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

DAVID J. DUNN

Interview Conducted by
Carole Kolker, PhD
February 22, 2012

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.

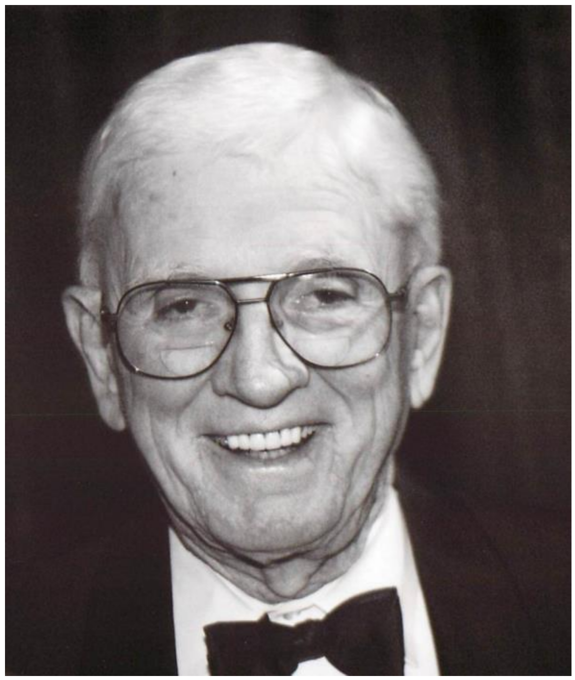
As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 21 percent of U.S. GDP and was responsible for 12.1 million American jobs and $2.9 trillion in 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 David J. Dunn

David Dunn is the managing partner of Idanta Partners Ltd., which he founded in 1970. With almost fifty years in the venture capital industry, David has participated in the financing of many companies, including fifteen to twenty start-ups, most significantly in technology, primarily the data processing industry, while also serving on numerous boards. David worked for G.H Walker & Co. from 1961 to 1962 and then joined J. H. Whitney & Co. where he stayed until founding Idanta.

Idanta provided the start-up capital for Storage Technology Corporation in 1969, where David was a director for more than fifteen years. They also provided the start-up funding for Prime Computer in 1972, where David served as chairman of the board for twenty years. In 1980, Idanta provided the start-up capital for Iomega, and David served as chairman of that board for the next twenty-three years.

David served in the Marine Corp, for one year, in 1950, before winning a competitive appointment to the United States Naval Academy. After graduating from the Naval Academy in 1955, he rejoined the Marine Corps. He resigned from the military in 1959 to attended Harvard Business School, where he was a Baker Scholar, receiving his MBA with “high distinction,” in 1961.

David was honored with an Alumni Achievement Award from Harvard in 1998. In 2003, he received the Student Sponsor Partner’s Founders Award for his involvement in SSP, having assumed financial responsibility for 150 at-risk New York City students. And in 2010, David received a Distinguished Graduate Award from the U. S. Naval Academy.

The following is an interview with David Dunn taking place at his office in Rancho Santa Fe, California. Today's date is February 22, 2012. My name is Carole Kolker. This interview is being conducted as part of the National Venture Capital Association's Venture Capital Oral History Project, with support from the Harvard Business School. This interview has been lightly edited for clarity.

THE EARLY YEARS

Carole Kolker: *Okay, David Dunn, it's nice to be with you here in sunny San Diego. Thank you for your time. We just talked about the project, so you know why I'm here and what we're doing. What we're going to do is start from your earliest years, so if you just want to tell me when and where you were born, we'll start there.*

David Dunn: I was born in Brooklyn, New York, in 1930.

CK: *And how did it happen you were growing up in Brooklyn?*

DD: Because my mother lived there. I came from a single-parent home. My mother was a nurse and worked for the City of New York Public Health.

CK: *And did you have any siblings?*

DD: I had a brother who was ill in his youth, and finally he died when he was about twenty-eight from a heart condition.

CK: *And your mother's name?*

DD: Rose M. Dunn.

CK: *Rose M. Dunn. She was a nurse, so she wasn't home a lot?*

DD: No. They worked six days a week when I was a kid.

CK: *What were your interests as a child, do you remember?*

DD: I don't really remember. I went to school, and I was a poor student, I'd have to say. I spent a lot of time on the streets; surviving, I guess, was the principle interest. It was the Depression and a single-parent home. It was difficult for my mother.

CK: *I'm sure. So were you a tinkerer, kind of?*

DD: No.

CK: *You were "stick ball"?*

DD: Well, that was the primary sport, stick ball, right, on the streets.

CK: *And so how would you describe yourself as a kid? Were you competitive?*

DD: I'd never describe myself as competitive. I'm sure other people do, but I never envisioned myself as competing with other people, just maybe competing with myself. As I said, I was a poor student. I went to a Catholic grade school and then I went to a Catholic high school. I remember in grade school I actually got left back twice, but in our eighth year, for some reason or another, they gave everyone in the school an IQ test. Another guy, Ed Murray, and I tied with the highest score. So there was something going on. My basic problem was I had a very bad memory, and in those days education was primarily memorization, rather than thinking, and that's true to today. So I didn't do well in grade school. And then I went to high school and I did worse. I went to an academic high school. They were on a semester basis, and I had to repeat the third semester and then I flunked two subjects when I repeated it, so I was out of the academic high school and went to a trade school, High School of Industrial Arts in New York.

CK: *What were the values, coming from your mom, coming from your home, in terms of your future, or in terms of education or work ethic or what was expected of you?*

DD: Well, she always wanted us to do well in school and go through college. Very much so. I was a challenge, to say the least.

CK: *Was she concerned about your performance?*

DD: Yeah.

CK: *Did she realize that you were bright and struggling?*

DD: I don't think she understood the problem, nor did I, nor did the schools. What happened, in high school I took languages and that's pure memory, and that was a disaster for me.

CK: *So you went on to a technical school?*

DD: A trade school.

CK: *So what were your plans for the future?*

DD: Well, I wanted to be a photographer, so I went to the High School of Industrial Arts, which was a really good trade school. They were very selective in who got in there. I think my mother used some pull to help me get in there, and I did very well there. I won the portfolio award the year I graduated, in photography, so that was an accomplishment.

CK: *Absolutely. Were there any particular teachers who were mentors or inspirations during this period?*

DD: Joe Messina was head of the photography department. I got a lot out of him. So I guess you'd say he was — we didn't use the word "mentor" then, I don't think I ever heard it, but he provided some leadership and direction.

CK: *So there wasn't anyone that said, "You're really bright. You can do better."*

DD: No one ever accused me of being bright while I was at school.

CK: *How about sports? Did you play sports?*

DD: The school I went to, the High School of Industrial Arts, the building had been used as a hospital during the Civil War, so you can imagine the condition. They had no sports. They had I guess what was sort of a cafeteria that they used for physical ed, which was a requirement in the schools, but there were no sports.

CK: *What were your plans when you finished school?*

DD: I wanted to work in photography. I was pretty good at it, taking pictures, et cetera. And I guess I got the bright idea someplace to go to the Rochester Institute of Technology, which was a really good — I'd call it a technical trade school in those days. It's broadened out. The problem was, of course, money. So I actually got a good-paying job with the railroad. Just after I graduated, it was shifting from a six-day week to a five-day week. Since railroads operate seven days a week they had to add to the workforce, so I got a job loading freight and mail for the Pennsylvania Railroad. That paid well and I had tremendous amounts of overtime, so I was able to save money to go on to school. I applied there and, to my amazement, was accepted. I was going to go, I guess, in September of 1950. But meanwhile, I had joined the Marine Reserves in 1947, and my unit, 4th Signal Company, was the first unit called up in the Korean War. We were not the first persons, but the first unit to get activated. So I got on a troop train at Bush Terminal in Brooklyn, and they dropped us off here at Camp Pendleton a week or so later. So that changed the direction, so I never went to this Rochester Institute of Technology.

CK: *I wanted to ask you, before you had worked for the railroad, had you worked, earned money?*

DD: Since I was twelve or ten. I delivered newspapers in the morning. I guess starting when I was fifteen, I used to hitchhike upstate in June, when school got out, and I'd work there until Labor Day, and then hitchhike back to New York and go back to high school.

CK: *Going to these resorts?*

DD: Resorts, hotels. I worked as a dishwasher, waiter, bar waiter. Again, when I was fifteen, World War II was still on, so if you could walk and talk, you could get a job. So I did a lot of work. I worked after school, worked before school delivering newspapers, et cetera.

CK: *So you're used to hard work. You're out in California, at Camp Pendleton, and the Korean War is on. How was that experience?*

DD: Well, actually, it was a great experience, the best thing that ever happened to me, really. I was an enlisted man. My MOS, because of my high school, was photographer. You could have a PhD in electrical engineering and they gave you rifle and sent you to Korea, but if you were a photographer— They had me scheduled to go to a combat photography school in Santa Barbara, which was in business many years and just went out of business a couple of years ago. And I was scheduled to go there. In the meantime, they put us into the supply center. And when I say they "put us into it," we packed up our clothes, went down there and lived in the supply center. We were sleeping on cots. There were trucks coming in and out twenty-four hours a day. So we could go to bed at ten o'clock, but if a truck came in at twelve, we got up and unloaded the truck. We didn't have to load anything out during the night, but in the daytime we were loading stuff out. I guess it was a group of about a hundred of us that they sent down there, and we were there for several months because there was so much manpower going overseas in the Korean War, and just worked there in the supply depot.

UNITED STATES NAVAL ACADEMY 1951 - 1954

And one day there was an announcement over the loudspeaker that anyone who wanted to go to the Naval Academy should sign this list. So I signed the list. I guess (laugh) they were scraping the bottom or something when I got called up to the administrative office, and they designated me to go to NAPS, which is the Naval Academy Prep School, which, at that time, was in Newport, Rhode Island. So I think around December 27 of ’50, I got on a train to go to Newport, and I went to NAPS there. They had a full-year course from September to when you took the exam at the Academy. And then they had an accelerated course which started in January, and I went to that. In those days — and I think it’s still true that they do it now — they sent a total of I think 140 men a year out of the fleet and the fleet reserve. Now, that includes Navy, Marine Corps, active duty, reserves, et cetera. At any rate, when we took the competitive exam, if I remember, I stood like fortieth in it out of the country, and I went to the Academy.

CK: *It changed your life.*

DD: Yeah.

CK: *So how was that experience?*

DD: Difficult. (laugh) I was twenty-one, I guess, when I started at the Academy. I worked hard. I had to take a language there, Italian, but I really worked hard at it and I did well. I graduated. I stood just one or two men below the top quarter of the class, so I did well.

CK: *How did you feel about being accepted to the Naval Academy?*

DD: Lucky. (laugh) I really was impressed with it.

CK: *I say that in light of the fact that school had never been where you proved yourself, and you were interested in photography, and here this is taking you in an entirely different direction. In some way, validating that you're bright enough to do this.*

DD: Yeah. I did, as I say, reasonably well there. And then when I graduated I went back into the Marine Corps, and then I served another four years in the Marine Corps.

U. S. MARINE CORPS 1955 - 1959

CK: *Were you obligated to do that, or did you choose to do that?*

DD: Oh, to go to the Marine Corps? I chose to do it. In those days, they only sent about seventy or eighty men a year to the Marine Corps from the Academy. Again, the Marines are part of the naval service, so it makes sense that they supplied officers to the Marine Corps. And generally there were more people who wanted to go in the Marines than there were openings, but anyone who was an ex-Marine had preference. So there was never any question that I could go back in the Marines if I wanted to.

CK: *Were you considering a military career?*

DD: Yeah. I really thought that I'd stay in.

CK: *How did that experience impact your life, those years in the Marine Corps?*

DD: It had a tremendous impact on my life.

CK: *In what way, would you say?*

DD: It certainly teaches you to make decisions very quickly. I just had a lot of good experiences. I was executive officer of an artillery battery. The way the setup was when I was exec was the CO of the battery, when we were in the field, he went with the infantry regiment that we would support, and the exec would run the battery. So it was really good experience. I ran it, and I was a guard company officer at Norfolk, the Navy Yard, and I ran the post exchange there also. We had about forty civilian employees. You're just assigned a job, you sit at the desk and do the work. So it sort of teaches you that you can do anything, good or bad. (laugh)

CK: *And puts you in some leadership positions.*

DD: Yeah, from day one.

CK: *But you resigned. You were in the Marine Corps from 1955 to '59 as an artillery officer?*

DD: Well, that was my primary MOS, right, artillery officer.

CK: *But you resigned and applied to Harvard Business School.*

DD: I applied to Harvard Business School, I got accepted at Harvard Business School, and then I resigned.

CK: *So what was your thinking behind this, in terms of your future? How did this come about?*

DD: Well, when I was an enlisted man, the war was on and the Marine Corps was a very exciting place, a lot going on. When I graduated from the Academy, it was peacetime. I guess the war ended around '54 or so. After a while, I found it somewhat boring. Your function really is training troops. People are coming into the corps and out of the corps, so you have repetitive training cycles going on every year. After a while, I got bored with it. I was stationed at Kaneohe, Hawaii, with the 1st Marine Brigade, and I happened to live next door to a Navy supply officer who had graduated from Harvard Business School. He and I got talking about Harvard Business School, and it sounded good. I remember he subscribed to *The Harvard Business Review*, and I used to borrow that and read it, his magazine. I think I subscribed to *Fortune Magazine* and started reading that. So I learned something about business. I figured I was sort of at a disadvantage. I was twenty-nine when I was going to be getting out of the Marine Corps. And I figured, rather than just go to a job out of the Marine Corps, I'd be better off going to Harvard Business School and then sort of giving me a head start in business. I did that and I did very, very well at Harvard Business School because that was all thinking and very little memory.

CK: *What had sparked this interest in business?*

DD: Well, that's where people earned a living (laughter) if you were getting out of the Marine Corps, and so it seemed to me that going to Harvard Business School would give you a leg up going into business.

CK: *But you had given up your career in photography?*

DD: Well, yeah. I had, certainly in the Marine Corps, never quite practiced photography.

HARVARD BUSINESS SCHOOL 1959 – 1961 MBA

CK: *You said you did well at Harvard. I would say so. You were a Baker Scholar. You graduated with high distinction. What were you finding so interesting?*

DD: Well, I really got interested in finance and had a couple of really good professors there. I just seemed to have a knack for being able to think through the financial problems, if you will. I guess I decided to go into investment banking, and that's what I did out of business school.

CK: *Did you happen to be in any of General Doriot's classes?*

DD: No. General Doriot only had one class. I did not take his class.

CK: *Had you met him?*

DD: That was a second-year class, and I went to sort of a symposium to discuss that class and listened to it. I didn't take it.

CK: *Oh, okay, because I know he was there until '66. Did you say you found mentors or people that influenced you at Harvard?*

DD: A lot of people influenced me there. A lot of those professors were very bright, very able. I learned an awful lot there. "Mentors," I don't know. That was a word, again, we didn't use; it's very common today, but not then. But I got a lot out of a number of good professors. Walt Frese taught advanced financial accounting, and I got a lot out of him. The business policy class; I had the most famous professor – Prof.Cristianson.

CK: *Okay. We can always remember that. You said you were going to go into investment banking when you* finished*. So what did you do when you finished in 1961?*

DD: The summer between first and second years, I worked for Lee, Higginson in Boston, which was an old, old firm, back a century or more. I really was working in research there for the summer. I did some good work, wrote a report on Square D, which is something I picked up out of some of their reference books. I sent it to the head of the research department in New York, and he liked it. So he had me meet him in New York and then go out to Square D and interview the management with him, and then we published the report. And I liked that, but I wanted to go into investment banking, which was, I guess, the "sexy" part of the business in those days. So when I graduated, I had accepted a job with Lee, Higginson. At the end of the summer they wanted me to come back when I graduated, and I said I would. But then I started thinking about it — and I really didn't interview any of the companies that visited the business school. But then I thought about it and thought about it, and I wrote the guy at Lee, Higginson and told him that I really wanted to talk to a couple of different firms and really open my mind again to that decision. He was a little upset, but he wrote me back and said, "Yes, we heard you made Baker Scholar." (laugh)

CK: *Can I ask you: Was your mom alive when you went to Harvard?*

DD: No. She died when I was a first classmen, graduation year at the Naval Academy.

CK: *Okay. So she knew that you had gone on?*

DD: Yeah. She actually visited the Academy at the end of plebe summer. She and my brother came up for a couple of days at the academy.

CK: *I'm sure she was very proud.*

DD: Yes, she was, yeah.

J.H. WHITNEY 1962 - 1970

CK: *You said you rejected this offer in Boston?*

DD: Well, I told them that I wanted to talk to a couple of other companies, and I guess they saw the handwriting on the wall. They still wanted me to come; I then interviewed with Goldman Sachs. I didn't interview with anyone at the school, I don't think, but I arranged for an interview in New York with Goldman Sachs, and then with G.H. Walker & Co. And I went to G.H. Walker and I was the number two man in the two-man department of doing what I call underwriting. I'd say I did well at it, but, again, I guess I got bored because I found that in investment banking you spend 90 percent of your time selling your service and 10 percent of your time performing your service. I guess before I graduated I got a call from John Horgan, who was a partner of J.H. Whitney & Co., in New York, a venture capital firm, and he wanted me to come down for an interview with them. He had heard about me, and I turned him down. I wouldn't go down for an interview. But after I started getting bored with the investment banking, I called him up and arranged an interview. We had discussions which went over a few months, and then I ended up at J.H. Whitney & Co. as an associate. I started there July 30, 1962.

CK: *How had John Horgan heard about you, and what was that connection?*

DD: He called a partner at McKinsey & Co., and he asked him if they could recommend anyone from the graduation class of the business school. He spoke to Jack Sheehan, who was the class of '60. Jack Sheehan knew me and knew how well I had done at the business school, so he recommended me. As I recall, Horgan had gotten another name, Saltzman, from our class. He talked to both of us. He offered Salzman the job, who turned it down, but I turned him down, too, as far as even interviewing, but then later went back and talked to him and ended up getting the job.

CK: *So you're working with Benno Schmidt?*

DD: At J.H. Whitney & Co., he was the managing partner.

CK: *And he was still active at that time?*

DD: Oh, he was still active when I left. He was the managing partner, very much the managing partner, still active making investments himself and working with investments for other people in the firm.

CK: *What made you think you were well suited — it's venture capital, at that point, isn't it?*

DD: I don't know. I thought it was an interesting and potentially rewarding business. I guess from the Marine Corps I felt you could be good at anything that you did. You'd have to understand, in the Marine Corps if you get transferred to Norfolk and they say, "All right, you're going to run the post exchange; you've got a restaurant upstairs and you've got the exchange, which is a retail store, plus you're a Guard Company officer." You just do it. I guess it never occurred to me that I wouldn't be able to do the venture capital business.

CK: *What was the culture like at Whitney?*

DD: There were about eight or nine partners in the firm. I think when I joined them I was the only associate. There was sort of a department. Nat Owen and John Horgan, both of whom were partners, who really were involved in the old General Railway Signal Company, which became General Signal Corporation. And going back a few years, the company, Whitney, had done a buyout. They bought the Regina Electrikbroom Company in Rahway, New Jersey. Then, after they were in that a couple of years, they were approached by someone on behalf of the General Railway Signal Company that wanted to acquire the Electrikbroom Company. Don't ask me what that relationship to the business was. General Railway was one of the, I guess, two major railway signaling companies in the United States at the time. But, anyhow, they found out a year or two later why they wanted to do that. I remember the story; it was incredible. They had an idea of what they were going to sell Regina to them for, and the Railway Signal Company people came in to negotiate the price and offered them twice as much as they were thinking they'd sell it for, so they quickly made a deal and sold it to them.

CK: *What's the story? Why did they want Regina?*

DD: Well, after that, Horgan and Owen went on the board of directors. It turned out there had been I guess what you'd call massive price rigging in the industry. The way they had it set up was General Railway, their primary customer was — I forget which, either the Pennsylvania Railroad or the Grand Central — and then the other, the Westinghouse Air Brake or something was the other signaling company, and their primary customer was the other of the two big railroads. And if General Railway took business from the Central, which was Westinghouse's customer, they paid a 5 percent royalty to Westinghouse on the business they did there. So it was as illegal as could be, in violation of the Antitrust Act. So I guess when Nat and John were on the board and they found out about this, they got old fast. But, anyhow, they acted very quickly. Nat ended up replacing the guy who had been chairman of General Railway, and they sort of took control of the company. They put an end to the market-sharing agreements, et cetera, and were running it legally. Now, they obviously did not report it to the government because that would've been the end, probably, of both of the companies had they done that, but they cleaned up the thing.

So they were running General Railway Signal, at the time, out of J.H. Whitney & Co., and I did a lot of work for them in my early years there.

CK: *What was Benno Schmidt's role at Whitney?*

DD: Well, he was very much the managing partner of the firm, and he had some investments that he was involved with. Let's see, I made an investment around 1964 or so for a start-up cement company out here in Bakersfield, and Benno and I worked on that together. I would guess that the deal came in through him, and he had me look at it and we did the investment. It was a cement company headquartered in Los Angeles, and their limestone deposits, which you make cement from, were on the Tejon Ranch out here in Bakersfield. And as I recall, when we did the deals, in say '64, it was the largest capitalized start-up in the history of California at the time. As I recall, the investors, there was a group of four or so, put in about $5 million in equity, and then the Prudential Insurance Company loaned us $16.5 million, because you had to build a big cement plant on the Tejon Ranch. So it had $21.5 million start-up capital, if you will, which, at that time, was the biggest.

CK: *What was he like to work with? I've spoken with Russ Planitzer, who started with Whitney in the '80s, and also with Mike Brooks, who also started after you left. I've heard various stories of maybe a bigger-than-life individual. Maybe you met him at a different time or —*

DD: Well, I did meet him at a different time and had different sets of experiences with him. Benno is the second-brightest human being I've ever met, an extraordinary mind. He was very, very impressive, an extraordinarily forceful personality. He had friends all over the world. I remember the prime minister of Australia, whenever he was in the United States he'd come in to our office and visit Benno, just a very, very powerful, domineering guy. He didn't like people to argue with him (laughter). He didn't like it, but he accepted it. So it was interesting working with him.

CK: *What was your relationship with him?*

DD: I guess from the day I started until the day I left, I always called him Mr. Schmidt. I was very, very respectful to him; I didn't call him Benno. So I didn't have what I'd call a personal relationship with him. I had a business relationship. He was tough sometimes to work for, but, again, a very able guy. I remember the cement company that we formed. He went on the board. I went to the board meetings, but I was not on the board. The chairman of the *LA Times* organization, Norman Chandler, who was a big figure on the West Coast, was on the board, and some guy from Canada was on the board. But I was the guy that did the work. They were more or less the pontificating directors, and I was the guy who went out there and worked with the management.

I can remember that we had trouble getting the company off the ground, and the reason was one of nature, I guess. The plant we built on the Tejon Ranch was a three-million-barrel cement plant. What you do is you dig up this clinker from the ground, and you have this tremendous kiln, a rotating kiln. This kiln, at that time, was the biggest piece of rotating machinery west of the Mississippi River. Why I remember that, I don't know, but it was. Sometimes you dry the clinker. It has moisture in it and you dry it before you put it into the kiln. If you don't, then it can take longer and be harder to get it ground up and dry. We had probably the worst rainy season in California in many years. I remember really pushing the management to put in a dryer to run the clinker through before it went in to the kiln. I couldn't get them to do it, because they had overspent their budget and they were looking at running out of money, and they knew if they had to raise more equity it would dilute their interest. So they wanted to gamble that the rain would stop and we'd have dry clinker to put in there. And I kept saying that the risk/reward ratio was out of whack. So we had this board meeting, and I remember I raised the issue with the president, John Kinard, and he gave a half-hour dissertation on the merits of getting the dryer or not getting the dryer, blah, blah, blah. Everybody was sort of asleep by the time he got through. And I said when he got through, "John, I'm going back east and I'll be talking to our partners in New York. What should I tell them? Are you going to get the clinker, or are you not going to get the clinker?" And then he started again and went through the whole rigamarole. That was his nature: Rather than face the issue, he just talked about it. So when he got through, we had run out of time and the meeting was just about over, and Benno stood up and he said, "John, get the goddamn dryer." And that was the end of the discussion. So John went out and he spent the money and got the dryer.

CK: *But Benno was listening to you?*

DD: The logic was, it just didn't make sense not to get it. You could've gotten it and then while you were building the dryer the rains might've stopped and you might've never needed it, but the risk/reward ratio said get it. But that was Benno, and of course, no one argued with Benno. He said, "Get it." They got it.

CK: *Are there any other memorable investments that you were involved with, with Whitney? You were there for eight years.*

DD: The cement company really should've been a real success.

CK: *What was the name?*

DD: Pacific Western Industries. But it wasn't. What they did— We were negotiating at the beginning to get Prudential to come in with the $16.5 million loan. The only question they raised — given the experience of the management, there was no doubt they could make cement — was: How could you sell in a competitive market? This, that, and the other thing. The management had the bright idea — which we all supported and I supported, too — to acquire some ready-mix companies, which are people who buy cement and they convert it into concrete. They sell ready-mix, which is sort of concrete before it hardens. So we acquired as part of the start-up about ten ready-mix companies around California, the areas that we would serve. They were just badly managed companies. It was very much a single proprietary-type business, some tough guy who's got a lot of friends who buy the ready-mix from him. So they didn't really lend themselves to sort of cohesive corporate management. So they had a lot of problems after we got the cement going and producing.

I remember I brought a Harvard Business School solution to their problem. We had I think nine who were losing money and one who was doing extraordinarily well. I finally got the bright idea. I said, "Look, why don't you guys," the management group, "go out to the company that's making money and really take a hard look at what they're doing, and then see if we can implant that into the other nine companies?" So they said, Gee, that sounds like a good idea. And they went out — I forget where it was, in Santa Ana someplace. I was there when they came back that evening. Their jaws were down. Their shoulders were slumped. They obviously were upset. I said, "What happened? What's wrong?" They said, "Well, we found out how they're making money. We had to fire the head guy." What they were doing was they were shortchanging the cement content in the ready-mix. Ready-mix includes sand, gravel, and cement. They were selling, say, a school district a concrete mix that might use five bags of cement per cubic yard, or whatever the figure was, but they were only putting three bags in. That works fine until the school building collapses and kills all the kids, et cetera, or the bridge collapses or whatever. That's exactly what they were doing, and that's how they were making money. So, as of that day, we had ten out of ten that were losing money. And to their credit, they immediately put an end to it.

I guess they finally decided that we couldn't really make this a success with the management team that we had, et cetera, and it's too hard to bring in a new team or whatever, so the idea was to sell the company. But how do you sell it? If you start saying it's for sale, people will be leaving, blah, blah, blah. So, by that time, I guess Richard Stedman had come into Whitney. He had been my boss at G.H. Walker, then he went to the State Department for a couple-year assignment, as a lot of investment bankers did, and then I recommended him to Benno. Benno interviewed him and was very impressed with Richard and brought him in. But, at any rate, he was there. Benno agreed with me very much that we ought to sell it, but he didn't know how to get a buyer. He was afraid that if he pushed the idea of selling it and then it didn't work and the thing fell apart, it would be blamed on him. So I called Jack Sheehan, who I had mentioned before worked for McKinsey. Well, he had left McKinsey and he was vice president of administration of Martin Marietta Cement and Lime Division at the time.

So I called Jack and I said, "Jack, this is completely confidential, but I've been sitting through the board meetings here." And he had helped us when we started this investment, et cetera, given me some guidelines. I said, "The board really wants to sell this thing, but they don't know how to go about it. You know the people." I forget the name. It was headquartered in Dallas at the time. It was a cement company. I said, "Why don't you call them and tell them that you've heard through a friend that there's some dissention on the board of Pacific Western, and that if they move, strike while the iron is hot, so to speak, they might be able to buy it." Understand that the key thing in starting a cement company is having a deposit of limestone. The one on the Tejon Ranch was the last known limestone deposit available for a cement plant in this West Coast area. So about two or three days after that phone call, Benno gets a call from the president of this company. I remember, I shouldn't have done it, but Benno called me down to his office and he said, "This is something you can learn from. I just got a call from 'Joe Blow,' the head of this cement company, and they want to talk about acquiring Pacific Western Industries." He said, "That's the way: Just sit and wait and someone will come to you." And I said, "Mr. Schmidt, I want to tell you something just in case you hear it elsewhere. I called Sheehan three days ago and told him to whisper in their ear that we might be willing to sell." So he looked at me and he said, "Thank you. That'll be all." (laughter) And so I left. I guess I mentioned that Stedman was with the firm, because then he moved everything to Stedman to work with him on the deal and they got it done. We sold it and everybody got their money back, and Prudential got their money. It was a learning experience.

CK: *Great story.*

DD: I probably should've let it go by without telling Benno that, but he was man enough to accept it. (laugh)

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

DD: Well, I guess I had self-confidence that I could do the business.

CK: *Where do you think that came from?*

DD: I'd say from the Marine Corps and the fact that I was involved in it. I think, if I remember, when I left Whitney, I had to raise the money to start a venture capital firm. You couldn't do that, go out and talk to people about raising money, without letting your partners know you were going to do it, because it would get back to them within a week. I remember I had made partner around the early part of 1966 or so. When I started raising money, I remember Benno had a major investment, three million acres of land over in Australia, and he used to go over there in the summer and spend about a month on the ranch properties over there. He just liked that. I remember I wrote — he was coming back from Australia to Hawaii to the States — and I wrote him a letter and sent it to the hotel in Hawaii he was going to be staying at and told him that I had decided to go out and start my own venture capital firm, and I wanted to let him know before I started talking to people. And I enclosed with the letter a very short letter of resignation that, "I resign from J.H. Whitney & Co. effective at your pleasure." So he could accept it whenever he wanted. So that was a separate letter I enclosed. I said, "I haven't raised the money yet, so it's going to take me a while to do it, and I'd like to stay while I'm doing that, but I've enclosed my resignation so you can accept it whenever you want." (laugh)

Benno had a condo in Vail, Colorado, and I had started going out to Colorado, because I financed Storage Technology Corporation, a start-up, around 1967 or '68, one or the other, which was a spinoff from IBM, making high-performance tape drives. So I was going out there once a month. I was on the board of Storage. And I remember Benno — well, he used to let us use his condo, and I was scheduled to go out and use his condo for a week with my family, I guess a day or two after he was scheduled to get back from his trip. I remember he walked into my office when he got back and he said, "I got your letter. I'm going to be busy for a while, then we can sit down and talk about it." And he said, "I'll see you in a couple of days." And I said, "Well, I'm going to be out using your condo in Vail for the next week or so," (laugh) which took him back a little, but he said, "Okay, fine." So then we talked about it when I got back from Colorado.

He tried to talk me into staying with the firm. He had just raised me. I had been a two percent partner of Whitney, and he raised me to three percent, I guess the first quarter of the year. And he actually offered me ten percent, which would've made me the second-highest partner under him. Had he done that or in any way indicated he really thought I was the bright and shining light there, I probably would never have thought of starting my own firm. But I guess I was too emotionally committed to starting the firm, and I don't like the idea of advancing through a sort of "resigning to get ahead" type of thing. I don't know whether it made good economic sense or whatever, but I turned down his very, very generous offer. At the point I resigned, I think over the past like four or six years, the firm had done like ten deals, and I had done eight of them. We had like ten people there. I had really done most of the deals that the firm had done.

CK: *What's the story of Storage Technology? How did that come to Whitney?*

DD: Well, it came to me, actually, at Whitney. What happened was one of the first deals I did was the Hamden National Bank in Hamden, Connecticut, which was a start-up. It was a group of three young guys, I believe out of Chase, who had resigned from Chase and were starting this bank. There was a story about them in *Time* magazine, and it showed a picture of them in front of a trailer, which was their temporary office while they were raising money. And there was a sign on the trailer and it had the phone number. So, using a magnifying glass, I was able to read the number, and I called them and told them if they were interested in talking with me, I would be willing to talk with them about investing, because that's what they were trying to do, raise the dough. To make a long story short, I think we took like a 19 percent interest. There was some rule about if you own X percent you become a bank holding company or something. I think that was 20 percent so I think we took 19 percent of the start-up. I went on the board and was working with them. I was trying to figure out some avenue to go into as far as starting businesses. I got the bright idea that the data processing business — generally, computers — would be a good place to look. So the reason I bring up the Hamden National Bank, they were a customer of IBM, and IBM used to run, and probably still does, these week-long courses in data processing computers, which were free for customers. You'd send, say, the chairman of the board up — in those days, people didn't have computers — so you could learn about them. So I had the bank send me, as a director, up to this school in wherever it was, Upstate New York, at IBM. At least you learned the lingo and what computers were and peripheral equipment. So that was my start in data processing.

I started promoting our interest. Whenever I was talking to someone in Texas or New York, I'd say, "We're looking for good start-ups in the computer business." And one of the guys I talked to was Jerry Lodge, who was the head of research at G.H. Walker & Co., in New York. He was a West Pointer, and he had a classmate, Tom Horgan, who worked at the development labs of IBM. He talked to Tom and Tom said, "Yeah. Well, I've got this idea for this great product and I can't get IBM to bite on it, so I wouldn't mind starting a company." Jerry arranged for a meeting. I think it was on Easter around 1966. I think it was on Easter Sunday, just because it was a day we could all get together. He had a meeting with Bruce Elmblad, who was, again, a classmate from West Point, and he worked for AMP in marketing. Tom Horgan pitched this product that he'd been pitching for a year or more at IBM — and not getting a bite — that was a replacement for the keypunch machine. You may not be old enough, but did you ever see those things, where they cluck-cluck-clunk and they put holes in cards, et cetera? His initial idea was a key-to-tape machine. The theory was that, instead of having this machine punching holes, you would have an electronic machine putting the data on a reel of tape. It'd be a hell of a lot smaller and a lot less noisy, faster, et cetera. And the theory in the case, too, was that once you developed the machine you could have the keypunch operator stand up and you could move the keypunch aside, put this thing in front of her; she sat down and did exactly the same thing she did before, only she doesn't have to get up every once in a while and feed cards into the machine. And so, anyhow, it sounded like a great idea. So I agreed to finance it, and then Jerry Lodge got all excited and said, "Well, I want to take part of it through G.H. Walker & Co." So Whitney put up half the money and then Lodge got a group of people through G.H. Walker to put up the other half. And just about the time we were putting this project together, IBM came out with a single — I guess it was a 10- or 12-inch disk device, which was a memory device. Again, the guys, Tom Horgan from IBM, got the idea that what would be even better than the tape was the disk. So it became, instead of the key-to-tape, the key-to-disk machine. It was quite successful, Inforex. It came out with the first key-to-disk replacement for the keypunch.

Our first customers were people like Johns Hopkins Insurance and Chase Manhattan Bank, Bank of America, Wells Fargo. All of those companies were buying their computers and all of their peripheral equipment from IBM, and they wanted someone else. So if you could come in with a product that really worked — and this really did work — they were just excited about the idea of having someone competing with IBM. So we got off the ground very successfully. Now, IBM is not stupid. The reason they rejected this idea when Horgan was pushing it as an employee was — I forget the figures, but they had hundreds of thousands, maybe a million or more, or whatever the number was, of these keypunch machines all around the world, most of which had been written off, so there was no depreciation on them, and they were getting $80 a month rental for them. It was a gold mine, in other words. Financially, what they were doing made sense in a short-term way. What they should've been doing, of course, always was pushing technology, advancing the state of the art, putting better products in their customers' hands. But for marketing people, when they see those revenues rolling in, it's hard sometimes to think that way. So, anyhow, we were the first with the key-to-disk. It was successful. It was a good start-up.

Your question was how Storage came in. Well, we had hired into Inforex a guy, Carl something, who came from the Boulder, Colorado, facility of IBM — really top-notch guy. Jesse Aweida, who was head of tape drive development at the Boulder facility, wanted to leave and start his own company. So he called this guy Carl, who he knew had left and gone into an entrepreneurial company at Inforex, and asked to introduce him to whoever provided the money there, and Carl introduced him to me. It was an interesting one. It was like the summer of, I think. '68, and I had bought a boat in Hilton Head Island, and the family and I went down there and were sailing the boat back to Connecticut. This guy, Mike Myers, I had hired as a new associate, and he was going to be working for me primarily, but other people, too, and I told him to answer my phone and read my mail, et cetera, while I was gone. I would call in when we'd go into port at night, and he told me that this guy, Aweida, from IBM Boulder had called. So I said, "Look, it sounds interesting. Fly out and meet with him and just keep him happy until I get to New York." So he flew out and met with Jesse and a couple of his other guys and came back to New York. I called him the next day and he said, "Boy, this really looks good." So I docked the boat at Annapolis — I knew Annapolis and the hotel there on the waterfront — so I pulled the boat in there and put my wife and kids in the hotel, and I flew out to Boulder and met with Jesse. I actually did a handshake deal with him within a day out there. I remember I offered, after we talked through what he needed — the figures surprise you.

You think big figures today, but, if I recall, I offered him a half a million dollars start-up capital for a 60 percent interest in the business. And he said, “I don’t need a half a million dollars. I’ll take $300,000 for 40 percent interest. The management will get the 60 percent, for $75,000.” So I said, “Deal.” So that was the deal we did. We bought 40 percent interest in Storage for the $300,000. Because the only thing he had to do with the $300,000 was get the people out, start the business, develop their own tape drive — they were going to compete with IBM in the tape drive business. Then, as soon as you got the tape drive working, you could go out and raise money at a significant markup from that. So I did that deal with him, and we started Storage Technology. Oh, and the way I did it was instead of putting $300,000 in, I guaranteed a bank loan of $300,000, and we arranged with a bank in Denver to lend him the money. The only reason for doing that was to protect their tax position on their stock. If they bought— They were putting up $75,000, the management group, for their 60 percent interest, and we were putting up $300,000 for 40 percent interest. So, if you did them at the same time, you clearly had a tax liability for the management. So, we guaranteed a bank loan, which we would then pay off by putting our money in four or six months later, or whatever. It was interesting because we went out and raised — I think it was a $1.5 million in additional equity for them at ten times what, we, Whitney had paid for it, before we actually put our money in, because they had produced the tape drive. The amount of business out there for a high-performance tape drive, you were talking many millions of dollars. I sort of took pride. It was one of the more creative financing.

CK: *Two things: When you came across a deal like this — it sounded like you heard about it, you moved with great speed, and you sealed the deal. So you didn't bring it back to your partners and sit around and discuss this.*

DD: No, because I knew they would do it. In the firm, Benno was the decision maker. That's something I learned when I started Idanta. Whenever we were having a meeting to talk about any proposed deal, I never gave my opinion until everyone else had spoken, because I noticed that once Benno had spoken, no one else ever disagreed with him, other than me. I guess I disagreed with him a few times. I had no problem with that. I knew Benno would do the deal. Now, Jesse told me that he had been out trying to raise the money. He came out to the West Coast and spoke to the people at — there was a venture firm at Bank of America and a number of other people and they turned him down. Now, they turned him down because the high-performance tape drive — are you familiar with them? If you look at that bookcase over there, if you took off the top two shelves, that would be the size of it, and it would be twice as deep. It was a big piece of equipment. It had these reels of tape like this. That was the old technology. The new technology was the disks, which I knew from Inforex. But the thing that I saw immediately, whereas everybody else, I guess, had turned him down, was that the tape drive business was forecasted with good figure work, good analysis, to grow at about 15 percent a year. The disks were just growing at a couple hundred percent a year. But 15 percent a year growth put that in the top edge of American industry. Do steel companies grow 15 percent a year, or car companies? Not unless they fluctuate. So, to me, it was a good business, even though it was an old technology, whereas I think other people just focused on not wanting to be in the old technology.

And, interestingly, Storage took over 50 percent of the business away from IBM. So, at one point, they were producing more high-performance tape drives than IBM was. Something you had to understand in those days was the cost; the manufacturing cost of the products in IBM was approximately 10 percent of their selling price. The margin for all the other expenses was like 90 percent. I think at that time — I could have the figures wrong — they were spending 30 percent of revenue on marketing and sales. So the marketing and sales expense was three times the manufacturing cost. So even though our manufacturing costs were higher than IBM by a couple of percents, our marketing costs for the first several years at Storage was like 5 or 6 percent, versus the 30 percent. Why?

We wouldn't put the tape drives in any city in which we couldn't put 200 tape drives into that city. Now, the reason for that is because service is a big part in the computer industry, so you couldn't afford to go to Podunk and have a small bank take two tape drives and then provide service for them. So we only went to the cities where we could put 200. And, again, like in Inforex, our first customers were General Motors — in fact, I think General Motors was one of them — and Bank of America, et cetera. They all wanted the opportunity to have a competitive product to IBM. So we didn't try and undercut IBM, like if IBM was selling it for $70,000, we didn't go in and offer it for $60,000. We offered what we argued was a better product.

Now, remember, it had to do exactly the same function that IBM's did. The interesting thing that Jessie Aweida saw was that he could produce this product without violating any IBM patents. In all of our companies that came out of IBM, one of the first customers was IBM. Now, we did not, in fact, sell them the tape drives, but they had access to them because they were in IBM installations with the customers around the country. So we didn't violate patents or trade secrets. That's something that was critically important, because IBM, rightfully, would've gone after you tooth and nail if you did.

CK: *So you said that after you started Storage Technology and got things going, you went and raised money. I was wondering who you went to. Who were your go-to investors?*

DD: I went to a lot of people. One of them was Chase. I'll tell you an interesting story And the other was the Rockefeller venture firm, Venrock.

CK: *Peter Crisp?*

DD: Peter Crisp. Peter's a good guy and a bright guy. I went to Peter Crisp and made the pitch, the guys from Storage. He called me aside at the meeting and he told me that he thought it was immoral that I as a partner at that time of J.H. Whitney & Co. was trying to raise money at a step-up price over our investment from other venture capital firms, that we should be providing all the capital ourselves. So I said, "Well, Peter, I'm glad you have that opinion, but it's not the way I think."

Another interesting one was — we went to Chase. Benno, I told you, had this big land deal in Australia. His partner on the deal was, among others, David Rockefeller. David Rockefeller, was he president of Chase? This was many, many years ago. But I think David Rockefeller was the one that was involved with him in that, and I think he was the chairman of Chase at the time. I made an appointment through him to see their venture group. We talked to them — we had sets of financial figures, et cetera, and they were very interested. And as I recall, we were projecting that we were going to get about 20 percent pretax on the sales, et cetera. And then, after we talked to them, but before they gave us the answer, IBM dropped the price of their tape drives by 20 percent. So our guys had to work out a new set of financials, we sent down to Chase. I went to the meeting. The head of their investment division, who generally didn't sit in on these meetings, was sitting in. He said to us, "I'm sitting in on this one today because this is clearly going to be one of the most interesting presentations I've ever heard." He said, "My understanding is you guys were in here a couple weeks ago and were projecting 20 percent profit based on a selling price of $40,000," or whatever the figure was, "and now your competitor has dropped the price 20 percent, IBM, and you're going to explain to us how this benefits you so you'll make even more money at the lower price. I've got to hear this."

(laughter) I knew that was a lost cause, but they went through the presentation with straight faces and we left, but it was one of the more interesting meetings I went to. But we brought in several people. I think it was like $1.2 million or $1.5 million.

CK: *So Venrock didn't come in?*

DD: Venrock did not come in. Peter thought it was absolutely immoral. No one had been doing this. That's true. In Whitney, when we did a deal, we expected to provide all of the financing ourselves, and you could do that when you were in what I'd call static or low-growth industries. But when you're in the data processing business, where sales just go through the roof very quickly, you can't do that. That's something I understood immediately, but I also understood the economic attraction to other people, once you got the deal started, to come in and provide stepped-up financing. So, anyway, we brought in several people and raised the money. It just worked. It worked so well that I'd say— I'm trying to think. I think our first year of shipments — where we shipped like in December or something — we had like $100,000 worth of shipments. I think the second year we had like $75 million. And, if anything, the only mistake we made — of course, most of the drives went out on lease, as opposed to an outright sale so you got the money in. But the banks were willing to finance the leasing. Again, I took them to First National City Bank, in New York, and they provided the lease financing for the tape drives. But I think our projection for that year had been to sell like $35 million worth. And if we had done that, we would've been able to go through the year and build up the next year with cash flow. But I think we did about $75 million, so we had to raise additional equity. So we had an underwriting. And I think we did it through Unterberg, Towbin. We would've been better off if we had grown slower and not had a public offering for a couple of years, because it would've gotten a much higher value. At any rate, we took it public early.

Now, today, the venture capital business operates on what I'd call the "pump and dump" theory of financing, where you take it public as quickly as possible, distribute your stock to your partners. Our taking companies public was not to sell the stock, because we were long-term investors; our average period of investments was fifteen to twenty years. Our business was building businesses. That's a difference of day and night from the so-called "venture capital" business of today. So there was no real urge to go public because of the administrative problems and demands on management to have liquidity in your investment, because you weren't going to sell it anyway. You went public to raise equity capital because you needed it for the business. In the data processing business, where you grew so fast, you had to take it public. Of course, the business has evolved today where you take them public as quickly as you can, get rid of them, and go on to something else. So Storage was a great success for fifteen or eighteen years. We built it to a billion-dollar business. When I left Whitney, I offered my resignation to all of the companies I was on the board of, and Jesse asked me to stay on. So I stayed on until about the mid-eighties. I resigned from the board then. So if we financed it in '68, that would've been about seventeen years or so that I was on the board.

CK: *Where does this philosophy of long-term investing come from? Did it come from Jock or Whitney, or was it just the times?*

DD: No, it came from the venture capital business. One of the unfortunate things in the United States is people think that we invented the venture capital business, so called, which is nonsense. Who financed the American railroads? Scottish land trusts? The Rothschild family was doing venture capital in the 1600s. When the early roots of venture capital — you were making investments to build companies, trying to develop them into major industries. That just was the natural way to do it. I don't think it was a creation of Jocks or Whitney; I think it was a creation given the nature of the business. How long does it take you to build a railroad and get it on a highly profitable business? Quite a while.

CK: *At the time you were there, were you working with Walter Curley at all? He kind of came and went, I know.*

DD: Well, Walter was there all the time I was there at the firm. Walter is a wonderful, wonderful guy. No, I didn't work with Walter. He worked with Benno on a couple of things that Benno was involved in. He had worked on an oil company that Benno started in Puerto Rico — or a refinery operation, whatever it was — but I didn't do any deals with him. He did not do any deals while I was with the firm.

CK: *And the other one was David Morgenthaler, Sr.*

DD: Well, David Morgenthaler was not a partner in the firm; he was a business associate.

CK: *This was Foseco?*

DD: Foseco. His point of interaction was primarily John Horgan, who had hired me. Benno later claimed he had hired me, but John did, actually. I think John and maybe Nat Owen were all on the board of Foseco; Dave Morgenthaler, Sr., was in there, seeing him on a number of occasions. Again, I can't say that I know him that well, but my impression of him was a very successful, competent businessman, who did a great job in Foseco.

CK: *With all of these wonderful experiences, and you're doing really well, why did you choose to leave Whitney and start your own venture capital firm?*

DD: Well, again, I was the only associate there for a number of years, and I hired this guy, Mike Myers, who I told you was opening my mail and answering my phone when I was on that boat trip. And then I figured he'd be working with me primarily on deals that I was doing, until he got off on his own. You know, you bring a guy in; he spends a few years working with someone, then starts doing his own deals. Well, but then I found partners who hadn't done a deal in ten years were using him to look at stuff, and it just annoyed me that I had to compete for his services when I really was the only one in the firm that was doing deals. Again, that isn't to knock the other people. For example, John Horgan and Nat Owen were partners, but they spent virtually full-time on General Signal Corporation. I spent two-thirds, three-quarters of my time for my first couple of years working on General Signal, also. And then we had another partner who was really administrative, accounting, et cetera. At any rate, I just decided I'd be better off starting a firm by myself, and I guess I had confidence that I could do that. It turned out, for a while, it looked like the confidence was ill placed. (laugh)

CK: *Was it a moment? Was it something that had been on your mind?*

DD: I just got the bright idea and, over a period probably of several months, decided to do it. I had recommended Dick Stedman to Benno, who interviewed him and hired him, and then we had brought Don Ackerman in. I said I was the only associate, but that's wrong; Don Ackerman was brought in. Interestingly, John Horgan hired Ackerman also, though Benno later claimed he had hired Don Ackerman. (laughter) Benno had an extraordinary ego, I mean extraordinary. But, again, he deserved to have an ego. He was an extraordinary man. But he did have the habit of claiming things that— Anyhow, Ackerman came in. I was on the board of a number of companies that I had really created with the management, using Whitney money. These guys were brought in that were sort of equal with me. When I got Mike Myers in, he was being used here, there, and the other. I just figured I could get better leverage of my time by starting my own firm and then hiring people, working that way. So, who knows exactly? It's hard to read your own emotions, et cetera. Maybe I looked at Benno as a father image favoring the other kids or something. Again, Benno couldn't have been better with me when I finally decided I was going to leave the firm. He, one, insisted I stay there. Since I was out looking for money, it was nice to be on the payroll. That went on for a number of months until he finally realized that I was going to leave. He never badmouthed me to anyone.

People who I was trying to raise money from, talked to him, and he always gave me the highest marks.

CK: *So with that kind of personality, could he be considered a mentor or an influence?*

DD: Well, certainly an influence and a good influence, a challenging one. I have a tremendous amount of respect for Benno. I read a biography of Winston Churchill recently, and he sounds very similar to Benno, a brilliant man, high powered, tremendous ego — very similar personality complex with Benno. Benno went in the Army. Benno had gone to University of Texas Law School. When he graduated, they asked him to go on the faculty. He stayed there. He didn't practice law; he was on the faculty. After a couple of years, he went to Harvard as a visiting professor. His permanent job was still the University of Texas. And while he was a visiting professor at Harvard, the war started. He ended up going into the Army. I think he was commissioned as a first lieutenant, and he made bird colonel within three years. So this was an unusual man.

IDANTA PARTNERS, FOUNDER 1971

CK: *So, in 1971, it was that you founded Idanta?*

DD: I left there in '70. I think we started it in '71.

CK: *How did you arrive at the name "Idanta"?*

DD: I was on the phone with Paul Brountas, my attorney in Boston, and he was preparing some legal papers. He said, "You've got to have a name for this company." I said, "Oh, I hadn't thought of it." I had on my desk a dictionary of philosophical words and phrases. While he was on the phone, I opened it to the page with the word "idea," to see something, maybe a variant of idea. The only word on the page that sounded like it could be a name was "Idanta." Idanta was a word in Sanskrit which means "a thing in being." So I said, "Call it Idanta Partners." I figured we could use it for the time being, but it stuck. I'll tell you an interesting one. When we started up in business out here in San Diego, we started getting calls — not frequently, one a month or something — from people who were interested in artificial insemination. (laughter) It turned out there was a company in New York called Idant Corporation, which was a human artificial insemination company. So, it was a close match, but we had the "a" at the end.

CK: *So you started. Was it just you alone?*

DD: No. While I was out raising money, I dug around and started trying to get people into the firm. I guess the founding partners were myself, Roblen. Hmm, my goodness. I'm trying to think of the names. Lord, that's forty years ago. I saw one of them a couple of months ago. He lives in downtown San Diego.

Roblen was one of the partners. His brother was Ben Roblen, who we hired into Inforex as chief financial officer. He came out of AMP. I think Jerry Lodge found him. And then he moved from Inforex to Prime Computer after we funded Prime. He introduced me to his brother, the Roblen out here, who was with the advanced computer development labs at IBM as an engineer. I financed a company — again around 1968 or so — they were building what would be called, not a supercomputer, but Multi-Access Systems Corporation, which was going to build computers competitive with IBM, which catered to large companies where you'd have a number of terminals feeding into that one computer, so multi-access systems. I think there was one of the machines in the 360 family of IBM computers, which was designed for that purpose, and this was to be competitive with that. Again, if you thought the peripheral companies ate up money, this thing was like an alligator's mouth gobbling money. I brought in people I knew, Electronic Memories, EM&M, which was a public company at the time. They came in as second-stage investors and put up a fairly good chunk of money for it. We were just getting to the production stage of the business when the market absolutely tanked. If you had a way of making gold from lead for a dollar an ounce, you couldn't raise money at that particular time. It was just about the time I left Whitney.

Staying on at Whitney while I was raising the money was wonderful, but the market, which was like here, went way down. I had tremendous difficulty raising the money to start Idanta. But this Multi-Access System just couldn't raise the third-stage financing; eventually, they went out of business. A number of the guys went en masse to a start-up that really worked out well. They were the best and brightest that IBM had out of this advanced computer systems division. Roblen, when the thing folded, came with me as an original partner at Idanta. Their system architect actually went back to IBM. So, interesting breakup of the thing. But it was after I had left Whitney that it folded. I'll tell you, I was still on the board. This was only a couple of months after I left. When we were folding, you wanted to give all the employees — we were out of money — a month paid to help them while they were looking for jobs. We had some bills, I remember from like the travel agent, where it was a real small company and if they got stuck with the bills it would've had a major impact. So I called Benno on the phone and I said — and Dick Stedman had come on the board with me; he was a good guy, working hard at it, but it was impossible to raise the kind of money that they needed in that market. So I called Benno and I said, "We," to Whitney, "should really ante up like $100,000 to provide a month's pay for these people as we sever them." This was why we were out there at the company, severing the people. I said, "We have a couple of small bills that will really impact the firms if we don't pay them." Benno said, "Fine. We'll put in $100,000." So this was as we were folding the company. That's the way Benno was. Had I still been a partner at Whitney, I would've just said we would put up the $100,000 without doing this. I would've known that Benno would do it.

CK: *How did you end up raising money for Idanta?*

DD: I went out, and what I was trying to do, I think, was to raise about $20 million to start Idanta. It was going to be in a corporate form, I think, like the one in Chicago with Prudential Insurance Company. He's a well-known venture capitalist. That was in a corporate form. That's what I was thinking of doing. I ran into a really hard time, not because of my track record. Everyone that called Benno, he just gave me tremendous accolades. I had an insurance company in Nebraska, where the guy who ran it was named Cook, the chairman of it, and they had committed for three million. So I was leveraging on that. Nat Owen had agreed to come on as chairman of my Idanta Corporation, et cetera, just to lend me his name. But I was really having a hard time. One of the people I went to was the Basses in Fort Worth. I remember I spent my time with Richard, there. I was looking for them to make an investment of three, five million, or whatever. The upshot of it was that they turned me down because they didn't want to be a relatively small player in a venture capital firm.

But I remember when I met with Richard at his office he asked me if I'd have dinner with him, so I did. He said, "I want to tell you what we've been doing and just get your opinion." So he ran through these investments that they'd been making. Understand that Richard and Sid were classmates at Stanford Business School. Richard graduated and he went to work in the sales department at Goldman Sachs, institutional sales, and Sid went to his family firm in Fort Worth. But Richard was working out of Dallas and lived in Fort Worth. So he had no real background other than a year as an institutional salesman. So he ran through about ten investments that they had — how much they put in, what the companies were doing, and how and what they were working. So he got through it and he said, "What do you think?" And I said, "Richard, have you ever heard that radio program," which I guess subsequently went on television, "called 'Major Bowe's Amateur Hour?'" (laugh) I said, "This is 'Richard and Sid's Amateur Hour.' You guys honestly don't know what you're doing." And Richard knew he did not know what he was doing; that's why he was having dinner with me. That actually, I guess, made an impression on him. It was the first time anyone who was hoping to raise money from them suggested that they were running an amateur hour.

Again, I was running into really difficult problems raising the money. And again, I took the family down to Hilton Head Island. I had moved by boat up to Connecticut, but we went down there for I guess a two-week vacation that summer. I got a call from Richard while I was there at Hilton Head, and he said, “Look, Dave, I understand you’re having problems raising your money.” So I said, “Yeah, I really am.” He said, “Well, the only reason we didn’t invest was because we didn’t want to be sort of a bit player in a bigger organization. We’d be interested in talking to you about putting up all of the money.” So I said, “Well, I’d be willing to talk to you about that, too.” I finished my vacation, took the family home, and I went out there to Fort Worth and met with Richard and Sid. The upshot was we did a deal where they put up $8 million to start Idanta, plus a commitment to put up another two million as and if I needed it. Interestingly, I never needed it; I never claimed the other two. So we started Idanta with eight million dollars$8 million. We started it out here. You asked me, “Why did we start out here?” I knew the area from being stationed at Camp Pendleton. Most of the deals I had done were in California.

CK: *Yeah. I’m thinking of the concrete. You were out here then.*

DD: Yeah, with the cement, and then I was in a timeshare company, Tymshares, which I went in, in the second round of, in the Bay Area, et cetera. I had been flying out to California at least once a month. In fact, when I was involved in the cement business I was out here every week. I was living at the Beverly Hills Hotel and commuting. So I decided I'd rather live out here and do deals out here and then commute back East when deals come up back East. Wouldn't you have it, one of our first major deals was back East.

So we started in San Francisco, and we had Russ Roblen. And then Anderson; Anderson was a Harvard Business School graduate. He was a CPA. He won the Silver Medal his first year as a CPA. I guess they give them a test at the end of the year, and he was the second in the country. So Anderson started with us. Now, I had had one really high-powered guy, Jack Cardwell, who later became managing partner of the Chicago office of McKinsey, but he dropped out at the last minute, to my regret. He was a very, very good guy. We started the firm and that was the only money we ever raised for the firm, the eight million dollars. But, again, our business was building businesses; we were long-term investors. We weren't doing twenty deals a year; we were doing one or two deals a year, if we were lucky.

CK: *So this was the philosophy of Idanta?*

DD: Well, that was the nature of the venture capital business.

CK: *Even on the West Coast?*

DD: Any place. It was the nature of the venture capital business. Remember, the Rothschilds, when they were financing the British West Indies Company, you didn't go in for a year, take it public, and sell it. There was no public. They later did develop that. But this was the nature of the business; you were building business. I told you Peter Crisp thought it was absolutely immoral to raise second-stage money at a stepped-up price from people like him. Now, he and I had a laugh about ten years ago. I met him at some dinner in San Francisco. I said to him, "Peter, do you remember when you told me it was immoral to raise stepped-up, second-stage money?" He says, "Yeah, I do remember that." I said, "Well, you've changed your position somewhat, haven't you?" And he laughed and said, "Yeah." And so the business has evolved. What happened was institutional investors came into the business.

CK: *I think you were going to start to talk about pensions. Were you going to say something about raising money and the long-term investment idea?*

DD: Okay. I think the big transition in the "venture capital" business, so called, is the institutional investor coming in. The first that I recall was Prudential Insurance Company in Chicago. Anyhow, they had a venture capital firm. They were a corporation. General Doriot, his was an incorporated venture firm, but it was a pure capital firm. Doriot's business was exactly the same as ours. His business was building businesses. Doriot is the antithesis of today's venture capitalists.

CK: *The father of venture capital.*

DD: But that's nonsense. He was the great, great, great grandchild of the founders. At least it went back to the 1600s. He was a public corporation. I went to his annual meeting in

Boston one time. After their presentations, they had a question and answer session. Some institutional investor raised the question of: How do you decide when to sell your investments? And Doriot's answer — and he wasn't being wise; he was speaking from his heart — was, he said, "When do you decide to sell your children?" That was his answer. In other words, they didn't think about selling their investments. They thought about building companies and getting bigger and bigger and bigger.

Now, again, you took companies public to raise money for them, not to have a market to sell them, in those days. That's the way he worked; that's the way Whitney worked. Really, Whitney had not had a history of taking companies public. I guess, I think I was the first one there that was really doing that, as I recall. Certainly, I don't remember any others. The General Signal was public because we traded a private company into a public company, so we got stock that there was already a public market for. The institutional investors are always worried about being locked into something, so they put, I think, initially, five-year time frames on their money. So, you're a venture capitalist and you're coming in to raise money, they'll say: "Okay, we'll do it, but we have to be able to get our money out in five years." Like with Idanta and J.H. Whitney & Co., I'd say the average tenure of our investments in our companies that were successful — if they went out of business, they usually went out pretty fast — but if they were successful, you were trying to grow them. Our average tenure was something like seventeen years. That's what it takes to build businesses. You don't build them in two or three years and create a public market. That's why I call it the "pump and dump" theory of investing. So it was a different business than the business today. I have stopped calling myself a venture capitalist. I just call myself a "private investor," because the venture capital business as it's practiced today is so different from anything that I've been involved with, that it just is not my business.

Now, I don't distinguish myself from the business that's done today as a difference of "good" and "bad." I think that's nonsense. I think the way business is done today is done because of the nature of the investors that came in, the institutional investor, where they wanted to get liquidity and be able to get their money out, as opposed to when I got in — with the exception of AR&D, Doriot's company in Boston — it was family money. They were family firms, J.H. Whitney & Co., the Rockefellers, et cetera, where it was long-term money that expected to stay in there. So it's a completely different business.

CK: *I asked you why you thought you were well suited for venture capital. I'm wondering if, after this discussion, if you see yourself as a risk-taker.*

DD: I'm able to take risks, and I'm able to make *quick* decisions. Benno was — that, I'd have to say, you could learn from working with him; he'd make instantaneous decisions. Again, he was a brilliant, brilliant guy. That doesn't mean he didn't make mistakes. He made a lot of them. But if you're making decisions in split-seconds, without research, you're going to make them. That's the way Rainwater was with the Basses. Rainwater was one of the best intuitions I've run into. But when you make intuitive as opposed to analytical decisions, you make mistakes. He made a lot of mistakes, but he also made some very, very good, intuitive judgments.

CK: *Would you describe yourself has having high energy? I know you did a lot of traveling. But are you a high-energy person?*

DD: You got to sit down when you travel. (laughter) I guess maybe ambitious, driven, whatever. Again, I came from a significantly different background than most of the people I've run into in business. I was always a hard worker. I was not afraid of working nights and weekends, et cetera.

CK: *So you think your drive comes not from your energy, but just from your training in some way, that you're just used to hard work?*

DD: Uh-huh.

CK: *That's interesting. Did you have a certain amount of exuberance for this kind of work? One of the things you kept referring to earlier, about some of the things you did, was that they were boring to you. So do you find this—*

DD: I found the venture capital business as being not boring. The Marine Corps in wartime is not boring. In peacetime, again, it's a repetitive training cycle. You get new troops coming in every year. You're going through your training cycle, et cetera. The good thing about the Marine Corps or any service is you get transferred every couple of years and you're doing something different. Again, the FMF, which is where you wanted to be in the Marine Corps, is repetitive training cycles during peacetime.

CK: *I was going to say that someone noted that you're a "hard-driving ex-Marine." I was wondering if this is reflected in your work as a venture capitalist.*

DD: Probably. I guess one of the many things you learn in the service is you face up to problems instantly. You don't defer and say, "Well, I'll look at this next week. If something happens and there's a problem, you do whatever; you move to the solution immediately. It doesn't lend itself to dillydallying. I found the same thing in venture capital. If you to go a board meeting, you don't go there to be a philosopher; you go there to resolve business problems.

CK: *Can someone learn to be a good venture capitalist, or is it more of an art?*

DD: An art form. That's a good question. When I started Idanta, I really believed that if I took good people — well-educated, good people — I could train them or help them evolve into a strong, capable venture capitalist. Whether it's my personal failure or the nature of the beast, I don't know, but I found that that wasn't true.

CK: *The person has to have something other than just—*

DD: Well, one, I think I was very fortunate in the timing of my career. Somehow or other, I got the inside into the fact that a place to look for deals was the computer industry. I didn't know diddly about computers, didn't know how to operate them, but I could see that it was going to be a major high-growth business. And then I was able, luckily, through the bank, to be able to go to that IBM school for a week. I just parlayed that into a number of really good investments. But how much of that was luck? I don't know. You had to have the personal characteristics to make quick decisions. You had to be a risk-taker. I guess Benno was my model. If you're faced with a situation — I could have someone come in here and pitch me a— I'm not making new deals because one of the problems, if you're a long-term investor, which we've always been, is you eventually run out of time. While you're willing to look at a fifteen- to twenty-year time horizon when you're forty, it's kind of hard when you're in your eighties, so just the nature of the business as we play it is not conducive to doing deals anymore. Again, I have found that I could not train and develop people. We brought in some of the brightest, most able people I've ever run into, people I have tremendous respect for. But did they make good venture capitalists? I'd have to say no. Maybe when I look at myself — I don't know whether I was a good venture capitalist or a lucky venture capitalist, from the sense of when I came into the business and what the opportunities were there.

CK: *But you recognized the door when it was open. (laughter)*

DD: Right.

CK: *And maybe a certain amount of curiosity?*

DD: Yeah.

CK: *Because, as you said, you wouldn't have had the opportunity to go to this IBM lecture.*

DD: Well, I went there to learn lingo. It's hard to talk to people when you don't even know the nomenclature of the industry. And it was after that that every place I went in the country, I kept telling people, "If you see any start-ups or people looking for money in the data processing industry, send them to see me."

CK: *Oh, so this really captured your imagination, aside from the fact that you saw it as the future?*

DD: I saw it as a future, enormous industry, highly profitable. You remember, IBM had 90 percent of the data processing industry when I started in this business, 90 percent. Think of another potentially trillion-dollar industry that had that kind of dominance. Again, you could do that analysis — not many people did it — to see that their product costs were 10 percent. If you go up against an established company, you cannot build — unless they're sloppy, lazy, incompetent — you can't undercut them on their costs. You are going to be having higher costs. When they've got a 90 percent profit margin over product cost, that leaves you a lot of room to absorb increased cost, number one; number two, they were spending 30 percent of their revenues on marketing and sales, and we could do marketing and sales for 4, 5, or 6 percent in the early years, because we were going to a limited number of very large customers.

CK: *In terms of Idanta, I know one of the investments that is always referred to is Prime Computer. Is that right?*

DD: Yeah, Prime Computer and Iomega were our two big hits.

Note: Prime Computer had the highest percentage increase in stock value of any companies listed on the New York Stock Exchange in one year. Iomega Corporation had the highest percentage increase of any companies listed on NASDAQ in another year.

CK: *I'd love to hear the story about Prime, how that came to you.*

DD: Prime, I got a call from the guy who — he was working for Honeywell, and he wanted to start a competitive computer company. It wasn't named Prime at the time. I guess Honeywell still was in the computer business, but they were a tiny sliver compared to IBM. They wanted to start this computer business, and they had a good logic for what they wanted to do. In other words, given the cost structure in the industry, it made some sense. Oh, and to tell you why it made sense, they were going to compete not with IBM, but with Honeywell. They were going to develop a computer which would be the next computer for the Honeywell family, if you will. And Honeywell wasn't doing that; they weren't developing it. So they had the idea of doing the step up, the natural step up from the Honeywell computer, and they were going to go sell to the Honeywell customers. And it made sense to me that they could do that. You'd have limited marketing costs; in other words, you'd have identified customers. In all honesty, we never sold a machine to a Honeywell customer. Now, why did we not sell a Honeywell customer? The answer, pure and simple, was if they were dumb enough to buy from Honeywell instead of IBM, they weren't smart enough to be able to analyze why our computer was superior to Honeywell's so that they should buy from us. Absolute true story. Our whole theory of how we were going to succeed, selling to the Honeywell customer, but we didn't do the analysis to the next step that they shouldn't have been buying from Honeywell in the first place.

Again, why do people buy a product? Because they like the salesman or whatever? Or they want something that's competitive with IBM because they're mad at IBM? Who knows? But you could build a substantial business doing that. Our product was, black and white, superior to Honeywell's. Oh, the other thing, Honeywell's software was developed on government contract and was in the public domain. If you replicate the 360, you can't use IBM software, but you could use Honeywell's, because DARPA, the Defense Department, had financed the development of the software. So we had the software.

CK: *And why did they call you? Who knew you? What was the connection?*

DD: Because I was fairly well known in the computer industry with Inforex and Storage Technology Company and Multi-Access Systems Corporation. Well, I later found out that these guys, who were working out of the Boston Area — that's where they were with Honeywell — they had gone to every venture capitalist between Boston and San Diego, including San Francisco, and been turned down. After I financed them, I'd say every time I went to a meeting where there were venture capitalists — someone would come up and say, "Oh, I turned that thing down. I wish you luck with it." Mike Myers turned it down for

J. H. Whitney Company. I know that they'd been to all the venture capitalists in San Francisco and been turned down. I guess I was the only one dumb enough to buy their argument, which was fallacious, but neither they nor I knew it.

The machine was so good. Let me give you an example. Not too long after we were making machines, we found ourselves in competition for a sale of a computer to control the electrical systems for a power company. I think it was in Upstate New York, or it could've been someplace in New England. But this power company wanted to buy a computer to control their electrical networks. There's another word for it, but whatever. The two products they were looking at were an IBM machine and our machine. The IBM machine's price tag was a million dollars; our price tag was $100,000, and ours would do the work as good or better than the IBM machine, and so we got that contract. But that's how good the product was. Now, these guys were very, very creative. They didn't share it with the board at the time, but I found out later that a good deal of their software was done by high school kids working after school hours. They hired a number of kids from the local high school to come in and work at night or on weekends doing software development. There probably wasn't a high school kid in Boston who didn't know more about it than I did. But they were doing things like that.

And what we found— It was interesting that that usage for the power company again was a system where they were going to have a number of terminals into the computer, and we hadn't focused in on that as the market. We had this guy that came in on the second round, Jack Delaney, who ran the Smith Barney venture firm. He was on the board at Prime. We were trying to develop — how can we sell these things, find the market? But then he got the bright idea: "Let's look at the people who bought it from us and see what they're doing." So we immediately — the people who thought it was a good idea backtracked on the people who had actually bought them, to see how they were using them. And we found that they were almost all being used in this multi-access environment, where you had a number of people using the same computer, and they were powerful enough to handle that. That's why we had a ten-to-one price advantage over IBM for that power company sale. So once we focused in on that and started pushing to that segment of the market, the thing exploded and was very, very profitable and high growth.

CK: *So you were the only company that was putting money into that? You put 100 percent of the —*

DD: I put 100 percent of the start-up capital of Prime Computer and Iomega. Let me try and think of Prime; I think on Prime we put up $750,000 for 60 percent of the stock. I think it was less than that. I think we might've put up $500,000 for 60 percent of the stock. I think we put up $750,000 for the start-up of Iomega, for again, 60 percent of the stock. Don't ask me why I like that 60 percent figure.

CK: *And you were chairman of the board for twenty years at Prime?*

DD: I'm guessing seventeen years, something like that. It could've been twenty.

CK: *Was it challenging? In what way was Prime a challenge?*

DD: And we built that into a billion-dollar-plus company.

CK: *So we're talking about Prime Computer. We took a little break. Oh, I know what I had asked you and you winced: What were the challenges in creating Prime?*

DD: Well, first of all, I don't delude myself that I created companies or, in a sense, I grow companies. I was present at the creation of Prime. I put up all the financing. I was a very active, hands-on chairman, not president and not executive officer. A function of boards of directors is really to raise questions and evaluate the management, and I did that, to a fare-thee-well.

CK: *You had told me that they were turned down by every VC —*

DD: Every VC between Boston and San Diego.

CK: *What did you see? I can imagine them being turned down, but—*

DD: I made a mistake. As I said, these guys seem to have a coherent business plan. Again, Honeywell was a fringe operator in an enormous industry. They had access to the Honeywell software, legally, through the government development, and they could make a processor superior to Honeywell. They had been working on developing the Honeywell processors so they knew what they had. They convinced me, by talking, that they could produce a better one now and that Honeywell wasn't aggressive in pushing technology ahead. It was a little bit like the Inforex case, where IBM wasn't going to push to the key-to-tape or key-to-disk and get rid of all their gold mine keypunches. Their theory, again, was they could keep marketing costs low by going to Honeywell customers and selling them a better machine for the same or lower price. Well, again, I was not acute enough, nor were they, to see that if you were dumb enough to buy the Honeywell machine, you wouldn't be smart enough to see that the Prime machine was better. The statement sounds funny and glib, but it's a statement of fact. In fact, several years into the deal, we had never sold a single Honeywell customer. Fortunately, we sold to some people who really knew what they were doing. They could evaluate the machine; and then through Delaney's suggestion we backtracked with the customers, found out what they were using it for, and then directed our sales efforts into that area and things went very well. It was hard work, and we went through a couple of presidents doing it, but we did it.

CK: *Meaning you went through a couple management —*

DD: Presidents. When I was at Whitney I sort of became downhearted because— I think the first deal I had done was at Hamden National Bank, a start-up, small bank up in Hamden Connecticut. I saw, clearly, we had to get rid of a couple of the key executives there, which we did. I called the guy who was the major deal maker at Sutter Hill in San Francisco area who I had been doing business with. I told him, I said, "I've got a problem. When I look at the deals I've done here and then the firm did years ago, I find that we're replacing about 90 percent of the key officers within a five-year period." And I said, "I'm trying to figure out whether this is the norm, or whether we're doing something wrong." It was Peter Bancroft with Sutter Hill. I was talking to the head deal guy, whatever his name was, and he said, "You know, I don't know. I've never given that any thought." He said, "Let me check and I'll get back to you." So a couple of weeks later, he calls back and he says, our fatality rate's 95 percent. So what we experienced was common for the industry, which taught me that a lot of the guys who had the characteristics to be an entrepreneur — to leave the IBMs or the Honeywells or whoever — did not have the internal disciplines to run the companies as they became successful and they grew. A lot of the characteristics of the larger companies — the IBMs, the Honeywells, GEs, et cetera — are necessary for the success of the companies. There are internal disciplines which are implicit in the operations of larger businesses. A lot of the guys who are entrepreneurial in nature were sort of — let's call it rebelling from those disciplines. So they didn't have the internal discipline to adapt to the requirements of the businesses as they became successful and grew.

Jesse Aweida, at Storage, he lasted about seventeen, eighteen, nineteen years. I said many times, he was the best CEO I ever worked with, and he was, until he couldn't solve the problems, and then he sort of became defensive. In fact, Jesse and I were very good friends. I used to use his condo whenever I went out to Colorado skiing, and I was doing that about five times a year. If I went out for a board meeting, then I'd take three or four days and go to the condo. If his family was there it was fine, I'd sleep in the bunk bedroom with the kids and whatever. We were very good friends. The last meeting we went to, I called him ahead of time and said I wanted to have a meeting with the outside directors attached to the meeting, and he really got upset. I said, “But we’ve got to have it.” So we had the meeting and I recommended that we fire him and get rid of him because he, I thought, was destroying the business. The needs of the business were beyond his capabilities. He couldn’t reach out and hire people in the industry who were capable of doing the jobs. Now this is, I think, a multi-billion dollar company then; it was not a little nickel and dime thing. So he sort of had to know the people.

I remember we did bring in this one guy from the outside who seemed very capable, but the internal organization really destroyed him; they fought him, and Jesse didn’t prevent that. Jesse was CEO and chairman, and I suggested that we just promote him to chairman and go out to hire a president and CEO effective immediately. I wanted the board to do it that day and I gave them good chapter and verse of why. When we got through with that outside director meeting, I called Jesse in and I told him what I had recommended to the board, et cetera, and the board had agreed. Then he talked them out of doing that and just going out and hiring a president who would not be CEO. I said, “This is a real mistake.” Jesse is such a dominant guy. Jesse said, “I’ll develop the guy and make sure he knows what he’s doing, then I’ll leave.” Chances of that were zilch, but he conned them into doing it, and so I resigned from the board. They did what Jesse recommended, and I guess a year later the banks pulled the plug on them and they had to go through bankruptcy, which they did get through. A requirement was to replace him, which they did, et cetera, et cetera. I knew we were going to run into problems with banks, and I knew the banks wouldn't tolerate Jesse, so it would force the company into bankruptcy, and that's exactly what happened a year later.

CK: *When someone says, "What's more important, management or the technology?"*

DD: The management, absolutely. The technology in a technology industry is obviously critically important. Now, when I say I was really lucky in my timing going in the data processing industry, I was. People say, "What's the most important thing to your success?" I'd have to say dumb luck. I'm not in the least bit humble, but I do recognize reality. When I went into the industry — again, you had one dominant company, IBM — the product life cycle was about four years. Now just get a feel for that, a four-year product life cycle. You develop a tape drive and it'll be out there for about four years, then you bring on the next one. What's the product life cycle today? Six months. Six months.

So when I went into the industry, you took a group out of IBM — like Jesse's group — and you developed that tape drive. Then you had enough time. First of all when they developed the product, if they were good, which they were and the Prime people were and the Iomega people were, it was a step ahead of IBM. So you had a clear four-year window in which to go out and generate the sales, earn the profits, finance the next product. So you could build up and become a major corporation. You can't do that today with the six months' time life cycle. So that was a critical difference. I don't know whether IBM ever thought that through. I told you what they didn't do with respect to replacing the keypunch, and that's exactly true. There must have been a thousand guys at IBM who were smart enough to know that a key-to-tape or disk would be superior to a keypunch, but when you're generating eighty dollars a month from this machine your wrote off ten years ago, it's just like having banks sending you money. So they didn't have the institutional or corporate vision of obsoleting their own products. Now I think people like Inforex and Storage Technology taught them that they had to do that because again, we took over 50 percent of their tape drive business away from them at Storage. No one's that dumb, when you're losing business like that, not to recognize that you've got to be the person to obsolete your own product. As they did that successfully, they compressed the product life cycle.

So when I went in the business, if you combine some luck and some risk-taking and some insights to what was going on, you could make a lot of money in the business. What could you finance today where you put in three hundred thousand and get 60 percent of something that'll be a billion dollar business in a couple of years. You can't do it, obviously.

CK: *So you stayed on the board. I want to ask you questions about the board, then I'm going to get back to Iomega.*

DD: Well, I was on the board at Storage Technology from the year we financed it, which was — give or take a year — 1968, '70. I got off around 1986.

CK: *Let me ask you, how much time do you feel you devote to a board in terms of your work week, a year, or whatever, a percentage of time?*

DD: After you got rolling and had made a few investments, we spent 80 to 90 percent of our time working with the companies we financed as opposed to looking at new companies. That's why one of the things that caused me to leave Whitney was I wanted to get better leverage on my time by bringing in bright associates who would work with me and who would sort of free me up to do new deals, et cetera, create a structure which addressed the realities of what we did. Again, as opposed to the companies today, we weren't selling them out in five or six years. Hell, General Signal, when they went into that — these figures are guesses, but I'd say Regina Electrikbroom was like 30 million. It could've been less. General Railway was like 100, 120 million. So it was, combined, maybe 120 to 150 million. It was a multi-billion dollar business. Nat Owen stayed as chairman and chief executive until the day he died. So he was in that I'd say at least thirty years, maybe forty years. Our business was building businesses and you can't do that in five years.

CK: *So when you're talking about board time, you're talking about phone calls, travelling, emails, handholding, strategy—*

DD: Visiting the companies, walking through.

CK: *Giving advice—*

DD: Giving them advice, introducing them to people, helping them with financing.

CK: *Tell me about Iomega. Prime Computer was the highest percentage increase in stock value of any company listed with the New York Stock Exchange in one year. Then Iomega, in 1980, is the highest percentage increase of any company listed on NASDAQ. So, tell me about that company, how that came to you and what the challenges were.*

DD: This guy Carmen — whatever his last name was — a really good engineer who left IBM, Boulder, and went to work for Inforex. Now that's an interesting story if you want an anecdote about luck. This guy, Carmen, was a guy they really wanted at Inforex, and they tried to hire him and get him to move from Boulder to Boston and he'd have none of it. He loved Boulder. The area around Boulder and then a little east of Denver is an area where the jet stream, which goes, I think, from the West Coast to the East Coast — I think it's going in that direction — dips down and actually hits the ground once in a while. It's 100-, 120-mile-an-hour winds, whatever. I've seen a couple of these wind storms on the road from Denver to Vail where everything shuts down, the freeways shut down. And if a car gets caught in this jet stream when it comes down, it blows out all the windows, removes every speck of paint, and they look like shiny stainless steel because it picks up dirt and gravel and just sandblasts the car, and I've seen that twice. So it's something once you see it.

Anyhow, after Carmen had turned us down, this jet stream came down in Boulder, which it didn't usually do — it usually came in about thirty, forty miles away — and took the roof off his house. I guess they had a kid or two kids and his wife was under the kitchen table with the kids, and the whole place was just about coming down. When he got home, she said, “We’re getting out of here.” So he took the job at Inforex. (laughter) He got out of Boulder because she wasn’t going to wait for the next one. I don’t know that it ever did happen in Boulder again. (After telling this story, I remember that Carmen sent Lessie to us, and Lessie referred the Iomega people.)

They had a team of about eight guys at the Boulder facility who had been working on the development of an Iomega-type device. Again, this was going to be a storage device and it was going to be built — in those days — around tape. You’d be able to have added memory to computer with the access to this device. They brought it along to the point where they recommended to take it out of the lab and introduce it as a product, and IBM wouldn’t do it. It got a pretty thorough review.

And I talked to one of the key guys — I think it was a senior VP at IBM — and he said that he had recommended it, that they did pick it up and introduce it as a product. For whatever reason, it didn’t fit within their family of products so they weren’t going to do it. Well, about that time, I guess they were closing down the tape drive facility in Boulder, and they moved this group of guys that were working on that device to Tucson. Interestingly, I think there were eight of the guys, and seven of them were Mormons — they’d come out of the Salt Lake City area before they joined IBM — and there really wasn’t a good Mormon community in Tucson. So here they had their project was not being picked up, they were moved to Tucson, which they didn’t like, they wanted to get back to a Mormon community, et cetera, et cetera. So the head guy called Lessie to recommend someone to talk to, to raise money to start a venture around this product. Lessie gave them my name, so they came to see me. I was the only one they talked to. They did go to Jesse and asked him about me, and Jesse strongly recommended that they talk to me. Now this was before I recommended he be canned, a half a dozen years before that.

So they came to see me, and I listened to them. It really made some sense as a product for backup for a computer, extending the memory capacity of the computer, et cetera. So we agreed to finance them. I think that was the one where we put up three-quarters of a million for the first investment. Sometimes I lose the figures. I think the Prime was probably only three hundred, but anyhow, this one I'm sure was seven hundred fifty. We got 60 percent of the action and we financed it. I had one of our partners at the time — Mike Kucha — work with them to find a location. The only thing they knew was they didn't want to do it in Tucson. Their first recommendation was Salt Lake City for obvious reasons, which I was amenable to, subject to looking at it as a business environment. Interestingly, we found that the turnover rate for employees in Salt Lake was very high for a number of reasons. Of course in those days, you produced these products in your own factories in the United States; you didn't go to Taiwan or Timbuktu, wherever, you produced them here. The factory workers in Salt Lake, we found very quickly, were a lot of Mormon families. The wife was generally expected not to work. She was supposed to have kids and raise the kids, which certainly was the routine in Brooklyn when I was raised. What they did was, maybe they wanted a television set or they needed a new car or something, so the wife would go to work for a year and earn enough to buy a car or a television set, whatever, and then she'd quit and go back home where she belonged. So the turnover rate was enormous, much higher than in a normal business community. Again, I had no problems with good Mormons being in a Mormon community, but I just wanted to have good characteristics.

We looked at the Ogden area and we found, for whatever reason or combination of reasons, they didn't have turnover problem that Salt Lake had. Another thing in Salt Lake was you had the university there, which is a big factor, and a lot of young people work part-time while they're going to university. Or it was a working man's university, they were working fulltime and going to school at night, whatever, but then when they graduated they quit, et cetera. We found in Ogden that wasn't a problem, so we started in Ogden and it really worked out for a number of years. We built our manufacturing floors up to — I believe it was something like four thousand people, before we moved it offshore. When we moved it offshore it was because you had to. There was absolutely no choice. We moved it to someplace in Malaysia. We moved into a factory there.

You get all this political posturing about businessmen taking jobs out of the United States. Well if we'd kept it in the United States, we would've lost 100 percent of the jobs. When we moved the manufacturing offshore, that was only 80 percent of the jobs, we still had 20 percent here, which was a hell of a lot better than being bankrupt and having zero. In those days, it was an absolute requirement because of the cost differentials. Ogden really worked out until the cost factors caused us to move. Remember, in those days IBM did all of their manufacturing in the United States, too. People like General Motors and Ford, virtually 100 percent of their products and parts came out of the United States, but with the changing cost structures and labor, you just couldn't afford to do it, so we moved it over there. Anyhow, it was successful in Ogden.

CK: *When someone brings a product or an idea to you, and you're going to vet the company, what kind of questions are you asking? What are you looking for?*

DD: Well, for one, you want the management to have a set of experiences which makes the idea they can develop, the product they're talking about successful. That's the key thing. When you stop and think of the Storage Technology, the Iomega, the Prime Computer, the first thing is, you've got to produce the product. You've got nothing to sell until you produce it, and you have nothing to sell unless it is a very successful design, which is really better than the competition. You may say, "Well, how could he do that with IBM and all their facilities?" It wasn't that we had better people. In fact, we had IBM's people, in Storage, we had all of our start-up guys — I forget — there were like six of them, all of them came out of the tape drive development group. Jesse was the head of that group at IBM. So they were the best of the IBM people. So it stands to reason if they're going to build a product to compete with IBM, that they'll build a better product. When we started Storage, they had just introduced their latest family of tape drives. So Jesse said, by developing a product, by introducing it to the market, he found where he had made some mistakes, et cetera, where he could improve it. So they improved it. It was functionally identical to the IBM product, because it had to fit into an IBM computer room, but again, it didn't violate either patents or trade secrets. Remember, tape drives had been around for many years and so a rotary memory device — the original patents would've expired by then. The key thing was that the people were creditable, that they should be able to develop the product successfully.

Then you went into wishful thinking. You hoped if they could develop a product, they could sell it successfully. In the case of Aweida and Storage, they absolutely were up to the job. They made a couple of key decisions and I'm sure the board was part of the decision-making process in a give and take, but it wasn't something either I or anyone else said, Got to do this or that. They understood enough about the market that they wouldn't go into a city where they weren't convinced they could sell two hundred tape drives in that city. If they went into San Diego, they had to be able to get two hundred tape drives in that city. So that's simple market research. And then they wouldn't go into a customer where they didn't have at least twenty drives, so you could afford to service them. So that was something — Jesse had the brains. I could see a start-up where they wouldn't have made that equation. So it limited us, initially, to the bigger cities. I know San Francisco, we went into like that (snaps fingers), and Boston, New York City; Chicago, we went into, I remember we had a couple of the major banks in Chicago. So he was creditable and successful in initiating the products and building the company.

The other companies, both Prime and Iomega, they weren't successful. They were successful in building the product; they had a superior product, but they weren't successful in making a transition from development to sales, marketing, et cetera. So we had to replace the CEOs in the companies. We went through a series of CEOs. It's interesting, you go out and hire a guy, a CEO, and you know what your problems are today, you know what his set of skills are, and you try and match the two. If you're right, which we were most of the time, if not almost all the time, that solved today's problems, but it didn't solve tomorrow's problems. If they solved today's problems and the company grew and grew, then you had a different set of problems. The ability for the CEOs to grow and to handle a different set of problems, in both cases wasn't there. My son has a business now, which is like a $200 million business and earns 10 percent pretax, a little bit more than that.

CK: *Is your son Steve?*

DD: Steve, yeah. I'm a director of the company. We went to dinner a few months ago and he had made an acquisition in England. He was talking to a couple of management guys at the dinner, and he made some comment to the English guy: "You tell those guys, if they don't do this, they're going to be fired." I spoke to him after dinner, and I said to him, "You know, Steve, at one point in time — and I think this is back in the seventies, eighties — a couple of people in the venture business said that I had fired more presidents than anyone else in American industry." That may or may to be true, but if I wasn't first, I was second, third; I probably was first. I said to him, "With all of that, I never, ever in my life threatened to fire anyone." He took it to heart. He understood the difference between people not doing something or being unable to do it and you fire them and get someone else, but I never, ever threatened to fire them. That's a big difference. I hadn't thought about that in many years until that happened, as I said, a few months ago. That's something you had to be able to do.

When you stop and think of that call I made to Sutter Hill where I told them we were turning over 90 percent of our start-up people in five years, and they came back and said they were turning over 95 percent, it tells you what's going on in the business. At Prime Computer, we hired Ken Fisher. He replaced the founding president. Ken, when I hired him, was working for Honeywell and he was running their Midwestern marketing operation. As I recall, they had three regional heads in the United States. Ken in Chicago, someone in the Connecticut area handled East Coast, and then someone out west. I could be wrong on those details, but I think that was it, three. As I've said before, Honeywell was not the bright and shining light in the computer business. I didn't tell Ken, but where we got his name was from his boss. I hired a recruiter — a guy that worked out of Los Angeles — to find a new CEO, and he talked to this guy at Honeywell who ran corporate marketing and his three regional guys, he said that he was going to have to let go of one of them. I guess he was going to keep the East Coast and West Coast and get rid of the guy in the middle, and that was Ken. So he suggested we talk to Ken. Now he didn't tell Ken that, and we didn't tell Ken that, because we were trying to preserve his ego. But we approached him and we hired him. I'd say he was a superb marketing guy. He was just the right guy to come in, because our problem wasn't product, we really had an outstanding product.

I gave you an example of the power company. When you've got a ten-to-one price advantage over IBM, you have to find where you have the price advantage. That wasn't across the board because our computers wouldn't work across the board, but there were niches where we really had that kind of advantage. So the job of marketing people is to uncover those niches and then sell your product into them, and Ken did a fantastic job. The last year of his employment was the year where they were number one on the New York Stock Exchange. We fired him the next summer. Why did we fire him? Because he couldn't manage the company.

We had brought on the board a guy who was president of a smaller company — less than 100 million — in the data processing industry; and he had come out of Honeywell, and he had worked with a number of the guys who started the company and knew them and they were friends. One of these guys called me one day — I forget that guy's name, the director. One of the managers called me, and he said, "Look, three of us went to Joe Blow, or whatever his name was, and told him we had problems inside the company and we wanted to talk to him." To his credit, he said, "Look, call Dave Dunn, he's the chairman; he's the guy that you should talk to." Of course, they were comfortable talking to a personal friend, but they were uncomfortable talking to me. They called me and they were making a business trip or something. I flew into Salt Lake City, by coincidence, and met them there and we talked. What they told me was that this house we had built was made of cards, and it was about to come down around their heads. The reason was that they were completely unable to forecast their product configurations that customers would want. By product configurations, you could adapt a machine to different purposes and it would have a different mixture of peripheral equipment. We bought some of our peripheral equipment from IBM, some from Honeywell, wherever, to put it together.

Something that I had failed to note was that we had been adding manufacturing space at a much higher rate than we were adding revenues. Cost structure was all right, we could absorb costs, but still the ratios were going against us. If you're a customer in the data processing industry, you soon learn — if you're astute — you soon learn that the best price you can get out of a supplier is within the last ten days of the quarter. If you refuse to give the salesman an order until the last week of June, you can get a 10 or 20 percent discount from what you would've paid in May. It's true. It was at Storage, it was at Prime, Iomega, et cetera. So, you weren't getting the hard orders until the last week or ten days of the quarter. So that meant that they had to configure products and set up peripherals with them to accommodate whatever orders may firm up. Actually, if I remember the figures, we were producing — every quarter — about 260 percent of the systems we were selling. In other words, we were producing the product, buying the peripherals, assembling them, and then a week before the end of the quarter, you tear them apart, you put other peripherals in, et cetera, et cetera. So we were producing about

260 percent of what we were selling because of this tearing apart and re-putting the product. So it proved to me that we had outgrown Ken Fisher.

Ken was a driven, hard-nosed, obnoxious, competent guy within his area of expertise, but his area of expertise didn't really encompass running a half-billion-dollar company. So I always felt that I was somewhat dishonest, but we had a board meeting and I went up there the night before the board meeting and I met with Ken. I gave him two letters and I said, "We're going to put one of these out tomorrow and you have to choose which one it is." One letter said that the board had terminated him and he was being replaced, and the other said he had decided that he wanted to move on and face new challenges and resigned. He obviously chose the one where he resigned. Of course we were a well-known, high-profile, public company at that time, since we had done so well the year before. To explain to the world why you fired some guy six months after he had that successful year, but there was a really good reason for doing it, and the board was 100 percent in favor of doing it. These weren't my buddies, in fact, in one case it was someone that Ken had recommended to the board. So he chose the one where he resigned and that was the end of him. I remember we had calls from all the analysts and the newspaper reporters and you know how they are with questions. They'd say, "Did you ask for his resignation." I'd say, "Absolutely not. Nobody on the board asked him for his resignation." Which we hadn't done. We gave him the choice of two form letters. So nobody asked me, "Did you give him a form letter and say, 'choose this or that.'" So we didn't actually lie. We misled them, but we didn't lie. This was a normal approach in those days.

CK: *It sounds really stressful—*

DD: It was interesting. We let go of the first guy. We didn't have any board meeting scheduled, and I flew up to Framingham and I set up a lunch with Jack Delaney, who is in Heaven now, I guess; his picture is up there. He and I met with the president for lunch and I guess there were a couple of the other key executives who happened to come in the restaurant. I was told later — since they knew we weren't having a board meeting — that this was probably the CEOs last day at the company, which it in fact was. Again, none of these were personal decisions. People have said, Well, you and Ken Fisher didn't get along. I said, "I despised Fisher from the second time I met with him during the interview process." I despised him then, and I despised him when we let him go, but this was a personality thing. I backed him and he was very successful, brought new marketing strengths that we needed, we used, but then it outgrew him. That's what happens. As companies grow, they outgrow the capabilities of a lot of these CEOs.

CK: *How do you handle your stress?*

DD: I don't know. No. I remember when I was at Whitney, for a while I was taking some stress pills, tranquilizers or something — a prescription thing — but I stopped doing that.

CK: *So it's a stressful job. Do you sleep well at night?*

DD: Generally, yes.

CK: *You mentioned that you called Sutter Hill when you were working on something, and I'm wondering who else you partner with, or who else you have a network. Is there a network? I know there was a network—*

DD: I don't know that I had a strong network. Remember, I did primarily start-ups, so then I was raising second and third round money. I'd approach people like Sutter Hill, Smith Barney; this guy Delaney, I sold him a couple of deals. So I don't know that I consider it a network. I knew where to go and after a while, after the first couple of years, I had a track record that people wanted to go into deals.

CK: *Chuck Newhall uses the expression "band of brothers," out of the service—*

DD: Remember I was, and am, greedy. I never looked, when I was doing a start-up, for someone to hold my hand as a partner. I wanted 100 percent of the stock that was being provided for the financing. Now when I did the Inforex, because Jerry Large at G.H. Walker found the key guy, Tom Horgan, for us, they wanted to come in for half of it, I had to say yes. But others, they came to me. And I didn't go out and get someone to participate. I'd operate exactly the same way if I were doing investments today.

CK: *That's an honest answer. I was also wondering—*

DD: Greed.

CK: *A sense of confidence or—*

DD: I didn't need the support you get from someone else acquiescing in your decision. What I didn't need was when you had second round, third round, had stepped up prices, and we always were honest with the people and candid and gave them access to everything they wanted.

CK: *Were any of your Naval Academy or Harvard Business School colleagues — did they ever provide any kind of network for you in business?*

DD: No. Let's see, the only Naval Academy guy that ever got involved with one of our companies was Paul Slack. Of the group of us who went in the Marine Corps, two of them — Paul Slack and Phil Monahan — made general. I went to a reunion in Washington, it was probably the thirtieth reunion, and Paul was going to retire in the coming year. He had been in charge of data processing for the Marine Corps headquarters at Eighth and I [Sts. SE] there [Washington, DC]. So I introduced him to the then CEO at Iomega as someone who might fit in with Iomega, and he took the job and was moderately successful there. He was in administration at Iomega, plus he did some government marketing for them, and he's just basically a good man. So he was there for fifteen or twenty years, I think. I still see him regularly; we skied together a couple of weeks ago at Deer Valley, and I think we were the oldest two guys at the mountain. So he's the only Naval Academy guy that ever worked for one of our companies, but clearly he was not in the formative stage. Then as far as people from Harvard—

CK: *I was just wondering, sometimes people will talk about that they've kept in close touch with their college—*

DD: The only one that I really kept in close touch with was Jack Sheehan. Now I've mentioned him before. He was the guy that recommended me to the partner at McKinsey, who the partner at Whitney went to for advice. Now what I didn't tell you at the time: Jack was class of '52 at the Naval Academy, and I was class of '55 and we were in different companies, but he was the closest first classman's room to my room plebe year. He was an abomination. When a plebe leaves his room at the Naval Academy — you don't walk out of your room, you march out. You're in ranks, you march, you do a right face if you're going that way or a left face, and you march down the center of the corridor. That's what you do the entire year. Sheehan was the kind of guy, if you were going to cross his path and there was a plebe's room between you and him, you'd dart into the plebe's room and say, "Guys, sorry to bother you. I was just trying to avoid Sheehan." So I wasn't very friendly with Jack. But I was at the Baker Library [HBS] and who the hell is standing there in the library, but Jack Sheehan. I should've outgrown my days in Brooklyn, but I actually thought of clipping him, but better judgment prevailed and I said, "Hi," and we were affable. He remembered me. He didn't remember himself and how obnoxious he was, but we got to be good friends over the years. He's the guy I've been, I guess, closest to from Harvard Business School or the Naval Academy.

CK: *I just want to look at the bubble and how Idanta faired during the bubble*

DD: You mean the recent bubble?

CK: *No, the nineties. You were in technology and—*

DD: We're in a different business than the so-called venture capital firms today. No question about it. We're much more similar to the Rothschilds of the 1600s. So we didn't have a family or ventures. I use this demeaning phrase of "pump 'em and dump 'em" type of investing— If you're aimed in that direction, you can live with a lot less creditable people and products, because you're not trying to build a major company, you're trying to get it to, let's say, a public market in two, three, four years and then pass the stock on and it's sold and you've made money and you go on to another deal. So you're really looking at a different program where our investments when we looked at them, if in fact you were going to be in them fifteen or twenty years, you knew that you had to last through a couple of financial cycles. Within twenty years you would have at least two financial cycles. So we weren't particularly hurt. We weren't helped by the explosion in technology values and we weren't hurt, particularly, when they went wrong, because again we were in a different business. It isn't that we were smarter or better. When I describe that business other than using the demeaning term of "pump 'em and dump 'em," I never had the feeling that we were superior to the other people; it was just that we're different.

Again, remember, we started Idanta with $8 million plus a commitment for another two. We never took the two down that was committed. We've never raised another dime. That's a different business. You stop and think about these guys with billion-dollar funds in the venture business. I wouldn't know what the hell to do with it. If I was twenty years younger and someone came in tomorrow and said, "Jeez, I'll give you $100 million. I want you to manage it for me." I'd say, "I don't know what I'd do with $100 million." Once we were out here and started having some national recognition — I remember back in probably the eighties, a number of people said that we were the most successful venture capital business in the United States, and I think by arithmetic at the time, we were. We certainly haven't been since then and far from it, but I think just on arithmetic with a couple of the deals we did, we were very successful. Now Idanta got a decent shot at Storage Technology, too, because I think either the second or third round of Storage, I sold a participation to — what's the lead bank in Chicago — Chicago First National or something. Anyhow, I sold their investment group a participation. And after I started Idanta — it must've been just a couple of months after — the guy that was running it really got cold feet about what was happening. The market had gone to hell and data processing companies were in disrepute, et cetera, et cetera, but it was one of those things. But he got cold feet and he wanted out and he called me and asked me if I knew someone he could sell that participation to. I said, "Well, in this market, you're not going to be able to get anything more than you paid for it." He said, "Yeah, I understand that." I said, "I'll buy it." So I bought it from him during our initial phone call. So we made some real money on Storage Technology.

REFLECTIONS

CK: *I want to just reflect a little bit about your feelings about venture capital. Even though it's very clear that you have a different approach, or you've maintained a historical* *approach to investing in contrast to the more contemporary venture capitalists, do you see venture capital as a romantic quest?*

DD: Not in the least, not in the least. One, you've been reading and listening ad nauseam to job development in the United States. There is absolutely no question that new companies create more jobs than existing companies. You've seen the figures, I'm sure, of the jobs that are created in ventures that are five years old or younger as opposed to the established companies in the United States. Certainly over my career time, if you will, that's true, and I've seen the statistics that prove it. So I think that there is a major plus for the country and for the economy in the creation of new ventures, but there's only a major plus if they're successful ventures and if they become substantial companies. Again, you just have hits and misses over a lifetime.

I remember my early years, like maybe my first or second year at J.H. Whitney, the people at MIT had an aggressive technology development group, where they were trying to get financial advantage out of technologies that were developed at MIT. It makes sense. You develop some new technology, let's have the professor start a company and make a lot of money. Unfortunately, they didn't have a good background for starting and running companies, until someone like the guy from UCSD that started QUALCOMM leaves UCSD and goes to a company, works for a few years and then branches out. But he learned his management when he was in that couple of years. So MIT was doing that, and they had done a tremendous amount of statistical work about new ventures, both independent ones like the ones I finance and then new ventures within the corporate umbrella, where GE or Westinghouse or someone would start a new venture. And the success statistics were incredibly similar in the in-house ventures and the out-house ventures, that the failure rate of new ventures within the United States — and this is all new ventures, and this goes back to the first half of the sixties — was something like 90 or 95 percent. In other words, any company that was started, whether it was a dry cleaning store or a computer company, the failure rate was about 95 percent. Then you'd say, "Well, boy, they've got to be more successful than the large companies." MIT did a great analysis where people gave them the information, and the ratio was, plus/minus 5 percent, identical. They started these ventures and then kaput.

Also, something that I learned before I started in the venture capital business — I took a course in my second year at Harvard called Management of Innovation, or some damn thing. It was about managing new ventures — it wasn't new ventures, it was really the technologies, the management of new technologies, et cetera. And one of their case studies was of a company which they didn't identify, but I think I later learned it was Raytheon, outside of Boston, where Arthur D. Little was brought in to consult with them. They had been doing 100 percent during the war on government technology, and they were trying to move selected portions of the government technology into commercial products to sell to the outside world. And they found, not surprisingly, that they were doing a lousy job of estimating the cost of converting a technology that they had developed in the lab into a commercial product. So they called Arthur D. Little to come in and do an analysis and see if they could come up with a factor which they could multiply the original estimates by to see what it would take to get to market. Arthur D. Little did the study. They said: I don't know how useful this is going to be for you, but the factor is fifteen. In other words, if you take your original estimates of what the cost will be and you multiply it by fifteen, and that's approximately what it's going to cost you. It sounds insane. But why is it not insane? Because you have something in the lab that is so far removed from a commercial product.

If you're working with guys who are engineers and who are used to solving problems — it's like being in the Marine Corps, if someone says, "Do this." You don't stop and say, "Oh, I don't know if I can do this." You do it. If you don't know how to do it, you screw it up. You screw it up and you go on and hopefully you don't get killed. Well, it's the same thing in industry. If you're an engineer and you develop the products, you are an optimist. So you never see the problems you're going to run into. But that's the kind of thing that you misestimate. But Arthur D. Little came up with a factor of fifteen for them. Now, that doesn't give you much confidence in staying in the business, doing that, but that's the way it is generally with ventures also. You tend to — I wouldn't say you never ignore problems if you've got any kind of discipline, but you don't see the problems. It was like doing it with the Prime Computer, where we were going to sell them to Honeywell customers, and never sold one to a Honeywell customer. Those are the kinds of things you run into. It's how fleet of foot you are in running around those problems and find some other niche, if you will, to be successful.

CK: *I know you're kind of winding down your operation here, but I'm wondering —*

DD: Yes, I am. I don't make investments.

CK: *But I wonder what continues to excite you.*

DD: Nothing, absolutely nothing. The only reason I stay in business is we've got a couple of lawsuits hanging on and the nature of lawsuits is they just go on forever, so you've got to stay in business until you get them resolved.

CK: *What distinguished Idanta from other successful VC firms? Is there an enduring philosophy?*

DD: I think our method of doing business was suited for the times when we were really doing business. Again, when I was at Whitney, there was never this talk of taking things public. And then, again, you went public to raise money. So you had a different vision. You were trying to develop large, successful businesses. And that's what we've been doing. That was particularly well suited for the times during my active business life.

CK: *And you don't see a romance in that whole idea?*

DD: Yeah, it's romance until you've fired the fourth president in one of your companies. When I called Sutter Hill, when I ran into that 90 percent figure, I was really downhearted. I said, "No one else could be as bad as we are in choosing executives." When the guy came back and said 95 percent, I almost fell off my chair. I said, "How does anyone exist in this world?"

CK: *Have you ever stopped to think that you would've liked to have done something else with your life?*

DD: Well, I'm sure at various times that thought has gone through my mind. Photography seemed, in retrospect, a relatively less tension-ridden business, if you will, but I'm sure that it has its own tensions. And I've always envied the guys in my class who went on to be generals and admirals. These are the people who I look up to. Granted they never made a fraction of the money I've made, but I've never run a division of Marines, which a couple of my classmates did, never run NATO Europe, which one of my classmates did. Would I have been that successful if I had stayed in the service? Absolutely not. No way. These are people I look up to.

CK: *Are there any venture capitalists that you look up to? Any ones that you particularly admire?*

DD: Well, this guy, Delaney — maybe because he was similar to me (laugh) — I admired him. But, yes, I admired Jack. He was a tough-minded, analytical, face up to the problems. You went to board meetings to solve problems, not to pat each other on the back, et cetera.

CK: *Yeah, there's not a lot of patting on the back in this industry.*

DD: Again, if you really face up to problems and ask tough questions— A couple of times people have said, "Well, the management is all afraid of you." They're not afraid of me; they're afraid of the questions I ask, which are business questions. I remember Iomega, the management was trying to convince us on a course of action, and they did an analysis of Iomega versus four or five other companies. They did good sets of statistics and proved their point. I looked at them and understood that they proved their point, but then the first question I asked them was, "Who chose the companies that went into the comparison?" Well, these guys' faces dropped, because what they did was they started with the answer and then they tried to find companies that they could build a comparison around which would lead you to the answer. It took me thirty seconds of looking at the figures to understand that that had to have been what happened. Well, I asked them a few more questions that just demolished their whole thesis, and that was the end of it. One director, whose background was really management, he said afterwards that I had terrorized the management. I didn't raise my voice. I asked them logical questions. But they weren't used to being asked logical questions, the guys we were working with, and that "terrorized" them. I said, "Well, it wasn't me that terrorized them. It was the fact of how they had structured their analysis." That's what a director should do.

CK: *What are your personal rewards from the work you've done over these years?*

DD: Clearly, in the companies that we financed, we created somewhere between fifty thousand and a hundred thousand jobs, and for whatever intangible reasons, I do feel a sense of pride in that. I wish there were more people doing more of that stuff today in the United States. Again, it's unquestionably more difficult. You see the people in software, like Facebook — I've never been on Facebook, I wouldn't know it if I saw it. But people built major companies like that and they employ a lot of people in good-salaried jobs, which is a major contribution to the country. But that's in software. Try and think of recent hardware companies, any significant number of them that are creating a lot of jobs. I'm raising the question to answer it, but I haven't thought about it before, but I'd say that you'll find damn few of them. Again, I was lucky that the period I worked in, you could do that here in the United States. And it was only in the latter stages, late eighties and nineties, where you had to start shifting that stuff overseas.

BEYOND VENTURE CAPITAL

CK: *So, David, you have to take a break from all of this over the years. What takes up your time outside of work?*

DD: Reading, generally.

CK: *What kind of reading do you like to do?*

DD: Well, for the most part, mystery stories, police action stories, but good biographies. I recently read a really good biography of Winston Churchill, his so-called "war years," which went from Boer War in Africa through World War II. So reading, primarily. I ski, but I guess up until this year, I've been skiing twenty days a year, which is a good amount. My legs are beginning to complain about it now. But for the most part I've spent most of my time working.

CK: *I know you are involved in the Student Sponsor Partners.*

DD: I have been involved in that for a number of years. I guess I started — there was an article in *Time* magazine about De La Salle Academy in New York, which provides six through eighth grade education for kids, primarily deprived kids. It's up on like Ninety-sixth Street or someplace. But they have kids from all over New York, Brooklyn, Queens, et cetera, that go to this. There's a guy, Brother Carty, that runs it. They had rented the upper two floors of a Catholic grade school to run their sixth through eighth grade. I read this article and I called him and got to know him. I made some minor contributions to it. After a while, it occurred to me that he was raising money, donations, out of habit, that he really didn't need it anymore because there were a number of people, like IBM, that were making contributions, et cetera. So he really didn't have a shortage of capital. And I asked him, "Is there any other activity in New York that took care of disadvantaged kids?" And he recommended this Student Sponsor Partners. I talked to them. Are you familiar with that?

CK: *No.*

DD: This guy is an investment banker. He was a well-known guy in his day. Again, he's older than I am. But he started this. What he was trying to prove, I guess, was that the inner-city kids have as much capability as the kids out in the more affluent suburbs, which is absolutely true. And so he started a program where they used empty spaces in Catholic high schools to bring in these poor kids. When they graduated from public school, the eighth grade, they would go to a Catholic high school for four years. When I got started with him, it was costing about $3,000 a year for these kids in a Catholic high school. Remember, you had all the fixed costs taken care of. You had empty seats. You could put more kids in a classroom. So there was very little increase in cost. So for about $3,000 a year you could send these kids. It was about $12,000 for the four years. The statistics at that time — and these are rough — were that the attrition rate in the inner city schools was about 60 percent; only about 40 percent of the kids graduated from the inner city high schools. Of the people that graduated, only 20 percent — so that's 20 percent of forty, or eight kids out of one hundred starting kids went on to college. They started this program where they recruited the kids at the end of the eighth grade. They went to the Catholic schools and then graduated and hopefully went on to college. And their statistics a couple of years into the program was they were graduating 80 percent of the kids that started. Of the people that graduated, more than 90 percent went to college. In fact, last year I think it was 97 percent, so they almost all go on to college. You got more bang for your buck with inner city kids getting through high school into a college. Almost all of them got scholarships from the colleges. People were looking at them and most of them were minority students, and people were looking for educated minorities to give you a better color mix in your schools.

But the way they did it was they had a mentor that provided the financing. They got some guy from Morgan Stanley. He would be the kids' mentor. He'd provide the $12,000 or whatever, and he'd meet with them at least once a month and help bring them along, steer them into ideas of business, college, et cetera, et cetera. And it really worked. Well, I was out here and the kids were in New York so I couldn't do the mentoring. I told him that I would do a deal where I'd provide fifty scholarships the first year. I got half the mentors. I went to the dean at Harvard Business School, and I got him to let us approach the graduating class that year, who were kids that were coming to New York, where they would serve as mentors to these students. I put up the money and they did the mentoring. We were actually oversubscribed with the kids from Harvard. More of them wanted to do it than the twenty-five. And then I had them go to the police commissioner and see if they could get twenty-five cops. They actually didn't get the twenty-five. They got like eighteen detectives from the New York City Police Department to work as mentors for these kids. Understand, over 90 percent of these kids came from single-family homes, and in almost all cases, 99 percent, it was the mother and not the father who was the single parent. So that really worked like a charm. It just was very successful the first year we did it. So I've been involved with it for fifteen or twenty years now. I raised it up to I guess 150 kids a year.

Now, I have just, in the last year, started to pull away from them. And the reason for it is they brought in a very, very competent gal who is running it. Our problem used to be the money and the mentors. There were more kids who wanted to go in than we could provide mentors and money for. I noticed the last couple of years that they — I guess about a year ago they said they were going to start bringing in kids from Catholic grade schools as well as the public schools. I said, "Gee, what's going on?" The theory in this case was that we were taking the kids from really bad schools into a good environment.

Peter Flannigan was the guy that started it. His genius was that they refused to take children from the first or the fifth quintile, the bottom 20 percent or the top 20 percent. The theory, in the case of not taking the top 20 percent, was those kids could get the same thing through their own work; so they only took the three inside quintiles. And by doing that they were able to prove that if you took, say, the average of the public schools, they'd be just as successful as the kids that went to Choate or any of the prep schools, as far as getting into a decent college. And he proved it. But then, about a year or year and a half ago, I noticed that they started to recruit kids from the Catholic schools. I said, "Well, why, in the name of God, are we doing that?" She told me, she said, "We're not getting enough people applying from the public schools." Now, understand, Mayor Bloomberg in New York has really improved the public schools. They took it from in the garbage pit to a couple of feet above it, but you can still smell the garbage. They haven't moved them up until they were first-rate schools, but they are significantly better than they used to be. For whatever reason, a few of the kids are attracted to the idea of going to the Catholic secondary school. So I said, "Well, you don't need me anymore." I went to it because it was purely need motivated.

The one thing I suggested to them, which they did implement this year, which they had never done before, is they went to the foster kids group in New York. If you want needy kids, these are the neediest kids in the world, and very difficult to work with for a wide variety of reasons. But if you want kids in need, those are them. And so they did this year. When I made the suggestion, her eyes lit up, "I never thought of that!" She was trying to get one hundred kids. I said, "You're crazy. You just can't imagine how much work it's going to take with each of these kids." But they were lucky they weren't able to get one hundred. I think they got about twenty, which, even in a city the size of New York, was pretty good. And so they have broadened out, but, still, they don't need me anymore. Goldman Sachs, I saw, donated three million to them a couple of years ago. A lot of the New York money firms are trying to prove what good citizens they are by putting money into local charities like this. And a lot of them are just good, decent human beings who want to do the right things. So, anyhow, it's a long way of saying I'm evolving away from them. I told her this last year that I was going to be dropping out.

CK: *I see that they gave you a Founders Award.*

DD: Oh, yeah, dinner in New York.

CK: *And in 1998, you received the Alumni Achievement Award from Harvard Business School.*

DD: Yeah, I think it's on the wall. I think that's the underneath one.

CK: *Okay. And in 2010, the Distinguished Graduate Award from the U.S. Naval Academy.*

DD: That's right. I figured they were scratching the bottom of the barrel.

CK: *I doubt that's how they look at it.*

DD: No, they would not admit that. I agree.

CK: *So you've had quite a rewarding career — and obviously, you've been recognized that you have made quite a contribution, in your way.*

DD: Well, it's interesting. When I contributed to the Naval Academy, it was a major contribution. I was invited to go onto the UCSD Foundation here. UCSD is the big university here in the city. I went onto that. I was on it for six years, and then they rotate you off. I learned so much. It was still a small organization when I went on. They had about $16 million in funding, their endowment, which is nothing. But by the time I left — and not through anything I did — it was like $200 million. But they were very successful in developing the structure. So we got a guy at the Naval Academy, Admiral, whatever. They had had some problems at the Academy, and he was sent back for a second tour. He had been superintendent — the boss — and then went out. He was a Pacific fleet commander. Then he was asked to come back to the Naval Academy as superintendent again and clean up whatever problems were going on. So he did.

When I got to know him; I was very, very impressed with him — just one of the finest men I've ever met, most able guy. And from what I learned from being on the UCSD board, he came out to see me and we were talking about the problems of the Academy. I wrote him an eight-page letter detailing what I thought they should do. It was to create a U.S. Naval Academy Foundation — like the UCSD Foundation, which I was on — completely different than anything they'd ever had, where they'd bring not only guys who were fleet admirals on the board, but guys who were successful businessmen, even if they didn't go to the Naval Academy. I suggested Jack Welch, the head of GE, and people of that stature. And to his everlasting credit, well, he called me after he got the letter and he said, “Dave, that’s really the best idea I’ve seen. The only problem is that we won’t get to use the name ‘Naval Academy Foundation.’” And I said, “You’ve got to use the name. That’s what this is.”

There was a small group of barnacle clan, elderly, retired Navy guys who were running the so-called Navy Academy Foundation, which had about six million bucks in capital, which was used to recruit star athletes out of high school, send them to a prep school for a year to get them academically toned, and then get them into the Naval Academy to play football or baseball, whatever the sport was. They were using the name for that. And I said, “Look, that’s your intellectual property. You just got to tell them, ‘Hey, guys, we’re going to create another Naval Academy Foundation, so you’re going to have to use another name.’” So, anyhow, he did it and created it. It has been an enormous success. Remember, we don’t have rich people at the Naval Academy, very few — Ross Perot and a couple others. They’ve raised several hundred million dollars. I forget what their bottom line is now. They’ve got really good money-management skills, as far as using outside money managers. I think last year they earned about 17 percent on their capital, et cetera, not as good as Harvard but close to it. But that was my contribution, an intellectual contribution.

CK: *Well, you contributed what you had learned worked.*

DD: Well, I learned by watching the people at UCSD. Dick Atkinson, who is a good friend of mine, was chancellor then there, and then he went on to be head of the whole University of California. He was president of the University of California system. So I learned a lot and I was able to pass that on. It really worked for them. So that was my contribution, which led to the award.

CK: *I've just met your daughter, Linda. You have three children?*

DD: Right.

CK: *She seems to be busy with your two grandchildren.*

DD: Yeah. They're wonderful kids.

CK: *And you have a son, Steve, who is busy with—*

DD: Munchkins.

CK: *And you have another daughter?*

DD: A daughter, Susan, and she lives here and is married to that guy we met out here. She went into business making Slippurrs — the end of the word is P-U-R-R-S, which implies comfort, I guess, one-size-fits-all, slide-in slippers, and then some spa wear, et cetera. She has had a business for a number of years.

CK: *Entrepreneurial.*

DD: Entrepreneurial and winding down.

CK: *And she has how many children?*

DD: None. She has not contributed to the next generation. Steve has two and Linda has two.

CK: S*o you have four grandchildren. And your wife is busy taking—*

DD: Busy. I don't know doing what—

CK: *With four grandchildren and three children.*

DD: As you can guess from the age there, she's not the mother of my children. But she is active. I'd be hard put to say what she's actually doing, but she's active.

CK: *You'd be surprised, I'm sure. So it sounds like you're enjoying the fruits of your labors and that life has been—*

DD: Probably better for me than I deserve.

CK: *Well, maybe than you expected.*

DD: Well, certainly better than I expected or anyone else did.

CK: *Yeah, certainly something much more than you expected. I want to thank you for National Venture Capital Association, for participating, and for Harvard Business*

School, who has established this archive for the venture capital industry. I always like to extend a thank you from Chuck Newhall, who really put his heart in this project and got it going.

DD: Let me comment. I noticed in your letter you refer — not you necessarily; I don't know who wrote it. They talked about the challenging faces of venture capital industry: Sarbanes-Oxley. And then it goes on something about capital gains tax treatment. Understand, the only problem that Sarbanes-Oxley causes is it forces you, if you're rational, towards honest financial reporting. Unless you've got an objection to filing honest reports, I don't know why, in the name of God, you would object to the Sarbanes-Oxley rules. They require the president, CEO, and the chief financial officer to sign off on the financial statements. What a tremendous burden for the people who are responsible for financial statements to actually sign them and be responsible for them.

CK: *I'll raise the question of whether it's necessary.*

DD: There is absolutely no question. It's uniform in the business community to moan, groan and bitch about Sarbanes-Oxley, because it causes you to file honest financial reports or run the risk of going to jail, which I think is a perfectly appropriate outcome if you don't do that. I go to board meetings and I hear them complaining and whining about it, and I say, "Why are you objecting to it, because you have to do this and that? Is that unreasonable if you're responsible for something, to sign?" So that's number one. Number two is they talk about capital gains for people in our industry. Why, in the name of God, is someone who works for a venture capital firm, has no risk of loss, entitled to capital gains treatment on his gains? That is a perversion of the tax laws. I think the capital gains tax concept is one of the best things they ever introduced, because it encourages people to make equity investments, because they supposedly pay lesser taxes. If you or your husband buys a stock, whether it's in General Motors or a start-up company, you're taking a risk of your equity and the capital gains tax will encourage you to do it, and that's good for the economy. But if you go to work for a venture capital firm, you're at absolutely no risk of loss; the people who invest the money in the firm, they are at risk of loss, they should get capital gains, but why should you if you're working there for a salary and a share of the profits?

CK: *I think there are some other venture capitalists who share your sentiment.*

DD: But damn few. Ninety-nine percent of — I was a founding member of — what's the organization?

CK: *NVCA.*

DD: Yeah. I was one of the founding board members of that, and I gave it up after a couple of years because my mind diverges from theirs. I understood the purpose of capital gains tax, for one thing, but it wasn't a big issue back then. The people that work for venture capital firms are not entitled to it unless they risk their money instead of their customers' money.