Oral History with Russell E. Planitzer

NVCA-Venture Forward Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

Stanley E. Pratt

Interview Conducted by
Carole Kolker, PhD
August 9, 2011

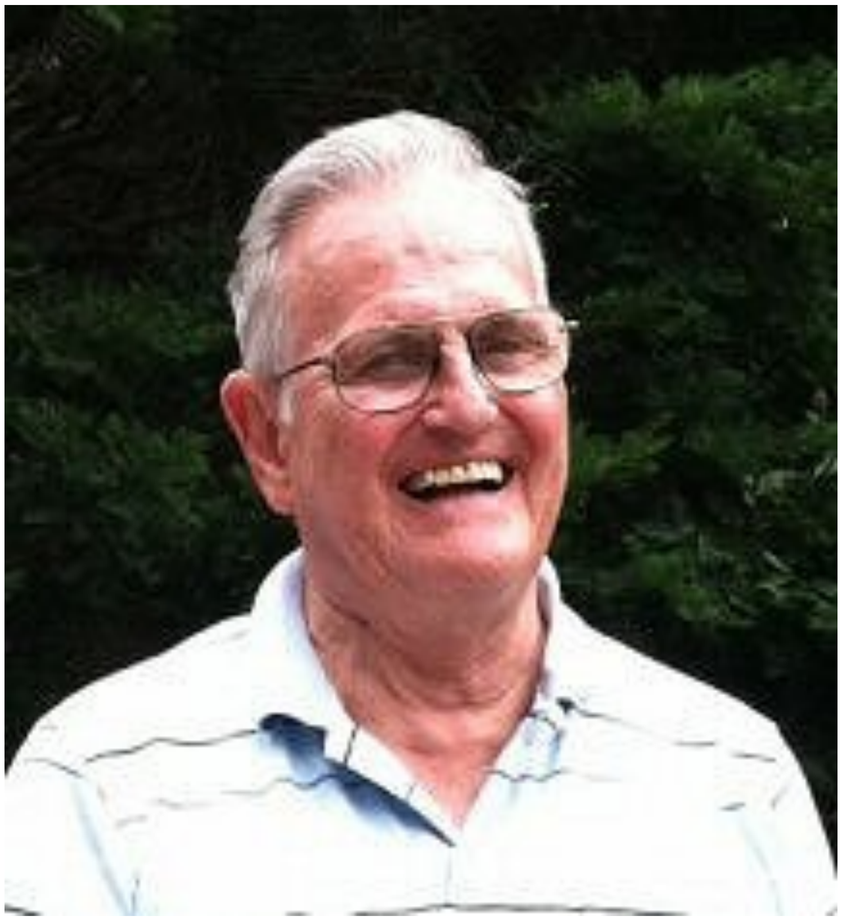
This collection of interviews, *Venture Capital Greats*, recognizes the contributions of individuals who have followed in the footsteps of early venture capital pioneers such as Andrew Mellon and Laurence Rockefeller, J. H. Whitney and Georges Doriot, and the mid-century associations of Draper, Gaither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

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

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

I'm pleased to have initiated and given my early support to this project, which is now receiving support and funding from NVCA and Harvard Business School. I believe these oral histories will advance the understanding of the venture capital industry. This collection, along with Paul Bancroft's Bay Area oral history project at the Bancroft Library at the University of California, Berkeley, and Paul Holland's Silicon Valley project for the Western Association of Venture Capitalists, will add significantly to a growing body of venture capital memoirs available to the public sector.
A special note of gratitude goes to each interviewee who generously gave of his time while candidly sharing his memories. Their recollections bring to life the dynamic story of venture capital in the 20th century, providing a powerful perspective on the history of this industry. Charles W. Newhall III   2010

VENTURE CAPITAL GREATS



A Conversation with Stanley E. Pratt

Stanley Pratt founded Abbott Capital in 1986. Abbott Capital Management is an investment advisory firm specializing in investments in venture capital, buyout and special situations funds for institutional investors. Formerly, Stanley was President and Chairman of Venture Economics, Inc., and he is recognized as a leading authority on the venture capital industry.

From 1977 to 1991 he was the publisher and editor of *Venture Capital Journal,* which has been reporting and analyzing business development investing since 1961. He was also an editor of *Pratt's Guide to Venture Capital Sources* from 1978 to1986 Prior to purchasing Venture Economics, he spent seven years in investment banking and fourteen years with two private venture capital firms.

Stanley has advised major corporations, government agencies and institutional investors throughout the world. He is a former trustee of the Noble and Greenough School in Dedham, Massachusetts. Stanley retired in 2001. His notes and correspondence are archived at the Harvard Business School's Baker Library, and he has donated a set of *Venture Economics* to MIT. Stanley's statement before the Senate Small Business Committee of July 4 1985 is attached at the end of this document.

Stanley received a BA in literature from Brown University and served two years in the U.S. Navy as a destroyer officer.

The following is an interview with Stanley Pratt taking place at his home in Wellesley, Massachusetts. Today's date is August 9, 2011. My name is Carole Kolker. This interview is being conducted as part of the National Venture Capital Association's and Harvard Business School's Venture Capital Oral History Project. This interview has been lightly edited for clarity.

THE EARLY YEARS

Carole Kolker: *We're going to start from the beginning, okay, Stanley? Again, thank you for so kindly picking me up. Really, that was very thoughtful of you, because it seemed like I wasn't going to get here in any record time. So let's go to the early years, and just for the record, you could tell me when you were born and where.*

Stanley Pratt: Well, I was born in Boston, July 21st, 1931. So I just passed my 80th birthday. (laughs) Yeah.

CK: *And how did it happen that you were growing up in Boston? Because I am aware that you've been doing some genealogical research, so I'm sure you have a wonderful story here. If you could just, you know, kind of briefly tell me your family's ties to Boston and Wellesley.*

SP: Okay. My first Pratt ancestor in the United States was Richard Pratt, who arrived here in 1638. He came from Maldon, [Essex] England, and evidently moved to the town of Malden, Massachusetts. Although when he first came, he lived in Charlestown. All of the Mormon Church records indicate that Richard Pratt was John Pratt. Burkey and I went to the Chelmsford County Records in Maldon, England, and we all of a sudden had the feeling that John Pratt was not the father of Richard Pratt. And what gave us that feeling was his will made no mention of Richard whatsoever. And so I asked a fellow who was helping me to translate it —because we couldn't read the will; it was in Old English — and Burkey and I had to catch a plane from Heathrow — so I handed him 100 pounds and I said, "Let me know if you need more, and we'll see what happens." And sure enough, he found that Richard Pratt's father was Joseph Pratt, who was the brother of John. And we're about to have an article in the *New England Historical Genealogy Society Review*, giving the proof that we have. It is being written up now by one of the professional genealogists in Boston.

Richard Pratt had several sons and several daughters. My ancestor was John Pratt. John Pratt participated in the Indian War. And for having fought, he got a grant of land, and I can't remember the name of the town. But John's son, Thomas, received the land, sold it, and bought a huge farm in Chelsea, Massachusetts. The farm which is still known as Prattville encompassed the northern part of Chelsea, the southern part of Revere, and the whole town of Winthrop; it was a huge farm. And by the time my grandfather came along, none of it was left.(laughs)

CK: They lived off of it.

SP: Yeah. And he was then born in Prattville, and I have most of the relatives in a genealogy timeline, and I'd be happy to give you that. But that really is not all. That's what's interested me in genealogy. And I found some of my mother's ancestors, the Popes, were quite active during the witch trials in Salem. And one of my ancestors, a 10th great grandfather, Stephen Hopkins, came on the Mayflower.

CK: *What was your father's name?*

SP: Waldo Elliot Pratt, Jr., and his father was Waldo Elliott Pratt.

CK: *And your mother's name?*

SP: Was Virginia Stanley Pratt.

CK: *And her maiden name was?*

SP: Virginia Stanley. And they came from Cleveland. And Grandfather Stanley was quite a golfer. I have a picture of him playing with John D. Rockefeller, because whenever Rockefeller went home to Cleveland, they paraded the best golfer there to play with him, and that was grandfather. It is said that Rockefeller tried to get my grandfather to invest in his oil companies, and grandfather said, "I'm not going to invest in kerosene, I'm leaving my money where it's safe in Cleveland Traction Railway." Which went bust in 1921. (laughs)

CK: *Good story. So did you have any siblings?*

SP: Yeah. I had one real sister and one real brother, and two cousin sisters. Their father was my mother's brother, and his wife died quite young. And he became an alcoholic. And so mother adopted the two gals. We were all brought up in the big house next door.

CK: *And so where do you fall in the birth order?*

SP: I'm the youngest.

CK: *You're the baby, oh my. How did you all get along?*

SP: Fine, but I'm the only one left, actually. The two cousin sisters died five or ten years ago. My sister died two years ago. My brother died three years ago.

CK: *What kind of a kid were you? Were you a reader, were you an athlete, more of a tinkerer?*

SP: I was more of a tinkerer. I was very interested in reading for a while, but I was not a very good student. I got into what is now the finest private school, certainly in this area, Nobles and Greenough School, because the headmaster, in 1943, the school was going bust. Well, they had lost students and faculty to the war. And so he cold-called, starting at one end of Abbott Road, and walked up and went and cold-calling up the street. And my parents — my brother was at Andover — knew I wouldn't particularly like Andover, which is very big. And so they enrolled me. I finished, not at the bottom, but further down, closer to the bottom than the top in my class.

CK: *Did you play any sports?*

SP: I was a founder of the soccer team. A bunch of us that had been hurt in playing football decided we would start soccer. The first season, we were undefeated, and the next season we won maybe one game. Well, there was a reason: We played the second teams in the first year, and the first teams the next year. I rowed crew, and I enjoyed that. My freshman year of Brown, I was among the founders of crew there. I coxed the varsity until we could train a lighter cox and rowed bow on the second boat.

CK: *So you like the water.*

SP: Yeah.

CK: *And were you competitive?*

SP: Not overly. I was not a particularly competitive guy. You had it right when you said, "Were you a tinkerer?" I was always looking at different things.

CK: *So you had a certain amount of curiosity.*

SP: Yeah. A lot of curiosity.

CK: *Did you have a lot of energy? Were you an exuberant-type child?*

SP: Yeah. I was the bad kid of the family.(laughter) And as I say, I didn't do well at college — I managed to graduate. Brown University was then the easiest school to get into in the Ivy League, and I had shot at it because they had NROTC, and my other choice was the University of Denver. I figured I could get in there, and I was shocked at the fact that I was accepted into Brown. Interestingly enough, two other of my classmates who were accepted into Brown were lower in the academics than I was, but neither of them graduated.

CK: *Did you have any early role models that come to mind, before you went off to college?*

SP: No. I used to fight with my brother until he got a driver's license, and then we became buddies. He was always, later on, helpful to me.

CK: *And so how would you describe the values in your home towards education or towards success or work ethic? Was that something you'd be aware of?*

SP: My mother was a woman with a lot of energy and worked hard at doing a lot of things. My father was more quiet — everybody loved him and everybody respected him. I would never say he was an entrepreneur, but he was a founder of one of the most successful investment management houses, Eaton & Howard. Charlie Eaton was my godfather. So I was very average, until I got my education in the Navy.

BROWN UNIVERSITY – 1949-1953

CK: *I'd like to hear about the Navy, because I know you went into the Navy after Brown. But you majored in English Literature at Brown.*

SP: Yeah.

CK: *Was there a reason why you chose English Literature?*

SP: Yeah, because I wanted to graduate.(laughs) I started majoring in math because all of a sudden a light bulb went on to me at Nobles, and I really liked math. But integral and differential calculus did me in.(laughs) And I had a ball during college, and never worked too hard.

CK: *Did you earn money at all before you went to college?*

SP: Yeah. I was always somebody who would find ways to earn money. One of the famous family stories is: I went around one summer and cut flowers from all my neighbors' gardens, and then rang their doorbell and tried to sell them a bouquet. (laughs) And I started in probably the junior year in high school, really early my freshman year in high school, working for the local florist. And he was absolutely a great boss. He was hard, he would expect you to work — when I would go out and party too much and come in, he would look at me and say, "Go arrange the flowers in the icebox." (laughs) And I worked there for several years, ended up driving his truck around Wellesley.

CK: *Do you remember his name?*

SP: Al Fraser, and he had a very successful flower business until he died maybe 20 years ago. The summer of 1945, I went and worked on a farm in western Mass; it was a farm camp, whereby we would replace the soldiers who had left the farms, to bring the crops in. That was the thing. That was what they said. I always wondered why I hoed so much tobacco.(laughs) And western Mass was one of the leading growers of cigar leaves, which wrapped the cigar. And I worked very hard there. And I enjoyed it; it was my first coed camp. However, I went on a double date one night to the movies in Greenfield, and three of us ended up with polio. (laughs)

CK: *Oh, the '40s.*

SP: In the '40s. And fortunately I had a very mild case. It meant that I had to spend a month in the hospital, and then exercises. And I was fine. I was a pretty good soccer player at Nobles, and played soccer my freshman year at Brown. Then I broke my toe, and that's how I decided — no more.

US NAVY 1953-1955

CK: *So what were you planning for your future when you graduated from Brown in '49? [1953]*

SP: Well, I had no alternative; I had to go in the Navy for two years, because I was NROTC contract, what meant they didn't pay any of my college, but when I graduated they made me an officer on a destroyer.

CK: *How do you feel that, in any way, that that naval experience influenced the direction of your life?*

SP: Well, I got a lot of responsibility right away, and then on the ship — the ship was in the yard in dry dock in Charleston, South Carolina — and I was standing watch in the quarter deck, and one of the men came up to me and said, "Mr. Pratt, there's a phone call for you." And I said, "Well, nobody knows I'm here. Who could be calling me?" So I went and took it. It was my former chief that I had tried to get to sign over. He was the chief radio man, and I had tried to get him on an officer's track, but he didn't want it; he liked being a chief. And he then left the ship to go into the submarines, which is what he wanted. And far as I know, he was underwater somewhere. But it was him on the phone. And he said, "Mr. Pratt, we have a real problem at Guantanamo Bay, in that we've got 110 ships to inspect in the next month, and we're very short of inspectors." And he said, "I know you know what you're doing, because I trained you," and I said, "You're right." (laughs) And he said the exec, who was a terror, will go for this idea because as soon as you get out of the yard, you will have to bring the ship down to Guantanamo to go through the exercises, and you'll be an expert. And I said, "Well, why not?" And so I talked to the exec and he said, "That sounds like a good idea." So I went down there — temporary additional duty — and as an inspector, I think I was a JG at the time, lieutenant junior grade. I was inspecting full bore captains on aircraft carriers.(laughs) And again, I got a lot of responsibilities in a hurry. And it I think trained me to have confidence in myself. And then when I got out, I had met Burkey — I got out in June or July, 1955, and we were married January, 1956.(laughs) So we were married in January, and had the first child by the next January.(laughs)

CK: *What were your plans as you are getting out of the service? You knew all along that--*

SP: I hadn't a clue. I'd come, talk to different people up here. I talked to my godfather, Charlie Eaton, of Eaton & Howard Investments, and he said, "I would never hire you?" And I said, "Oh?" And he said, "Yeah, I've ruined my relationship with one son," and he said, "I just don't want you working for me." And that intrigued me. But then my brother-in-law said, "How about investment banking?" And I didn't put this in there [Questionnaire], and I will add it: My boss was a terrific influence on me.

W.E. HUTTON & CO. 1955-1961

CK: *Your boss where?*

SP: At W.E. Hutton, which was an investment banking firm, and my brother-in-law worked for them at the time.

CK: *And your brother-in-law was named--?*

SP: Larry Staples. He married one of the cousin sisters.

CK: *And who was the person you said was such an influence?*

SP: John Bleakie. And he, working out of the Boston office, he was the best producer in all of WE Hutton; he was a terrific guy. And he said to me early on, "I'm too busy during the day; don't bother me. But if you want to come in at the end of the day, I'll spend some time with you." And he took me under his wing and told me what I should do. For example, I was a stock salesman, covering banks, but he said, "Learn bonds and learn treasuries, and learn everything that you can." And quite frankly, I was on the road to become a partner there after only about four years. But I wouldn't be a partner immediately. He had sent me to Wharton business school in Philadelphia, and they had an investment banking course that was two weeks every year, for two or three years. And I went to two of them, I think. And then all of a sudden I woke up and said, "You know, I don't really want to be an investment banker."

CK: *Oh, I was going to ask what was interesting you in investment banking. What had captivated your interest or excited you?*

SP: Well, I was doing well. I was calling on small banks in southern, southeastern Massachusetts, and I was doing quite well. I had a good empathy with the customers, some of whom were old men of 80 years old. (laughs) But I learned the banking business, particularly the savings bank business, which was definitely an old man's game. Because they were sitting on a bunch of one-and-a-half percent bonds that they had bought in the '30s, and didn't know how they were going to pay the three percent dividend. And they also had a huge amount of bank stocks. The only stock they could buy were banks on the legal list; and they had enormous profits, over 20-some-odd years, in bank stocks. But they couldn't use them to pay the dividend, so to speaking.

CK: *So you decided that this wasn't for you?*

SP: No. I'll tell you why. What I did was, I went to them and said, "Look, why don't you sell your bonds, take your losses, and sell your bank stocks and take profits to offset the losses. I'll reinvest the money in laddered Treasuries so that you can pay your three percent dividend." And they thought this was a great idea. And I was trading in thousands of shares of bank stocks. Well, I wasn't trading, because we had a trading desk, but I was a beneficiary of the trading. But all of a sudden I realized that it was a transaction-oriented business. And I said, "Wait a minute, I don't like to be in a transaction-oriented business, because I make money no matter what my customer does." I saw some things that others were doing — recommending sales and purchases in order to get more business for themself. And I said, "I just don't want to be in that business." So I did my first startup.(laughs)

And well, I have done — you'll see when you read — I've done five startups. The first one was sort of venture capital, without capital. What we did was to go in and work with a small business and help them, but take minimal fees on the front end, and take as much stock as we could in the company. And that was quite successful, in a small way. I invested $10,000 to form the company, and when we liquidated I got back about $300,000.

DIVERSIFIED CORPORATE SERVICES, INC. 1961-1968

CK: *And this is Diversified Corporate Services?*

SP: Yeah, right.

CK: *Okay. So that's your first startup. Now—-*

SP: First startup. Second one was — State Street Bank had a client that wanted to lease some machinery, and State Street had no idea how to do leasing. And our biggest client at DCS was a leasing company. And so my partner, Bob Clark — by then he was president of the leasing company that was our customer — said: "Why don't you start the leasing company for the bank?" We owned it, not the bank. And finally, the bank decided they wanted to be in the business, and so they took it over. We didn't get a heck of a lot for it, but they took it over. And it became a substantial leasing company later on, but through no fault of mine. And my third startup was a venture capital company which was underfunded. We didn't realize what most people began to realize: In the venture business, you invest in world-class people rather than world-class ideas. And we tried to do too much for the little companies that we invested in, and we didn't really back world-class people.

CREATIVE RESOURCES 1968-1977

CK: *When you say "we," did you have a partner?*

SP: This was Creative Resources, by third startup.

CK: *Right.*

SP: And suffice it to say, the business crashed and burned, and I lost everything. Burkey likes to talk about the time she put a ten-dollar bill on the top of the car, and it blew away, and it was her last ten dollars.

And I worked very hard to try to — two years — to try to use the tax loss carry-forwards, but nothing worked, and I lost all my money and too, I had guaranteed a lot of loans at the bank. So the bank owned me. I didn't put Ned Heiser, so I'm gonna put John Bleakie and Ned Heiser in that. [Referring to Questionnaire].

CK: *Why are you mentioning Ned Heiser?*

SP: Okay. At DCS, one of our best clients was Ned Heiser at Allstate Insurance Co. Allstate invested in some companies that we were working with — primarily the International House of Pancakes. And they were our largest client. Well, Chandler Leasing was our largest, but they were next largest. And I had known Ned — as a matter of fact, helped him raise his venture capital fund.

VENTURE ECONOMICS 1977-1991 President, Publisher, Editor

CK: *How did you know Ned?*

SP: Because when he was at Allstate as an investment officer we went to him to have him buy preferred stock in International House of Pancakes. And we worked with him quite a bit. And then he and Bob [Clark] had the idea to — really, it was Ned's idea — Bob was a director — that Ned wanted to form his own venture capital company. And so when I was flat on my back, so speaking, a friend of mine called and said, "Would you be interested in doing a monthly publication, and the book's on venture capital?" And I said, "Well, I might be, but I'm not going to compete with Stan Rubel, he owns the market." And he said, "Did you hear that Stan Rubel died? Well, that's why I'm calling, because

Stan died, and they're in a panic to find somebody to take it over." And so I said, "Well, I'll take a look at it." And I liked what I saw. It was a tiny company. The sales were less than $100,000, and it was losing money. But I looked at it, and there were a few problems. The books were not being aggressively sold. And so I talked to the bank, and I talked to some of my friends. And my friends each put up $10,000. And I went to the bank, and I later found out that one of the senior people said, "The only way that you'll get that money out of Pratt is to give him some more money." This was one of the bank's senior officers.(laughs) And so we worked a deal.

CK: *You're talking about purchasing Venture Economics.*

SP: Right. It was known as, then, *Capital Publishing.*

CK: *And this was 1970—-*

SP: 1977. And you see this was Rubel's book. [Showing a copy of one Stanley Rubel's *Guide to Venture Capital Sources.*] And so he had just finished a print of the fourth edition, and two other books, which never did a great deal.

CK: *Tell me why this opportunity interested you.*

SP: In one of my visits, I went out to Chicago and looked at the two-room offices of the company, and I started to go into the file cabinets. And all of a sudden, I realized that the file cabinets were worth more than the book inventory or the journal, which he called *Venture Capital*. And he went back to '61-'62. All of a sudden I realized that he had done the unthinkable: He had gotten these high-ego venture capitalists to share their information with him, because he told them, "I will always let you read my write-ups before I publish it. And I'm not going to let anybody into my files." And so they told him the information. And I said, Wait a minute. If I can put that on a database — we were just beginning to get databases (laughs). And I laugh: I bought a small computer from Digital Equipment.

The reason I was laughing was back when I was at W.E. Hutton, I was looking for more investment banking business from a little company named Digital Equipment Co. I was out in the town they started in, Southborough, whatever it was — Maynard, I guess. And I walked into this little office. And an older woman was sitting at the desk — (I later found out that she was the wife of one of the founders) — and I said, "Is the president here?" And she said, "Well, yeah." And she pointed at him. And Ken Olsen was actually sweeping his office when I went in to see him. And we sat down and talked. And I said, "Well, I think you've got an interesting idea. I could probably raise you $100,000 from my contacts that I had.” And he said, "Well, unfortunately," he said, "We've just signed a deal with ARD." (laughs) And for $77,000, I later heard. (laughs) So I missed it. And when I was thinking, I thought, "I really should call up Ken Olsen and see if I can get a computer from him." And I talked to some people and they said, "No way he's gonna give you a computer."(laughs) So I bought a secondhand one from some guy and started to put this information on the files into a database. And the database was actually our biggest revenue source for when I sold Venture Economics.

What we said to the big companies — MMM and Pfizer were our best users of the database. What we said to them is, "We will identify innovative companies and talk to you about them, but not give you any proprietary information. But if you're interested, we'll introduce you to the company and you can talk." And that worked out very well for Pfizer. They bought a lot of companies off of our database. And MMM was also a very good user of it. Now, meanwhile, one week after I bought the assets from the estate, *BusinessWeek* came out in big front page, front cover was, "Venture Capital is Dead," in 1977. That made me feel great.(laughs) But it wasn't true. We started, and the venture capitalists were fabulous to me. Now, I learned how to handle the high-egoed venture capitalists, and many of them think they are the second coming of God, you know. But they really shared information. I wrote them up, and we began to see that venture capitalists were actually successful.

Nobody realized that all venture capital formation stopped in 1973, 1974 with the passage of ERISA, because nobody knew whether they were going to be criticized for doing risky investments or not. And what I did was to write them up, and you can see the write-ups downstairs. And even the biggest egos in the business — Tommy Perkins turned out to be a good friend of mine; he gave me all of what he was doing; Brooke here in Boston, Peter Brooke. And when some of them did it, others came forward. Meanwhile the business was growing. My advertisements for the book and the journal were paying off. I doubled my subscription base in two years. And when I sold the company, our revenues were about $5 million. It was less than $100,000 when I bought it.

CK: *How did you see your role in the venture capital "profession," as you like to say?*

SP: Well, I was the one that was collecting the data so that people would see they were a success. And I worked very hard. I spent a lot of time in Washington at the Labor Department, and trying to keep them from writing ERISA such that pension funds would not be able to invest. I realized at the time that pension funds were the ideal investor, because pension funds can be very long-term investors. Now, this is something I learned very early on at WE Hutton: You have to have the long-term investment disciplines in order to be successful. You hear about the enormous successes of traders, but you don't hear about their enormous losses all the time. And so my role really was to educate the world that venture capital was a profession, and they had long-term investment disciplines. Now, we didn't know this.

What happened: A bunch of venture capital companies were formed just before ERISA. Reid Dennis. And sometimes I think Reid and Stanley Golder, the work that they did was never adequately appreciated by the rest of the venture capital world. But they pushed hard to — what got them incented was when Carter tried to eliminate the capital gains tax preference. And that gave us all a handle as to how to attack it.

CK: *When you say "us," who were you working with in terms of bringing this before Congress, before the Labor Department?-*

SP: NVCA and certain of their people.

CK: *Do you remember the names of these—*

SP: Yeah. Reid Dennis was the president of NVCA at the time. Stanley Golder was a vice president of NVCA and later president, who was a terrific guy in helping me. I used to make these great prognostications. I would say something that nobody believed, and they thought I was being crazy in saying it. But I had already checked with Stanley Golder,. (laughs), who was one of the most respected guys in the business, and president of the NVCA at one point. And I would call up Stan and say, "Here's my idea." Then I'd fly it by him.

CK: *Was Ed Glassmeyer involved at this point?*

SP: I had known Ed, actually, before I got involved with *Venture Economics.* Back when one of the investments that we had made in Creative Resources was one that he had looked at, and thank God for him, he turned it down, and we took it. (laughs) It was a furnace company that was burning without polluting anything. It was mostly hospital trash that they were burning. And we thought it was a great idea. Again, we didn't have world-class people. And the management did not do a good job, and then all of a sudden he disappeared. I got a call from one of the vice presidents who said, "The president has fled the ship." And I said, "Oh?" (laughs) He had gone, packed up his bags and moved out.

CK: *Where does Ed--*

SP: Ed at Charter Ventures or whatever it was [Charter Oak], had looked at the thing and decided not to do it.

CK: *Oak, is it?*

SP: Well, this is long before Oak [Oak Investment Partners]. And Ed, I think, is one of the best venture capitalists, and also one of the nicer guys. And he's been a good friend of mine. As a matter of fact, he didn't do too well on the second fund, I think. And they were really worried about would they be able to raise fund three? And my Abbott Capital committed to make a big investment in three, which was good for us and good for them.

(laughs) Ed was not involved with the Washington efforts; really, Reid Dennis was the leader.

CK: *Was Charlie Lea involved in–*

SP: Charlie Lea, again, I had known him before. And this was another reason I did purchase Rubel's company.. I called up some of my friends, like Ned Heiser, Charlie Lea, and said, "What would you think if I bought Rubel's company?" And they said, "Great idea."(laughs)

CK: *It sounds like you had already established a network within the venture capital community.*

SP: That's right. I knew a lot of the people, and had good relationships with them in one way or another.

CK: *I've heard them described — Chuck Newhall likes to call them in these early days a "band of brothers."*

SP: You could call it that. Most of them would not think of really being a band of brothers. The early meetings of the NVCA could be held in a phone booth. (laughs) It was not much. But I would say Reid Dennis, Stan Golder, Charlie Lea, Ned Heiser, all made it work.

CK: *Was David Morganthaler involved?*

SP: He was a later president. He by the way is a close friend of mine. He came down for my retirement party. Lindsay is his wife. And I always laughed. I told you my mother came from Cleveland; and her first cousin was Jeanette Dempsey; and her brother, by the way, is Philip Johnson, who was the famous architect. And Aunt Jeanette sent me a note one day and said, "I've met this wonderful young couple." And it turned out that who she referring to was David and Lindsey Morgenthaler, both in their late 70s at the time. (laughs) Well, she lived to be — I think she was almost 101. And we went out for her 90th birthday party. And Philip had not been particularly accepting of me or any of the relatives. He was a very difficult guy, as you may know. He was one of the first of the first of the— What are they called? He lived with a man.

CK: *He's gay.*

SP: Yeah. That's the word I was looking for. Yeah. He was gay. And he was very defensive about it. And we went out for her 90th birthday party, and he was there, and he couldn't have been nicer. And both Burkey and I were amazed.(laughs)

So I viewed my job as really to make people familiar with the venture capital business. Not that they could go and compete with them, because it's a tough business, and you have to have a long-term investment discipline. Those that got into trouble were those who lost the long-term discipline. And as I started to say, many companies formed, Sequoia, Don Valentine, one of the best, had formed his firm as had Tom Perkins in '72, '71-'72. And a lot of people don't realize that Kleiner Perkin's Fund I was going down the wrong road; it was not being successful. And all of a sudden, they — and I think it was Tommy — said, "Wait a minute, let's rethink our approach." And they stopped investing in later-stage investments, and went into early stage. I think that their investments in Genentech and Tandem Computers really saved the partnership. And they did extremely well.

CK: *So why did that switch make that difference? What did they recognize in moving from later-stage to early stage?*

SP: They realized what I've preached for many years. And by the way, I used to talk to gatherings of venture capitalists all over the world. And by the way, I helped set up the largest venture capital company in Japan. And the president of that bought another plane seat to bring that Doll to me. And what I had kept repeating ad nauseam was it's a different discipline from early stage to later stage. One of the best later-stage investors, I think ever, is Kevin Landry.

CK: *At TA?*

SP: Yeah, at TA. And I used to preach to him. I was on his advisory board: "Why the hell do you do these early-stage deals? You don't really understand them, whereas you do understand later-stage deals." And he said, "Well, it's a window of technology to do the early-stage deals." And I said, "Forget it." I said, "Your job is to make money." And he did a wonderful job. He's probably one of the best later-stage. I can remember when Chuck Newhall came to me.(laughs) — You might not remind him of this, but you might — and he was with the investment management company in Baltimore [T. Rowe Price Associates]. And they used to manage mutual funds, and did a superb job. And he came to me and he said, "I've got these guys together, and we're thinking of raising a fund." And I talked to them for a while, and I finally said, "Chuck, you're not going to raise any money without a guy really experienced at this business." And so he took it very well. And about a month later, called me and said — with his partner.

CK: *Frank Bonsal? Oh, Dick Kramlich.*

SP: Dick Kramlich. And he said, "How would Dick Kramlich do?" And I said, "You hit the jackpot."(laughs) I said anybody that got him is, he's one of the best, and he's turned out to be one of the best. It was a good team, because they didn't get in each other's way at all. But they all did the thing they did well. And we've (Abbott Capital) been investors in all of the New Enterprise funds, I think. But Dick Kramlich was made— Now, his apprenticeship was with the tough guy, Arthur Rock. And he had been with Arthur Rock

— I had known Dick when he was in Boston, and then went out to work with Arthur Rock. How anybody could stand working for Arthur Rock for— But he obviously got all of the good and none of the bad (laughs) out of Rock. I think he's one of my all-stars: Kramlich, Tommy Perkins, Stan Golder. Stan Golder was very interesting. He ran an SBIC for the bank. And you probably heard what happened with Federal Express. Each round was lower than the last round. And the final round Ned Heiser passed on, didn't go into, and Stan Golder said, "Wonderful; I'll buy double my commitment." (laughs) When Federal Express went public, Stan Golder, with his venture capital activity, provided 10 percent of the earnings at First National of Chicago. He was a great guy.

And Stan started to be a broad venture capitalist; he was really the first practitioner of — I can't quite remember what we call it, but where you identify a highly fragmented business, a business that— Well, funeral homes: You've got them all over the place, but they all — what you do is you go in and build a giant in a fragmented business. And Stan Golder made a lot of money in the funeral home business, because, again, the company was an enormous buyer of caskets, okay, for all of those funeral homes. They got 50 percent discounts. And much more efficient. They've done that — Stan Golder started, but his right-hand— As I got older — I used to be absolutely phenomenal in memory and names, but I can't— (pause) What was the name? John? Oh, John Canning. John Canning was really Stan's number two guy at the bank, and when he left, he turned it over to him. And then John went out on his own, and Abbott Capital has funded him. He was the guy. He's done pretty well. He tried to buy the Chicago White Sox.(laughs)

CK: *Doing okay. So while you were editor/publisher of* Venture Economics*, you were involved in research and information and consulting. What were you learning about the venture capital industry?*

SP: Well, I was learning what the successful guys did, and what the not-successful guys did. And I preached at them a lot.(laughs)

CK: *Okay. So what makes for a successful venture capitalist or successful portfolio?*

SP: Well, a lot depends on where you are in the spectrum. Early-stage venture capital you finance an absolutely first-class team. The people are more important than anything else. That doesn't mean that their ideas can be harebrained. You've got to—

CK: *But when you say "team," you're talking about management skills?*

SP: Yeah. This was what General Doriot would say— Probably one of the best venture capitalist in Boston, was a good friend of mine, and I can't think of his name, founder of Greylock.

CK: *Oh, Bill Elfers.*

SP: Bill Elfers. Bill was the one that really preached to everybody that the team that you back is more important than anything else. Early or later-stage, it's again, the management is extremely important. We used to have a saying in the business; I'm sure you heard it: Venture capitalists look at five things: Management, management, management, product, and marketing. And the marketing is extremely important. And as a business grows, that becomes more and more important. You can have the best product in the world, but if it's not marketed properly, you're not going to be successful. And I like to think that, of the private equity business, of which venture capital is a subset, buyouts are a subset, and we've never come up with a name for what Stan Golder did — was to build dominate companies in fragmented industries. And that could be extremely — Canning, and Stan did it in the paper business. They concentrated on the paper diapers' business and made some fabulous investments in that business.

CK: *So is anybody copying that model of what they did?*

SP: Oh yeah. A lot — I would say Golder Thoma is the leading — I've lost track of the industry, profession, in the last few years. The guy that took over for Stan Golder. Stan Golder died very early. He was in his mid-fifties I think, when he died.

CK: *There's been talk about the role of the venture capitalist and the role of the entrepreneur, and the dynamic between these two. Do you want to talk about that, just as important* *dynamic in the success of a company? Or do you see that dynamic as important to the success of a company?*

SP: Oh, no question, it's very important in that a supportive investor who doesn't try to meddle with the thing— One of my favorite lines was: "The only person with a higher ego than venture capitalists is the entrepreneur that he has to subvert his ego to for at least five years.(laughs) And Tom Perkins was a master of that. They had fired Bob, the founder of Genentech. They had fired him from Kleiner Perkins, and yet he then worked with them to develop Genentech.

CK: *So when a company is successful, who do you give the credit to? Does it go mostly to the entrepreneur and the team, or to the venture capitalist?*

SP: It has to go to the entrepreneur and his team, because the venture capitalist, if he's any good, is going to get out of the investment. And the good guys realized this. Even Tom Perkins realized this. And nobody had a bigger ego than Tom Perkins. One of the things I learned early on was how to handle them. And they almost all — not all — have a good sense of humor, and you appeal to the humor. You don't take them too seriously. And that's the way I worked with Ned Heiser for years. And Ned let his own ego interfere with his success. He wanted to stay with the thing ad infinitum. And so he wasn't giving his investors any return. And his investors finally forced him to go public. And the minute he went public, I knew that was the end of Heiser Corp, and it was.

CK: *Why?*

SP: The public doesn't understand long-term investment discipline. They think long-term is one month, rather than five to seven years. And when somebody buys a stock, they expect it to go up. And if it does, then they sell it and move on to something else. If it doesn't go up, they tend to get rather nasty, and that's what happened. I think towards the end, I've heard that 50 percent of the stock of Heiser Corp was held by arbitrageurs. I've been known as a long-term freak for years. Why did I start Abbott Capital?

CK: *It's 1986.*

ABBOTT CAPITAL 1986 FOUNDER

SP: 1986. Right. Several years earlier, I had turned the running over of *Venture Economics* to my number two guy. He was a great strategic planner. I later found out he was a terrible manager. He was micromanaging all the time, and all the good people came to me and said, "It's either him or us." And I said, "Then he's history," And I had to fire him.

CK: *So you had* Venture Economics *from 1977 until you started Abbott Capital?*

SP: Well, true. I actually had it longer, which caused some friction. I tried to be very hands-off. I worked on the board of directors. We formed Abbott in 1986, and I didn't sell

Venture Economics until 1991. And while unfortunately, to replace him, I fired Norman, I hired a guy who, almost immediately I realized my mistake. The people were happy for a while, and then they saw that I had made a mistake. And he was not a good manager of people. For example, I said, I told him, "My door is never closed," and he close it all the time.

CK: *When you say "the people," who were you advising? Who were your clients, with* Venture Economics?

SP: Mostly, for the database, were large corporations who wanted to know what the innovative people were doing. And as I say, MMM and the drug company, Pfizer.

CK: *Would they want to meet with you personally with this, or they wanted access to information?*

SP: No. They wanted access to information. We had other people within *Venture Economics* that would handle them, and they would talk to them, find out what their areas of interest were. Then they would look in the database and say, Well, this company could help them; they should be talking to this company, either from a partnership, joint ventures or acquisition. And we had two senior people really handling that. And my involvement was more with, to a large extent, foreign countries. We had an office in London, and I used to preach at the Brits: "If you do anything, don't make all the same mistakes we made in the United States, because we made a ton of mistakes building the profession." The Brits made every one of them.(laughs) They used to come to me after I preached at them, You were right. Boy, this is very helpful, blah, blah, blah. And then they would go out, and two years later they would come to me and say, We made all the same dumb mistakes that you did.

CK: *What's a mistake? What was happening in the States that seems like—?*

SP: One of this is buying the product rather than the management team. Another is doing too much for the company.

CK: *Doing too much in terms of advice or being too involved?*

SP: Actually, one of the mistakes we made at Creative Resources was, I used to say, "What a small company needs is a $50,000-a-year comptroller." But they can't afford them. The top comptrollers were getting $100,000 then. And we had one comptroller at DCS who helped with the Creative investments, and he was trained by — I can't remember his name. The president of Raytheon many years ago, was famous for his comptrollers. And I said a good comptroller can handle three or four of these small companies if the numbers come up properly. Well, that was a terrible mistake, because we emasculated the company. We didn't build what they would need later on.

CK: *So that's the role of venture capitalists, is to be—-*

SP: Well, not to do too much for the portfolio company, but advise them. And it's a tough business because you have to advise the guy who has a bigger ego than you.

SP: I was inducted into the Private Equity Hall of Fame.

CK: *I know, I want to congratulate you. In 2005 [you were inducted into the Private Equity Hall of Fame.] And so I think that, Stan, it's really interesting when I think — and maybe we're jumping ahead, but when you just said to me you were never a venture capitalist except as a failure, and I said that's where you learned, obviously, so much that you were able to contemplate it —-and turn it around so that you could advise people perhaps what to do, what not to do.*

SP: Yeah.

CK: *So I'd like to ask you, how has venture capital changed since you began working in this industry?*

SP: It's become huge, and I have to say that I really feel a large percentage of the players there are not well qualified.

CK: *How would you contrast today with the early days of venture capital?*

SP: Well, people were in the business to make money from capital gains by building a portfolio or a company up and either selling it or having it go public, and realizing a big profit. I would guess that probably half the players today — and it's a wild guess — probably half of the players have never had a capital gains distribution and will never get one. It's become an investment management business rather than the building of value business. It was too easy to raise funds for many years. Now, Abbott looks at — I don't know what the number is, but it's definitely over two hundred, maybe closer to three hundred partnership opportunities a year. On a good year, we invest in eight to ten.

Out of three hundred, right. One of the things that we've learned is that we really have to do our due diligence upfront. One of my favorite sayings in the *Venture Economics* days was, "You can judge a partnership twice. Once before you invest, and once when it's all over; and if you try to do it in the meantime, you will be wrong." (laughs) It's very difficult, and Abbott, thanks to Ray Held, my partner, has been known for their due diligence. Matter of fact, we drive some of the people crazy. (laughs) So I think that's what's really happened, is Abbott used to have a minority of bad players.

One of the things that shocked everybody was when I came out and made one of my off-the-wall projections. I said, "I'm unable to find a venture capital partnership that has been funded by institutions that lost money." Now, I was able to do that probably through the mid-'80s. Now, Creative Resources didn't have institutional investors. So, I don't think anybody believed that it was an easy investment, but it was really tough. If you could make a good story, you went out and raised the money. We saw, at *Venture Economics*, people absolutely incapable of making good decisions raising substantial funds. And I think this, and now is the time that the grim reaper is lopping the heads off of those guys. But you see, they can keep going for ten to twelve years. We at Abbott lock our investors in for twelve years. We force the long-term discipline upon them.

CK: *When you started Abbott, had you contemplated going into venture capital?*

SP: No. No. I said one of the things I learned was I'm not good at doing the due diligence necessary. I would never make a good venture capitalist. Now, why did I start Abbott? And this is the shocking truth: I could not find one pension fund manager in the United States that had been accountable for his venture investments. What happened was the average lifetime of an investment manager in the pension fund business is less than ten years. And these partnerships are going — even a seven-year partnership, I don't think any of them have ever finished within seven years; they keep adding another year. So I went out and tried to hire the guy that had put together the AT&T portfolio. He had been in it nine years. And now we've just celebrated our 25^{th} anniversary. We have been accountable for that time.

CK: *So you saw a need for the service that you were—*

SP: Oh, I saw a crying need for somebody to be responsible, accountable for these investments. Harvard got rid of all their junk a few years ago. They sold off [for] peanuts. But they had been, I guess the most active period was Walter Cabot, and I think there have been three managers in the interim. One of the reasons we said that corporations were not good at it. Corporate venture capital was the rage maybe 30 years ago. None of it worked out. One of the greatest lines Tom Perkins, at the first industry conference — I threw the first real industry conference in the industry.

CK: *When was that?*

SP: I've gotta check it. I'm going to guess it was 1980. And I got Tom Perkins to speak.

CK: *This was through Venture Economics?*

SP: Yeah. It may have been '79, or somewhere around there. And it was in Atlanta, and we were worried that we were going to get enough people. We did. We had a very good conference. But Tom Perkins came up with a wonderful one-liner, talking about corporate venture capital. The most famous one was Texaco, or one, whoever was, "We put a tiger in your tank."

CK: *Exxon, Esso.*

SP: Right. And Tom says, "Well, corporate venture capital, they put a tiger in your tank and a turkey on your board."(laughter) And we all knew who he was referring to. Very nice guy, but I can't remember his name.

Well, that was my role. And I think I took some good ideas to some people. I think the reason most of them liked me was I had a lot of pension funds as clients, and we had a whole division of *Venture Economics* that worked to train pension funds how to do it.

CK: *Where do you see the venture capital industry moving now? We've been through the boom and the bust, and we're now at a kind of low point.*

SP: Well, one of the things we found out at Abbott Capital is that the venture cycles and the buyout cycles are contracyclical. Which means when one is in trouble, the other is doing better. And one of the things that we've done at Abbott is build a diversification of early stage, later stage, venture capital, buyouts and special situations. That's what we call the Golder Thoma types.

CK: *Until you get a better--*

SP: We've never come up with a better name. (laughs) And that has been very good. Right now is probably a good time to be investing in venture capital.

CK: *Why do you say that? What is it particular to venture capital that gives you that confidence?*

SP: Because you can build during bad times. And you will probably have better disciplines when you're building. Nobody's breathing down the necks of the portfolio company, saying, "Go public." Right now, a month ago, we started to get a lot of IPOs. That probably has slammed the window shut. When it's good to venture capitalists, it's probably not as good for buyouts who have to have more debt. And we've found that this contracyclical is good. So I think, again, it's my long-term roots, but if you try to guess when is a good time and when is a bad time, you will probably be wrong.(laughter)

CK: *Okay. It's getting late, and I just want to wrap up with some of your reflections. Some of this we've covered, and if we have, you can just kind of assume that you've talked about these.*

REFLECTIONS

SP: You've got my juices flowing. So I may come up with some ideas afterwards, which we should share on our computers.

CK: *Okay. I can call you and just put you on a speaker phone and continue.-*

SP: That's true.

CK: *But because you've seen venture capital from different perspectives and you've worked with venture capitalists, and it seems the entrepreneur, that whole process, do you see venture capital as a romantic quest? In any way. Is there some romance for the venture capitalist in what he's doing?*

SP: Well, there is at times, when things are going well. But I think the venture capitalist better shake it off.

CK: *So you don't see that as a motivating factor in people wanting to be—*

SP: I think it's true, but I think it's a bad thing rather than a good. You never want to get into the venture capital business because it's a romantic thing. Probably the hardest worker I've ever known was Tom Perkins. Last time I saw him was in the American Airlines Club in some airport, I don't even know what airport, and he was exhausted. And this was before he retired, before his wife died, Gerd — she held him together. After she died, he went off and spent two years in his castle in England.

CK: *So my next question was what venture capitalist do you particularly admire? And it seems that Tom Perkins is it.*

SP: Tom Perkins. Dick Kramlich is one. I'm terrible on names.

CK: *You mentioned Bill Elfers.*

SP: Bill Elfers is another one. Stan Golder.

CK: *And how about venture capital firms? Are there some venture capital firms that you feel operate in a particularly professional manner—*

SP: Well, New Enterprise. They give probably the best deal of any firm to their limited partners. TA is another one, with Kevin Landry. I don't know how many you want, but those ones come right to mind.

CK: *So just looking back — even thinking back to high school and Brown and majoring in Lit — I'm wondering, to listen to you today, what do you think has given you your confidence?*

SP: I think either advisors or partners that are very good at what I'm not good at. Ray Held and I have been great partners because he is the analyst's analyst. I mean, he drives people nuts. When he takes his handwritten notes at a thing, he can make me feel the next day as if I was at the meeting.(laughs) He just is fabulous at what I'm not good at. What I brought to the partnership was the marketing. I knew what pension funds wanted. I was able to make a presentation that was pretty good. Shortly after we formed, probably about a year after we formed, we were bidding on the state teachers at California. And we decided to sort of bid on the whole thing, and we had the feeling we wouldn't do very well. But we made a really good presentation. When Tom Flanigan called me and said, "Congratulations, Stan, you won." And I said, "Which portion?" And he said, "All of it." (laughs) And we were managing $2 billion for them when they fired us. Why did they fire us? The candidate for treasurer, or actually the treasurer of the State of California came to us and said, "Well, I'd like a little help in funding a campaign." And we said, "We're very sorry, but we don't do that." And she in essence said, "You're history." And we were. And we had just made a presentation to them, showing them that all of their things when we managed it was giving them an ROI of about 20 percent per annum for the six to seven years were employed. And they fired us. And they hired the guy — one of our competitors took the job for half a million dollars, where our fees were close to $1.5 million. And we said, "He will get rid of the account." And sure enough they hired their own person. It was better. But I would say that has been my secret, in that I've tried to associate with people, not necessarily smarter than I, although that was always what I was looking for, but understood something we needed better than I did.

CK: *Did you ever stop to think you might have enjoyed doing something else? Some other field?*

SP: No, I really didn't. I never — I'm trying to think— No, I've never been tempted to do anything else. If I wanted to do something enough, I started a company.(laughs)

CK: *Is there some way you would describe the contributions through your work, contributions to the country's economic growth in any way? Or is that more of a venture capital perspective?*

SP: Well, one of the things we did — and you should probably get it, it's at MIT — we did a contract for GAO — I can't even remember who it was for, but it was a governmental agency. And these guys came to us and said: We think if you will research it, that small businesses are the growth engine of our economy. And we did the eight months' contract. And that came out about the time of the capital gains wars, and I think really helped us — helped the profession to get a better light; that the innovative small businesses were the job engines of our economy.

CK: *And you say government agency asked you to produce this report?*

SP: Yeah, funny guys. They were with the U.S. General Accounting Office. I'll research that; I'll bet it's in this list that I gave you. Look for GAO.

CK: *Is there anything you were expecting me to ask that we haven't covered or that you'd like to add?*

SP: No. I have to go back and fall on my petard, which is: the world has to become longer-term thinking. Certainly, in investments. Even in politics. We've got to think in terms of at least ten to fifteen year investment horizon. One of the reasons many pension funds have done extremely well is that they can think very long-term. They know that they're going to have to pay out only five percent of what they're doing. And that's why I worked so hard to get pension funds confident with their investments in venture capital. Unfortunately, a lot of them are going to be hurt over the next few years as the turkeys (laughs) emerge. And there will be some. Very few so far.

CK: *Maybe we should stop here.*

SP: Yeah.

CK: *Let me thank you. Thank you for National Venture Capital Association, and now for Harvard Business School.*

SP: Funny — I don't know this guy, Heesen — Mark. On this end, he's done a good job. And I just don't know him, but they actually have gotten together with Pricewaterhouse and Thomson Industries to get a lot of this data that we used to—Well, of course I sold to Thomson Industries. I don't know why, but I was a little bit uncomfortable having the association do the data gathering. Price Waterhouse, I didn't bother, they would be fine.

But I think they've done a good job. You might be interested in seeing some of my testimony. I don't know whether I have any of that downstairs. I think I do.

CK: *The testimony during the '70s?*

SP: Most of it was in the early '80s. Was to Congress, both the House of Rep and the Senate Small Business Committee. I must have had four or five presentations to them.

CK: *What were they inquiring about?*

SP: This was: "What are venture capitalists doing? Are they really helping the economy or not?" And what we were fighting for was the capital gains retention of the lower taxation rate. One of the things that I felt that the NVCA was too influenced by Wall Street in that fight. Reed Dennis was not. I think Wall Street is taken over by the transaction-oriented mentality. And nothing I hate more than that transaction mentality. And I can remember — he shall remain nameless — but one of the presidents of the NVCA I think hurt us by testifying more in favor of investment bankers than venture capitalists. He didn't mean to be. I think he just didn't understand the difference. And I have no, obviously, no love for Wall Street. I think they should go to jail for what they did in mortgages. I hate to see the banks, Bank of America, tainting themselves by going into investment banking with Merrill Lynch. I think anything that touches Wall Street is infected, unless one is very careful.

CK: *I guess we're going to have to wait and see how this all unfolds.*

SP: Right. Well, do you think you have enough?

CK: *This is wonderful, just wonderful. Thank you so much for your time.*