New New Thing* if you want the gory details. To help decide on the price, Dick sent Jim to see John Doerr at Kleiner Perkins. Jim went to see John, John said, "Eighteen's fine with me," and they never came back to NEA, and Doerr put in $5 million all by himself on behalf of Kleiner Perkins, and they made $622 million on that deal, just Kleiner Perkins did, one of their best deals ever. And some of the partners back at NEA didn't feel too good about that.

But anyway, this is the beginning of the Internet, what I'm telling you. And what I learned in that four months was probably as much as anybody on the planet knew about the Internet. And I went to Pehong at the end of that four months, and I said, "I don't know anything about interactive television, Pehong." I made a presentation, it was about this thick, you know, with hundreds of slides, might have a copy of it somewhere, about the Internet to his management team. And I said, "I don't know anything about this interactive television, but let me tell you, the Internet is a very interesting thing, and you would be really smart to pay attention to this." And I gave this whole pitch, and then I went away and got married and went on my honeymoon, and when I came back he called me and he said, "Do you want to work here? Because we're going to pursue that." And I said, "Thanks, but no thanks," and little did I know, Darlene Mann, who went later on to work for Onset, was the VP of marketing then. I got to know her from that experience, and we're still good friends to this day, but she told me later that right after that meeting, they basically killed the ITV business, interactive television, and Pehong said, "We're going to figure out how to make money on this Internet thing. Everybody's job is that. Forget everything there is to do about interactive television," and Broadvision started making e-commerce software. This is the software that allows you to sell stuff on the Internet. Because one of the things I told him is, "People are going to sell stuff on the Internet, and here's why." And so he said, "Aha, well, they're going to need software. Let's build the software they need to sell stuff," and that company was valued at about $10 or $12 billion or $20 billion or something like that at its peak, one of the huge high flyers. Sutter Hill made $1.2 billion, I think on that deal, just by the by. And I had a few shares of Broadvision, actually, so that didn't hurt me any. I made a small amount of money. The upshot of all this is, that was my introduction to the Internet. And then about a year later, I came to NEA, as I've described.

And when I got here, I was real interested in the Internet, but the thing I thought was most obviously interesting was e-commerce, and I couldn't see how to make money at it, other than what we called picks and shovels investments, akin to the Gold Rush — sell picks and shovels to the gold miners if you don't know where the gold is, and you'll still make a fortune, or sell Levi's jeans or whatever. Those are the kind of investments we were trying to make. But the big money was in finding the gold. And we as a firm didn't really find the gold. I think on the one hand, I kind of subscribed to the conservative notion that these were all new business models, and it wasn't clear how to make money, and the valuations got out of hand pretty quickly, and people were paying for eyeballs.

If you could get people to come to your Web site, people would pay for that, even if you had no revenue. People took companies public with no revenue, and they were worth tens of billions of dollars with no revenue at the peak. And my experience was that we were always one or two steps behind becoming comfortable with the rationale for why to buy into those businesses. And during the bubble, not too many of those survived, but if you hit one of the jackpots, it was $50 billion today, after the burst of the bubble.

MJP: *You mean like a Yahoo!*

SS: I'm talking about Yahoo!, eBay, Amazon, later Google — $150 billion market cap today.

MJP: *Of course, the very thing that kept you from making the billions kept you from losing your shirts, would you say?*

SS: Yes. But there were a lot of people who made an awful lot of money on businesses that were never real. And they made an awful lot of money. The Valley is filled today with people who, at the age of thirty or thirty-five, made $100 million or $50 million or $20 million, or $10 million. There are so many of them, you can't even believe it.

MJP: *Do you lament NEA's approach, are you sorry?*

SS: I think we missed it.

MJP: *Why?*

SS: I think we missed it because we were too conservative, and I think that's one of our weaknesses. We bet on stuff we know about, and we're a little too conservative about stuff we don't know about. And the great venture firms jump in before it's all clear. And we're still learning how to do that.

MJP: *Interesting. When the bubble burst, when it became obvious that revenues for the most part did matter, then how did you feel about that? You became a partner in 1999?*

SS: I became a partner in '99, and a general partner in October of 2000, when we raised NEA 10. It was a fairly inauspicious time to become a partner.

MJP: *My question is how did you feel? Were you scared?*

SS: To be a partner, you mean?

MJP: *Just to keep going in the venture business? Here, you had to prove yourself yet again on another level.*

SS: Totally terrified.

MJP: *Everybody was. But you were in a very vulnerable position.*

SS: I had only made a small amount of money because people are progressed slowly here relative to the rest of the industry. And a lot of my peers at other firms, who did a lot less well than I did as an investor, made a lot more money, a lot more money, even if they didn't make any hits themselves, they were just in the firms, got more carry earlier.

I have a lot of friends who have $50 million today, and I don't. And that actually makes me a lot hungrier than those people are, which may or may not turn out to be a good thing in the end, but it's certainly got me working a lot harder than they are now. And no small part of that drive is that difference.

MJP: *How did the bubble influence you? One, you're working harder. Two, are you less conservative? Are you looking at China because—*

SS: I'm more willing to take risks when I see something new. I don't want to miss the next big wave. I think China's a big part of the next big wave. The bigger trend is the emerging markets, globally. And I sort of look at that, and I say, Okay, call me foolish once, it's somebody else's fault. Foolish twice, my fault.

And I look at China, and I look at alternative energy and some of these things that I've helped us get into in a fairly aggressive way, but I think in the grand scheme of things, a very sensible way because we're not risking the firm, and we're not risking large percentages of our capital. But we are being aggressive, and having big funds does give us the advantage to invest aggressively in dollar terms, in ways that turn out not to be that aggressive for the funds overall. We will invest less than 10 percent in emerging markets in any of our last three funds. We only have 5 percent invested today, and we're one of the biggest investors overseas.

MJP: *And you have a huge fund.*

SS: We have a huge fund.

MJP: *So, 5 percent of a huge fund is—*

SS: We could write off the whole thing, and it wouldn't kill the fund.

MJP: *Interesting. I've never heard it quite expressed that way.*

SS: I worry more about our domestic investments, truthfully.

MJP: *Why?*

SS: Because we have huge exposure domestically, and some of these things that we're exposed to, entire sectors, are not necessarily all that healthy.

MJP: *Which ones?*

SS: With all due respect to health care, the long-term future looks bright, but the promise keeps taking longer and longer to materialize. I sure hope it works out well in the end, but how long and how expensive it is to get there is unclear.

MJP: *How about India?*

SS: It will be great, it's behind China. I'm sure India will be great, but it'll be slower to develop, and in some ways it has advantages over China, which I'm sure you know a lot about, talking to Mark about it. But—

MJP: *Assume I know nothing.*

SS: Okay. Well, it has had democracy for fifty years, a diverse culture. The country speaks English. They have a system of laws which is recognized by the outside world, and tends to be fairly well administered internally. They have a stock market locally, which China doesn't yet have, but is quickly developing. Those are probably the main things.

MJP: *But what does China have that India doesn't have?*

SS: China has command-and-control government, which is able to be much more aggressive at laying down the infrastructure, which is the foundation of the economy. They have a much better manufacturing sector. They're manufacturing stuff for the rest of the world. India's still an agricultural economy. So, China has created, in the same way we did in about

1950, a low-cost manufacturing export economy. They are creating a rapidly emerging middle class, similar to what the U.S. did in the fifties and sixties, which has purchasing power to buy stuff domestically, which India is a long way away from having. They have it, but it's a long way behind. I mean if China's middle class is 300 million, India's might be 30. I mean that's how far behind they are.

They both started growing fast in the late seventies. China's averaged 9 percent per year growth of its economy, India, 6. Compound the difference in those over thirty years, it's a big difference. So, the economy is massively larger in China. And they I think have rightly recognized that liberalizing the economy before the government is the wiser strategy.

Russia did the opposite. They liberalized the government with perestroika and so on, and the whole thing is a mess. Basically, they have democracy, but now it's becoming totalitarian again.

MJP: *You know, Scott, in just ten years — I know you've been in the business world for longer than that — but in your active ten years in venture capital, look at what you've seen.*

SS: I feel like I've gotten a pretty good education. I feel extremely fortunate in the sense that I've had this incredible perspective on the last ten years. A couple years of normalcy, couple years of insanity in the bubble and the upside, a couple of years of the worst of times on the downside, and now returning to normalcy, but in a fundamentally altered world, with globalization becoming a dominant force, the maturation of industries like information technology leaving fewer opportunities anywhere, but especially domestically, at a time where there's still a gigantic flow of capital into the venture business, which makes it challenging to get good returns, because, you know, it drives valuations up. There are too many people chasing too few deals.

MJP: *But in a way, just in the ten years, you started in a revolution with the Internet, and now this is a different kind of revolution. Globalization is another kind of revolution.*

SS: Yes, it is.

MJP: *So, in ten years you have experienced and participated in two revolutions, and you, personally, are helping lead the edge of this revolution of globalization.*

SS: I don't want to miss this one.

MJP: *Yes, and you keep learning from what didn't happen, or what you see others did or didn't do, both ways. That's a great skill set. Chuck has a thesis that venture capitalists have hypo-manic personalities. I don't know if you've heard him talk about this.*

SS: A little bit.

MJP: *I'm going to define it for you. "Hypo-mania produces" — and the reason I'm reading this to you is I'd love you to react to it in terms of yourself, and then we'll go from there — "Hypo-mania produces elevated levels of energy, creativity and risk-taking. It helps explain why some men and women are natural entrepreneurs. There's an irrational exuberance. A genetically-based condition that endows people with high energy, creativity, accelerated thinking, inflated self-esteem, impulsivity, aggressiveness, and a propensity for taking risks." His thesis is that that's what makes a great venture capitalist. Do you think you are hypo-manic? Do you identify with an irrational exuberance?*

SS: I have some of those characteristics, for sure. I think I have all of those to some degree or another. Not always. It comes and goes. There are definitely down times that I notice, where my energy level goes down. I wouldn't call it a funk. But I go through periods where I'm not like that. I've gone through some where I'm a little depressed, but not, I don't think, clinically depressed, but enough that I notice it.

MJP: *It's work related or energy related? Just gets overwhelming?*

SS: It's not necessarily about being overwhelmed, either. I don't know why it happens, but it just happens. And then it goes away, and away you go.

MJP: *On its own.*

SS: On its own, yes. And they don't tend to be too long. They could be anywhere from a week to two or three months. But I would say that's 20 percent of the time, max, 10 to 20 percent. The rest of the time, I'm usually charging ahead at a thousand miles an hour. And a lot of what you describe there, I definitely see. But I would say it's tempered with a certain conservatism.

I take very calculated risks. I take — no, I do not take risks that I think are irrational. I can explain every risk that I'm taking, and why I think it's a good risk–return equation. One of the reasons I'd rather be in the venture business than be an entrepreneur is that venture capitalists get to have a portfolio, and I appreciate the value of diversification, which Chuck has taught me more than anybody.

MJP: *And that's a way to moderate risk.*

SS: Absolutely.

MJP: *What would you say about other venture capitalists? Do you agree with his thesis?*

SS: Some of them, for sure. John Doerr, absolutely; Vinod, totally. I don't know about Dave Marquardt, who I think is also a great venture capitalist. He made so much money so early in his life, he seems sort of lazy now.

MJP: *He invested in Microsoft, right?*

SS: Microsoft, Sun, Seagate, all in his first three or four years in venture capital.

MJP: *Well, there's pressure and ego.*

SS: Oh yes, there's a lot of pressure.

MJP: *Where does your sense of pressure come from?*

SS: Entirely internal. I don't sense any particular pressure externally. I mean, it's there, but it's so much lower than the pressure I put on myself. So external pressures are not really the driving force.

MJP: *That's consistent with how you've always been, the way you describe it, your competitive spirit in wrestling or in rowing.*

SS: That's true. I recognize there are external pressures in the world. They are not nearly as strong as the ones that I put on myself.

MJP: *Right. One of my questions was, did you ever doubt yourself, do you ever doubt yourself?*

SS: Yes, absolutely. I have all kinds of insecurities.

MJP: *Does it work to your advantage?*

SS: I think sometimes it does.

MJP: *You don't hold yourself back from persevering or exploring or learning.*

SS: I've always had intellectual insecurities; I think I might've described those early on. Those will always persist. I don't know how to describe it exactly. But I also think that I'm very smart in certain ways.

MJP: *A lot.*

SS: It's sort of weird that way. I can never forget how hard my early schooling years were, and I don't know how to resolve — although this test I told you about helped a lot — I don't fully know how to resolve the fact that I was such a poor student early on, and now I feel like I can keep up with just about anybody.

MJP: *The standards are so incredibly high, they're almost unreasonable, and in fact they are unreasonable. You're an obvious overachiever. You get an A-, and it's, "Why didn't I get the A+?"*

SS: Absolutely.

MJP: *And that's so unfair, but it drives you, doesn't it?*

SS: I would never describe myself as a perfectionist. I know people who I think are perfectionists; they cannot let anything be done less than really well. My father was a perfectionist, Jennifer's a perfectionist. I have no trouble letting a lot of things be done really badly, but they can't be the important things.

MJP: *Aren't you lucky you know the difference?*

SS: I try to, and sometimes I make mistakes. But I make decisions about what's important and what's not important, and I just ignore the non-important stuff. And I don't think about it, and I don't worry about it too much.

MJP: *How did you get the insight and—*

SS: I mean, look at my desk. I've got piles and piles of papers in there. And I was sitting there just yesterday, talking on the phone, and I looked down and I saw these two piles of papers, which I realized I'd put there because I thought they were somewhat important, but I haven't looked at them in a month. I hate to think of what's in there.

MJP: *Your system works for you.*

SS: Mainly, the important stuff is in my head. I don't keep lists. I do, but I never look at them. Sometimes it's helpful to write it down, but the important things will be in my head.

MJP: *If you look at your track record, one, you are successful, and you deserve all the confidence you should have. And two, if you look at the respect that others have for you, you're a core member of a partnership. You've chosen a partnership where, as you said in the very beginning of this interview, integrity is valued, and working together is important. You could've gone on your own, and you didn't, so you must like partnership. How do you feel about partnership?*

SS: It's funny. You know, Chuck will be amused by this, but the guy who really helped me to appreciate a partnership is Stewart Alsop. Stewart came, I think, a year or two after I did. He came as a venture partner, a much more senior guy than I was. But we worked together on a lot of stuff and I got to know him pretty well.

And he was just so jazzed about the notion of a partnership from the very beginning, he thought this was the coolest thing imaginable to be in a partnership. As a junior guy in the organization looking up and seeing all the inefficiencies (because partnerships are not efficient), it had not occurred to me that partnerships have virtues, too. They may be very effective, but they're not efficient. In my experience, the partnership gets the important things right, and the really important things right when they need to be gotten right most of the time. But the somewhat less important things take longer to get resolved than they would in a command-and-control company with one person at the top who can just make a decision. Here you have to have some consensus emerge with some subset of the partners who take enough of their time to champion the cause.

So, it took me a while to really get excited about partnerships. Then I started to see the power of partnerships, and not just because I was moving up in the organization. I think it's quite a remarkable thing to consider that we have twelve partners who manage $8.5 billion, and by and large do it reasonably well.

I think the core of why it works well, which is one of the reasons I think NEA has been more successful at scaling than other firms, is that there has been a high degree of trust among the senior partners. We come together for three hours a week and we make decisions, and what are we really doing when we make those decisions? We're saying, I trust you, so and so, with the power to operate within a set of guidelines, usually making a pretty important decision we're all going to live with for a long time, often involving a lot of money. And you have the power, boom, go do it, within these boundary conditions. And we trust that it's a good thing to do in the first place. Not only that, we trust that what you're telling us is absolutely the truth, the whole truth, and nothing but the truth. And just as importantly, we trust that you're competent to do it, and that you will know the limits of your own competence and get help when you need it.

So, the second dimension is competence and self-awareness, and the third dimension is that you are committed enough to the partnership to give it all the energy and attention it deserves and needs to be successful. Because if you have those three things — integrity and competence and commitment — you can have huge things get done with a small number of people.

MJP: *And you do.*

SS: And we do. So, that's why I believe in partnerships.

MJP: I think that's a great place to end. I know you have commitments. Call me any time, I see at least two more interviews. This has been a wonderful interview.

The following is a follow-up interview with Scott Sandell taking place at NEA's office in Chevy Chase, Maryland, on May 16, 2011. My name is Carole Kolker. The purpose of this follow-up interview is to capture Scott's recent involvement in Fusion-io.

CK: *I'll start out by thanking you for setting aside this time and meeting with me. I really appreciate it. As I said, we're going to add this onto your earlier interview that Mauree Jane Perry conducted with you; it was 2006.*

SS: Five years ago.

CK: *I know, it is hard to believe. And as you said, since 2006, everything's happened.*

SS: Everything.

CK: *Considering your time, we'll start with Fusion-io, and we'll see if we have time, as other things will certainly come up. You could tell me what Fusion-io is in the first place, or you could start with the story of how this came to you and why it was attractive.*

SS: Well, I think the only place to start this particular story is by talking about Forest Baskett. Forest Baskett is a spectacular human being and happens to be one of our partners. He came to NEA about ten years ago. He started his career as a professor at Stanford where he was one of the seminal professors in the Department of Electrical Engineering and Computer Science. He hired Jim Clark to the faculty and was the officemate of John Hennessy, the current president of Stanford. In his lab, he helped to create Sun Microsystems, Silicon Graphics, and MIPS. John Hennessy became the founder of MIPS. Andy Bechtolsheim — Forest was Andy's thesis advisor — went on to found Sun with Vinod [Khosla] and Scott McNealy and all those others. Forest was basically there during the seventies, helping to create Sun, SGI, and MIPS — three of the seminal companies in Silicon Valley. Even though he was invited to be a cofounder of all these companies, he stayed at Stanford for a number of years after his friends left. I think he was the sole caretaker for his daughter, a single father. It was easier to care for his daughter as a professor than as a company founder, so he stayed at Stanford during that time.

But eventually, Jim Clark, who had founded Silicon Graphics, persuaded him to come to Silicon Graphics as the Chief Technical Officer, where he was for thirteen years. And among other things, he was regarded as the best CTO in Silicon Valley while he was at SGI. And as you probably know, Silicon Graphics was an amazing company, which attracted the best of the best. And even to this day, the alumni of Silicon Graphics are the founders and key employees of many of the best companies in Silicon Valley. When I went back to business school at Stanford in 1990, it was quite notable to me how selective SGI was, how the best people were still going there. Anyway, so that's where Forest was. And as a result of that, everybody knows him, of a certain generation, and they all think he's a fantastic guy. He started off at NEA as a Venture Partner; I persuaded him eventually to be a general partner. The reason this matters as it relates to Fusion-io is that Forest likes to go to conferences, and I don't. One of the conferences that he went to is called Demo, which was started originally by Stewart Alsop, another former General Partner of NEA. The idea behind the conference is to give new companies an opportunity to demonstrate ("demo") their new products before an audience of venture capitalists, journalists, and others that might help them. Naturally, there is a rigorous selection process. Each chosen company gets five minutes on stage, and then the audience votes on them. And there's an award given to the best company. Well, Fusion-io won Demo two years in a row. And the first year that they won it, Forest was in the audience. So Forest approached the founders of Fusion-io, David Flynn and Rick White, after their demo. And he quickly learned that they were already in late-stage discussions with Sequoia Capital. And of course Sequoia is one of our chief competitors. So he came back to the office and said, "Scott, look, I met this really interesting company. Would you be willing to meet with them?" I said, "Forest, of course I'm willing to meet with any company you think is interesting."

So we meet with the company, and we were in selling mode just to get into the race, so to speak. And what unfolded was about a six-month process before we were actually able to invest in the company. Initially it looked as though it might be fairly straightforward. David and Rick proclaimed that neither one of them wanted to be the CEO. Rick, I think, was the CEO at the time; David was the CTO, and had never been — he's the technical founder — he had never been the CEO or president or anything. He was just the technical founder. Rick was the initial CEO, but they had already decided before we showed up that they were going to hire a new CEO. So it was a very straightforward discussion.

CK: *So you didn't have to worry about changing—*

SS: We agreed that we would do a search, we were going to find a CEO. And that comforted me, because I didn't think at the time that either of them was capable of running the company long-term. But one of the reasons it was clear that neither of them was capable of running the company is that they had entered into a really, really bad agreement with Micron, which is a semiconductor manufacturer. As we say in our business, it had a huge amount of hair on it, and most of the hair was in this particular debt obligation, which essentially allowed Micron to own the company for $200,000. I mean the terms and conditions, which I don't remember exactly, gave them complete control over the company for $200,000. Maybe they were desperate, I don't know, but it was a really bad deal for them. And so we had to figure out how to get out of this thing before we could invest; we couldn't invest unless this thing went away. And so what happened is Sequoia was trying to negotiate with Micron directly — they knew some people there, they were talking to the senior guys — and that didn't seem to work. And then there was a guy they had attracted to be the chairman of Fusion, a fellow named Don Basile. And Don, I don't know exactly what he did, but he was a pretty tough guy and he figured out how to negotiate with

Micron. And we put up some money in order to buy out the Micron debt, like $900,000 or something; actually, it was less than that. Somehow, Don negotiated a deal where we would buy out their piece. And so understandably, the founders were very, very thankful to Don for doing this.

So one day David called me and he said, "Scott, I have good news: We found the next CEO of Fusion-io and it's Don Basile, and Rick and I are thrilled about it." And I was like, "I've never met Don Basile." And then he told me that Don, as chairman of the company's board, had negotiated this deal. Okay. Do I get to meet him before we put our money in? By this point we had eliminated Sequoia from the competition. And so he said, "Yeah, sure you can meet him." So I met him, a real character. Smart guy, Stanford PhD in engineering. But I didn't trust him from the minute I met him. This was not a guy I wanted to be in business with.

CK: *Why do you say that? What was there about him that—*

SS: He was just a slick character who, you know, something about him, just instinct. But I disliked him immediately. I didn't let him know that, by the way. But since Rick and David were enamored with him, I had to make a decision. Are we going to go along with this and still invest? And my judgment was that sooner or later they would figure this out, and it was a sufficiently great opportunity that we should go ahead anyway. And Don actually, to his credit, he got the strategy right for the company. I give him some real credit for that. But he just was not a good actor. And I'm not disparaging of people lightly. I mean, this guy was not a good actor. And so a year later I got a call on a Sunday night, and it was from David, and he said, "Scott, can I have breakfast with you tomorrow?" Now, Fusion's based in Salt Lake City and I live in California, so he was obviously already in California. And it being a Monday, was our partners' meeting. But I knew it was important if he's calling me on Sunday night and wants to have breakfast the next day. So I said, "But it has to be early, 6:30." "Okay." So we met at the Stanford Park Hotel in the restaurant there for breakfast, because I wanted a place that no one would go to. I knew this was going to be an important breakfast. And three minutes into it he said, "Don has to go; he's going to ruin the company." I said, "Well, why is that?" And he started telling me these stories about what Don was up to. Among the things that he had done, he had threatened to kill two of the employees, okay? Just to give you a frame of reference.

CK: *So your instincts were—*

SS: He's a bad actor. So this is the only time— I've fired a lot of people in my life, which is something I never enjoy. When we fired Don Basile, I had an armed security guard sitting outside the door. No joke.

CK: *Was there a background that you knew about him?*

SS: I didn't know anything about him.

CK: *So nobody had kind of vetted this—*

SS: Zip.

CK: *Really? It's an emotional—*

SS: It's just a gut feeling. In our business you have to be able to judge people in twenty-five seconds or less, and be right most of the time.

CK: *So he proved to be unstable.*

SS: Well, and the most dangerous sort: Really smart and no ethical foundation. Serious problems. He was going through a divorce at that time. He got into all kinds of problems. We ended up in a series of lawsuits with him, some propagated by him, some propagated by us. We won all of them, but it was expensive and time consuming. I learned early in my career never to settle, so people are not encouraged to sue you.

Back to my breakfast with David Flynn. David revealed to me that we needed to hire a new CEO, and then he said, "I think we should make David Bradford the CEO." And I didn't even remember exactly who David Bradford was, but he had been hired as the vice president of business development and kind of general counsel to the company. He was a fifty-five or sixty-year-old guy who looks like he's about thirty-five, and a really nice man. He had been the chief counsel for Novell for a long time. And he was a great, great choice. He was basically a mature adult. He had a very serious legal background and we had all these legal problems to deal with. But more importantly, there was a real lack of confidence among the employees in the company because of all the things that Don had done. There was a lot of mistrust. And David was a stand-up adult who, in complete contrast to Don, any reasonable person would instantly trust, for good reason. Completely straightforward, trustworthy guy.

And for about a year he was the CEO, and he cleaned up all the messes that Don had created, and that was terrific. And then David called me again one day. “Can we have breakfast?” I think it was a meeting this time in my office. “This week?” I said, “Of course, David; come on over.” And we had a three-hour meeting in my office where I kept sending messages, canceling things because it was important. And he basically started out the meeting by saying, “David has been a great CEO for the company, just the right guy at the right time, but he’s not the long-term guy, and I think we need to find a new CEO.” And I agreed with that assessment. So I said, “Okay.” And here again, I’m expecting that we’re going to have a conversation about a search for a new CEO, and yet again David says, “And the good news is I found the new CEO and it’s me.” He’s the CTO, remember, technical founder of the company. I didn’t immediately think David was the right CEO for the company.

CK: *Why?*

SS: Well, he had no background running a company, and the company was starting to go at this point, and he just had no background at all at this. But he was clearly a brilliant guy. So I sat back in my chair and I said, well, he really wants this, I can hear it in his voice, he really wants to be the CEO. I said, "David, do you know what it means to be the CEO? Do you know what that job's really all about? You know what it's going to be like five years from now when we're really successful?" So we talked about that for a couple hours. And honestly, in the course of that, I wasn't convinced at all that he should be the CEO.

CK: *And how old is Dave?*

SS: David is probably forty. So I'm thinking to myself during this discussion: I either should convince him not to be the CEO or I should set up a process where we figure out if he's the right guy, and maybe I'm wrong about my initial impressions. And so I sat there and I thought. "Well, David, you know, the first requirement of a leader is that people have to want to follow, so I would like your permission to interview all the people that work in the company to determine whether they would like you to be the CEO." He said, "No problem; go for it." "And I'm going to talk to all the other board members as well." "Fine."

So over the next month or two, I conducted a series of interviews with all these people. Among the people that I interviewed was Steve Wozniak, cofounder of Apple, who had signed on as the Chief Scientist of Fusion-io. It was the first job he'd had after Apple — the Woz. He's a terrific guy, and actually a really wise soul. And so I remember his interview among all of them, but other people said similar things. Woz basically said, "You know, he's really smart, he's really hard-working. There are some things he doesn't have, but he's earned the opportunity if he wants it, and he will make up for what he doesn't have with passion and drive and ambition." And that's pretty much what everybody said. And through this process, I came to agree with them. And so I went to the rest of the board members and I said, "Listen, guys, I think we should make David the CEO."

The other thing I did, actually, was have David interview with Frank Slootman — Frank is a spectacular CEO. He was the CEO that we hired to run Data Domain. I don't think it's in your notes there, but it's one that should get captured somewhere in this interview process. Data Domain was founded by a Princeton professor, Kai Li, same kind of story: it's a storage company. Kai Li came to none other than Forest Baskett and he wanted to start a company. We brought him in as an entrepreneur in residence in 2001, and we funded the company five days after 9/11, when no one else would. And we turned $14.7 million into $394 million. That's the bottom line for our limited partners. But it went public in 2007, the same day as one of my other companies (Spreadtrum Communications), and was sold later to EMC for $2.4 billion. We were the largest shareholder at the beginning and the end. So Data Domain was our first really successful experience in storage. And it's probably one of the reasons why we won Fusion-io in the competition with Sequoia. And Kai, by the way, is an investor in Fusion-io. We brought him in as an angel alongside us, he put in $1 million, and he's going to make one hundred times his money or more when it goes public. So he may make more money on Fusion than he made himself at Data Domain, just as a side note.

But in the case of Data Domain, we hired Frank Slootman to be the CEO when we were just about to ship the product. We had had a long search during which the interim CEO was Aneel Bhusri. You should also interview Aneel at some point — he's a fabulous guy, a year behind me at Stanford Business School, went to PeopleSoft, was a partner at Greylock, still is. But he's predominantly now the CEO of PeopleSoft II, which is called Workday. It's a SaaS version of PeopleSoft. I'm on the board and it's doing spectacularly well. It'll be a public company in about a year. And I think someday it'll kill SAP and Oracle, just to give you a frame of reference of how important that company is. Aneel is the CEO of that company today, and has stepped back from being a general partner at Greylock, where he's been for about ten years. But I brought Aneel into Data Domain, and he's been probably, almost without a doubt, my most important partner outside of NEA. So we've worked on lots of projects together. And he brought me into Workday, I brought him into—

CK: *So in other words, NEA's working with Greylock.*

SS: In many cases. And in the case of Data Domain, we brought in Greylock after we had incubated the company, and Aneel became the acting CEO for a year and a half before we found Frank.

CK: *Well, I find it interesting 'cause there's still that network, that old network, and this is what Chuck refers to often as a "band of brothers"—*

SS: Totally. Not too many of them, but they're there.

CK: *I mean, you find it in your generation?*

SS: I do.

CK: *Because there's a lot of interest in comparing that older generation with today's generation VCs, and a feeling that that's been lost, that sense of a band of brothers and that network.*

SS: It has been lost to a large degree, but not entirely.

CK: *Okay. We'll talk about that.*

SS: Yeah. I'm very interested in that because one of the results of that is all of the wonderful friendships that I see in the older generation. And, when you work as hard at something as we do, there aren't that many opportunities to develop friendships outside of your job. So if you can't develop them inside what you do at work, it may not happen. So Aneel is a brother, just like you're talking about, and fabulous guy. Just spectacular. He's an important person to interview. A really important person.

CK: *As I said, the people at the Baker Library — and Tom Nicholas [historian] is particularly interested in getting the story of the next generation.*

SS: At Greylock you should interview Aneel and David Zse. He's the investor in Facebook and Pandora and LinkedIn. David is an amazing venture capitalist.

Coming back to Fusion, and I'll tie Aneel into this later, too, because it's kind of fun. So Aneel was getting very frustrated in the search for a CEO of Data Domain because he was the acting CEO and he had only promised to do it for nine months. And I said, "Okay, Aneel, I'll really get on this. I'll go to the search guy and kick him a few more times, and we'll find somebody." Our search consultant was Lee Schweichler, who's a spectacular guy. His firm, Schweichler Price, is very well known. Lee introduced us to Frank Slootman, who has become one of the most spectacular CEOs in Silicon Valley. Frank took Data Domain from not having a product to IPO to acquisition by EMC. Frank then became senior vice president of EMC. He eventually left and became CEO of another company, ServiceNow. Frank basically took Data Domain from zero to $1.5 billion in revenue.

I asked Frank to have dinner with David Flynn, and I wanted him to give me his sense of whether David could be a CEO. He's a totally different kind of guy than Frank, very, very different background, personality, the whole thing. But Frank's assessment was the same as Wozniak, he said, "I think you should give him a chance. He doesn't even know what he doesn't know, but give him a chance." I said, "Okay." So I went back to David Flynn. The other board members were pretty skeptical about this, too. I said, "David, I don't know if it's forever, but you're the man."

CK: *That's a big decision.*

SS: Big decision. That was about three years ago.

CK: *Was it the right decision?*

SS: Yeah, absolutely. And what you realize is that it's just like the president of the United States. Not very many people would really want the job. You have to be a little crazy to want to be the president, for all the reasons we know in modern America. And so at some level you have to be really thankful that somebody wants to do it — somebody who's really motivated to do it, and that is true about being president of a company, too. Probably not as bad a job as being president of the United States, but it has a lot of downsides.

CK: *What did you learn from this?*

SS: Well, I'm a really big believer in founders being CEOs.

CK: *Because—?*

SS: Because they have a more enduring passion for the company than anyone else will ever have, typically. And in the case of a technical founder like David, if he can also do the other requirements of being the leader of the company, he has the technical vision, just like Steve Jobs at Apple has the technical vision for where it's going. The person who is the visionary is the best leader if they're capable of it. And Flynn is that. So anyway, we made him CEO. But ironically, I'll just circle back to Aneel for a second. When we were just getting involved in Fusion after we beat out Sequoia to get the lead role—

CK: *Is there a story there?*

SS: Yeah. So I brought it to Aneel. I said, "Hey Aneel, would you like to have a little piece of this thing? Because it looks pretty exciting to us." And he met with Don Basile. And he said, "I won't touch this with a ten-foot pole. This guy's a terrible guy, I don't want to have any business with him." Frank Slootman said the same thing, because I introduced him to Data Domain also. So everybody thought Don Basile was toxic, and they wouldn't invest, except us. And I, of course, I knew he was toxic. But my calculation was that sooner or later the founders would wake up and we'd fire him. And I knew that going in.

CK: *So what was it about Fusion-io—*

SS: Let me tell you about the company. The most important thing to me, after the management team, which is the most important thing, is the value proposition. What are they going to do to change the world, and how strong a value proposition do they offer? Is it two times better, half the cost? What is it? And this one had an unbelievable value proposition. Basically, what they were doing is taking solid state storage, flash memory, the kind of stuff that's in your cell phone, which is very expensive. And unfortunately — and I don't want to dissuade you from using it in your cell phone — it's somewhat unreliable. So it's consumer-grade reliable, which means it's okay if it fails occasionally. It's not enterprise-grade reliable. So enterprises didn't use it at the time Fusion was started. But *they* figured out how to build some stuff around it that made it highly reliable. And they packaged it up on what's known as a PCI board, which is a printed circuit board that fits into a standard slot on a PC server. If you look at the back of a PC server, you'll see there's a couple of slots, and you just plug these boards in and they fit into a standard connection, which makes them right on what's called the bus, which is the internal network of the PC. And up until this point, very high-performance networking was done in what's called a storage area network, which is a purpose-built storage network just to deliver the necessary performance for really high-end transaction processing. It uses a different network protocol, and purpose-built hardware. And guess what? It's really expensive.

And so what David Flynn and Rick White said was, "I don't care how great that is, but if we put it right in the server, it's going to be faster." So that was the first insight. And the result is that it's one hundred to a thousand times faster. One hundred to a thousand times faster, and it costs a tenth as much. That is a value proposition. If it really works, everyone will want it.

CK: *And they're the first people doing this? So it's new.*

SS: Right. David had a background in a bunch of different related technologies, which made him capable of seeing this opportunity that no one else had seen before. And so now, today, they're the market leader. They created the market, and they own it. They completely dominate it. And after we invested, within a few months they signed a distribution agreement with Hewlett-Packard, which was a big sign of validation. We introduced them to the CTO of IBM. IBM got lathered up about it overnight. They signed a big agreement. And now they have a big agreement with Dell. So all the server vendors wanted to have some part of this. Dell, by the way, was our other competition in getting the deal originally. Michael Dell wanted to buy the company. And he was willing to pay them $130 million for the company, which would've meant that David Flynn and Rick White each would've walked away with $30 or $40 million. And they said that's too cheap, we can make a lot more if we don't sell the company now. We invested at a $27 million valuation. It will go public on the New York Stock Exchange in two weeks at a valuation of $1.7 or $1.8 billion. And within a year it'll be worth three or four.

It was initially difficult to sell the product at the rate they expected to sell it. And the distribution agreements with HP, IBM, and Dell didn't amount to much for a while. They had to build their own direct sales force, sell directly to customers, and prove that their products worked before the OEMs would pay any attention to them. And they did. Don Basile was smart enough to know that was important, credit to him. He was very keen on building a direct field sales force. He hired the wrong people to do it, but he had the right idea. We had to clean them all out later. (Laughs) But you know, company-building—

CK: *But the formula was right.*

SS: Yeah. Company-building is not for the faint of heart, I should point out, Carole. So anyway, we started selling directly to customers, and once we got the arithmetic right, we sold $13 million in the first year, which is a lot for a startup company; and the next year we sold $72 million; and when we finish the third year, which is this June, we'll sell about $210 million. And my guess is next year we'll sell $500 or $600 million.

CK: *So you were obviously very excited about this*.

SS: Absolutely. I realized immediately that this could be a very special company. So I just locked in on this until we got the deal done. This was my mission for six months. We talked to them on the weekends, in the morning, late at night. It didn't matter, because I have a very, very busy schedule, almost never have any time to do anything, which means if it's really important, it happens at the wee hours of the day. But we were just hell-bent on getting this deal. And we bought, we own, when it goes public, we'll own 38 or 39 percent of the company. We've funded every single round. We let in some other people along the way, but nobody has anything close to our share.

CK: *Who are your partners with this?*

SS: Forest and I are both on the board.

CK: *I was going to ask you about the board. But go on — who else is partnering, and how many rounds have you had for funding?*

SS: There was an angel round before we invested, and we bought out all the angels because they were fed up with it. They didn't want anything to do with it; they thought it was going to fail. And that's not a good sign, by the way. Usually, you don't want to see everybody running for the exits when you get in, but we bought them all out. That was another part of the hair on the deal. So we capitalized it initially with about $12 million. And then later on we put in some more money of our own, and then eventually we let in Lightspeed. And I give a huge amount of credit to Chris Schaepe, who's another guy you should interview. He was a year ahead of me at Stanford. He's one of the best people in the venture business today. And he had the guts to invest when Don Basile was still the CEO, which nobody else did.

And not only that — just to give you a little more about Chris — I fired Don. Chris signed a term sheet to invest, and then I fired Don, and I called him up and said, "You know, we're going to change the CEO here, Chris, I hope that doesn't affect your decision. And we're going to make David Bradford, who's a corporate lawyer, the CEO. I hope that doesn't affect your decision." "We're in," he said.

CK: *What was it that you were seeing in terms of the future market that other people were giving up on?*

SS: There have been a lot of companies who tried to do this before, unsuccessfully. Using flash memory in enterprise storage is not a new idea. My father-in-law, who was a venture capitalist for a long time, and a very good one, had invested in a company called Solid Data, or something like that, which had failed ten years earlier.

CK: *What did you see in Fusion-io, and what excited you or—?*

SS: I thought the market was clearly there. The problem was this: Traditional storage systems were based on Winchester Disk Drive technology, hard disks, as they're known. And the problem with hard disks was that they were very slow at moving information on and off the disks, which is called "I/O" for input / output. So people who wanted to achieve very high-performance transaction processing systems were struggling, because in order to have a high rate of processing transactions, you have to get data on and off the disks very quickly. So people had been lining up disks, hundreds of them, and parallelizing all of their transaction processing while using very little of the underlying disks, just to get the necessary I/O performance. Does that make sense? In other words, they were spreading the job across lots and lots and lots of disks, so they could get enough performance getting the data on and off the disks, but as a result they weren't using very much of the underlying storage capacity of the disks. David looked at that and he said, "Hm, that's expensive. That's very expensive, because they're only using a small fraction of all these disks in order to get the I/O performance they need." Maybe a more expensive storage medium, like solid-state storage or flash memory could actually be used, because it has very, very, very high-performance I/O characteristics. You can get data on and off of it really fast. And you wouldn't need much of it because you wouldn't have to parallelize the flash memory to get the necessary I/O performance.

CK: *So it's all about speed.*

SS: It's all about the speed of getting stuff on and off the memory. But there's a problem: It's unreliable, as I said before. So they had to solve that problem, which they did. But if you solve that problem, you can pay a lot of money for the solid-state storage, which by the way is also coming down in cost at an alarming rate. So there was a trend that we could see where we knew this was eventually going to get to be really cheap. And that was the bet. But I will tell you — and I started this conversation talking about Forest Baskett, and I want to come back to Forest.

I would not have had the confidence to meet this company once and run like the wind to close this deal, were it not for Forest being with me and saying, "You know, everything about that is real. Everything about what they're saying will work." I mean, when you're sitting next to one of the very best technologists in the world, and you say, "I love that thing, that sounds great." And you can have a conversation five minutes later with him in the hall, and he says, "Yeah, it'll work." That's your due diligence; you're done.

CK: *That's as much vetting as you had to do with it.*

SS: Didn't need to know anything else.

CK: *That has something to do with your relationship with people in your industry, in the technology end of it. Am I right?*

SS: Yes, it does.

CK: *Sounds like you can't be a venture capitalist without having those people skills.*

SS: Well, I think you have to love the technology, too. I was an engineer, and although I'm not really a technologist, I'm very curious about technology. And I understand how things work. But it takes somebody who is an order of magnitude better than me to validate it. So I don't need anybody to tell me how it works or why it works or any of that sort of thing. But I do need someone like Forest, who says, "Yeah, that'll really work. You know, you unskilled, undergraduate engineering types may think it's interesting, but it actually will work."

CK: *The engineering background has served you well in terms of your technology investments. You at least understand the language.*

SS: That's right. And I have a little bit of credibility with engineers. But what I learned in college was obsolete a long time ago. It's a process of constantly learning, and that takes a lot of curiosity.

CK: *The curiosity is always there.*

SS: Yes. And I'm dyslexic and I'm ADD and all these other things that make it hard to get through school. But in our business that turns out to be a great advantage, because I can learn the way I want to learn. We all have different ways of learning. If I can talk to somebody and I get to ask the questions, that's really helpful. I can direct the conversation. And they're motivated to teach me. And they're among the smartest people in the world, entrepreneurs. What a fantastic way to learn.

CK: *Must've made going through school a bit of a struggle.*

SS: Yes, school was hard.

CK: *I would imagine. But as you said, you found a field that, in a way, a field that works for you. In a way, you work around it.*

SS: It's so lucky. Carole, it's the luckiest thing in the world. I just wish for every other person that they would find the thing that they're really suited to do, because it's so great when it works.

CK: *What excites you about venture capital, about what you do? You've been doing this since 1996. Fifteen years.*

SS: 1996, January 23 of 1996. Well, nothing is more exciting than changing the world, and making new things happen that dramatically impact the way people live, work, and play, which was the original vision of that Chuck Newhall, Frank Bonsal, and Dick Kramlich had when they created NEA. And when you see it work— Of course, it doesn't work a lot of the time, and it's painful as all get out when it doesn't work, but when it works, it's spectacular. I mean, Facebook is completely re-architecting everything they do to use Fusion-io as their core technology; so is Apple. You know, we started off, before you turned that thing on, talking about this little device called the iPad.

CK: *Right.*

SS: Do you know what kind of storage is in this? Solid state storage. It's not Fusion-io's technology, but you couldn't make that device without it.

CK: *Would they be a market for Fusion-io?*

SS: Absolutely. They're the second biggest customer. By the end of this quarter, which means in a month, they'll be the biggest customer. So it just changes everything. When I got into the technology business, I was a salesman for a company called C-ATS Software, which is probably in the prior interview. And the way I demonstrated our products was I carried around a Toshiba 5100, which was this big [uses arms to show size], and weighed twelve pounds, and had a lot less capacity than this thing [iPad] that weighs two pounds or a pound.

It's so rewarding to be able to work with people who are as talented as these entrepreneurs are, and to help them succeed is a fantastic thing. I talked to David Flynn yesterday for an hour and a half. And we talked about all the key issues. I'm one of his key advisors helping him to build this company.

CK: *You're on the board of Fusion-io?*

SS: I'm the lead director. Yesterday, in fact, he asked me to be the lead director.

CK: *Let me ask you a question about boards: How much time do you devote to your board role?*

SS: Varies a lot. Sometimes not much at all, and when they need me, as much as it takes.

CK: *So could it be 50 to 60 percent of your time?*

SS: In total, it's well more than half my time. I spend an unfortunately small amount of time looking at new investment opportunities.

CK: *Is it more strategy? Is it more psychotherapy, kind of hand-holding? How do you see your role on the board?*

SS: Well, the most important role, of course, at the board level, is to pick the right leader, and then to help them be successful. Everything else is secondary. There are many aspects of helping CEOs be successful. It's helping them figure out the right strategy, being a sounding board, telling them when they're off course, helping them pick the right lieutenants, all those things. Strategy, of course. Deal-making. You know, how do we negotiate? Two weeks ago David called me, said, "You know, last night I had a call with Goldman Sachs." (They're the lead underwriters for the company: Goldman, JP Morgan, and Credit Suisse are all going to be on the cover.) He had gotten absolutely crossways with Goldman. Goldman had called me, too, and they said, "We had a really bad call with David last night. He's really angry at us," and so on. So I said, "Oh, okay, tell me about that. What happened?" And I figured out what each of them wanted, and I figured out a deal that could work for each of them. So we convened a meeting the next day in my office, and all the bankers showed up and they had all their slide books and presentations. They thought this was going to be a very long meeting, and they were going to defend their point of view. And I just said, "Listen, we're going to keep this short, okay? Here's how it works for everybody." And I laid it out. We had a very short meeting, everybody was happy, and away we went. So figuring out those kinds of things matters.

CK: *They're great skills to have, obviously. How emotionally involved do you get? If you use Fusion as an example, how emotionally involved do you get with the entrepreneur?*

SS: I can get very emotionally involved.

CK: *Keep you up at night?*

SS: Like I told you when we met, I'm usually up at three or four in the morning. It's a very unusual day for me to not be up at three or four in the morning.

CK: *You're catching up.*

SS: Maybe. And I do catch up from time to time, if the alarm doesn't work and the shades are pulled down or whatever. But the best thinking time for me is from about three to six in the morning. I'm very often up from three to six in the morning, thinking very clearly about the problems of my companies, and other issues in my life.

And you get very emotionally wrapped up in them; how can you not? This is completely different than investing in public stocks, where you have almost no relationship with the company. I couldn't do that. That's a different thing entirely. I have no interest in that, at all.

CK: *So in a way, you like the emotional— You like being—*

SS: Yes, absolutely. Because this is a job that requires, I think, a very high level of emotional intelligence. Maybe more so than IQ. And the industry is littered with people who have ridiculous IQs. But if you don't have the EQ part, you lose.

CK: *I'll ask you one last question, because it's eleven o'clock. It's kind of a two-pronged question. Why did you think you were well-suited for venture capital? And what do you think has given you your confidence in dealing with these people who you say are brilliant and are smarter than you?*

SS: Well, I wasn't sure I was going to be good at it to start with, that's for sure. It took a while to get my feet on the ground. I think because I'm dyslexic, I didn't think I was very smart for a long time. It wasn't until I was well into my twenties, really when I worked at BCG, my first job out of college, that I started to think I might be smarter than average. BCG had these ridiculous selection criteria to hire people. Three hundred of my Dartmouth classmates applied for a job, and they only gave two offers, and I was the first one they made. They hired a total of five people, and they got 300 applicants each from Harvard, Princeton, Yale, and Dartmouth. Those were the four schools they recruit from, and I was one of five people selected. Carole, I have no idea why they picked me. I had a 3.0 GPA, everybody else had a 3.97 GPA. So somehow I talked my way into that job. Really, I did very well there, and I really enjoyed it, it was a great experience. I don't know how they saw that — no idea. But, in any event, because they picked me, I started to think, Hmm. And then I started working with all these 3.97 GPAs from all these good schools, and I realized they weren't any smarter than I was. Not at this kind of work. They might be smarter on some calculus exam their freshman year in college, because I had trouble reading the damn thing. But I can keep up with this, just fine. And then I started to realize, You know, I can work— So you work with really smart people and you realize, Hmm, yeah, they can do some things better than I can and I can do some things better than they can. And that confidence started to grow. And then I worked at this company, C-ATS Software, which had a bunch of really smart people, and I worked at Microsoft, which had a lot of really smart people. And I figured out that in working in a business setting, particularly a technology-based business, I could keep up. And then I got into venture capital, and over a long period of time I started to realize that I could do this well. And probably ten years in, I started to think to myself, I might be able to do this really well.

CK: *And it seems that you have, or you are. You're still—*

SS: So far, so good.

CK: *Okay. Well, I want to thank you for Chuck Newhall, who I always say is the heart and soul of this project. Thank you for taking your time. I've enjoyed talking with you.*

SS: Well, Carole, you're very nice to do it, and I appreciate your interest.

Additional commentary by Scott Sandell, January 2014

While editing the text of the earlier interviews, I could not help but reflect on what I said then, and what has happened since. There are also a few things which I failed to mention in the earlier interviews which I would like to touch on.

The first relates to what has driven me all these years. I mentioned that my parents said I was always driven, but there have also been things along the way which increased or decreased my motivation. It has also become ven more clear since these interviews were started that I am dyslexic, something I only discovered when my daughter was diagnosed (I was 42 at the time), as well as ADD/ADHD. Now that I understand that about myself, some of my early struggles in school — and the resilience I showed later — make a great deal more sense. In addition to dyslexia, I was not a particularly talented kid athletically. So when I finally found a sport in which my efforts were rewarded with performance — rowing — I became very passionate about it. I was probably more eager to find things I could be good at than kids who were good at most things. And while I touched on rowing in the earlier interview, I don’t think its importance to my life came through accurately. From the age of fourteen through nineteen, rowing was far and away the most important thing in my life. I trained year round, and I excelled at it. Rowing was an important part of my self-identity, and I had ambitions to win at the international level. I really wanted to win a gold medal in the Olympics.

Unfortunately, my rowing dreams were largely destroyed when I herniated two discs in my back as a sophomore in college. This happened while lifting weights in training for rowing, and importantly, it happened two weeks after I was invited to try out for the national team. In an instant, my dream was gone. I wanted to be a gold medalist, world champion, and I thought I had the talent and drive to do it. But after the injury, I had to figure out who I was all over again, and find a new dream.

Fast forward to venture capital. Early in my career, maybe four or five years after joining NEA, I told my wife that I thought I could become the best venture capitalist in the world, or one of them. It just seemed clear to me that if I worked at it long enough I would get there. I could see that I had different skills and a different approach to the business than almost anyone I knew in the industry. It seems like a brash thing to say, which is not my nature, but it was just a matter of fact viewpoint that I held, and I am bringing it up here for a reason. A career in venture capital is very risky because most people don't make it, and when they don't, they will have spent years acquiring skills that are not particularly relevant to other occupations. I did not think venture capital was risky for me because I thought I could be very good at it, and that has borne out in the years since these interviews. Importantly, what might seem like a very risky thing to others seemed like a low risk to me. And that has generally been true of the investments I have made; they seem really risky to others, but to me it was clear that they should work. They don't always, and sometimes my instincts are shown to have been incorrect, but more often than not I have seen things clearly in a way that others could not. The main point is that the risks I have taken while making investments, or simply by being a venture capitalist, do not seem as risky to me as they might to others, and I think that is true of the successful entrepreneurs I have worked with, too. They have a clear vision and plan to be successful which makes the risk they are taking much lower than it might seem — they are taking calculated risks, and they're pretty good at doing the math. I believe this is a very important aspect of successful entrepreneurs and venture capitalists — they are not hugely more risk tolerant than others, they are in fact very careful and calculating about the risks they take.

But back to what has driven me all these years. I have been driven by the satisfaction that comes from doing worthwhile things well, and the thrill of winning in competitive situations. Early experiences made me acutely aware of my strengths and my weaknesses, and I have sought environments and opportunities where my natural abilities are an advantage. I feel especially lucky to have found a path through life that has given me exposure to these things. After all, not many kids grow up in a town where rowing is available in the public school, or find a way to Silicon Valley and into the venture capital business. I have worked harder than most, and perhaps been more determined and patient than most, but I have also been luckier than most. I hope that my story will be of value to someone else interested in the venture capital profession. It is an incredible way to help others in ways that can have an amazing impact on the world, or even change the world altogether, and it's fair to say that some of those entrepreneurs would not have been successful without the help of a venture capitalist.