Oral History with David F. Marquardt

NVCA-Venture Forward Oral History Collection

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National Venture Capital Association
Venture Capital Oral History Project

DAVID F. MARQUARDT

Interview Conducted by
Carole Kolker, PhD
October 11, 2011 and February 28, 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.

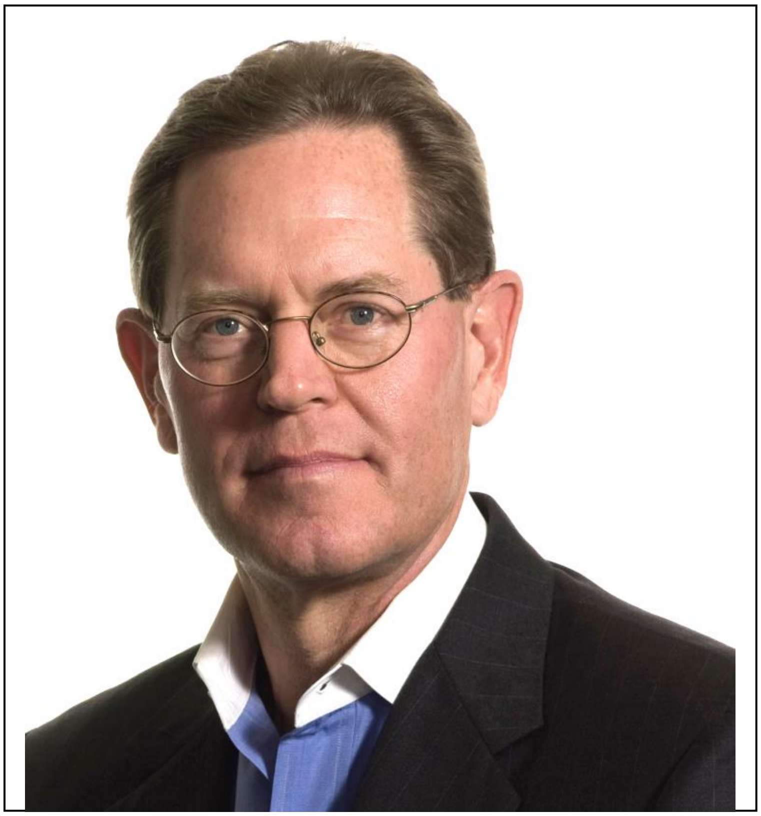
As the venture capital industry prepares for a new market reality in the early years of the 21st century, the National Venture Capital Association reports (2008) that venture capital investments represented 21 percent of U.S. GDP and was responsible for 12.1 million American jobs and $2.9 trillion in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

Dave Marquardt is a co-founder of August Capital, formed in 1995. Dave's commitment to entrepreneurs and their market vision is reflected by his long-standing board relationships; he has served on more than thirty boards of directors during his venture capital career.

Prior to August Capital, Dave was a co-founder of Technology Venture Investors (TVI) in 1980, where he was involved in four highly successful funds that invested in more than one-hundred start-up and emerging growth companies. Among these early investments was Microsoft, where TVI was the sole investor and where Dave has been on the board of directors since 1981.

Dave began his venture career at Institutional Venture Associates (IVA) in 1978, where he spent a year after graduating from business school. Previously, Dave was a design engineer and development manager at Diablo Systems where he collaborated on and/or led various disk drive and printer programs. Reflecting on his years in the venture capital industry, Dave said, "The thing that gets me up in the morning is the opportunity to build companies with lasting value. It has been a wonderful career."

Dave received a BSME from Columbia University in 1972 and an MBA from Stanford University in 1978. He also completed coursework for an MSEE at Stanford University. He has served as president of the Western Association of Venture Capitalists and is a past director of the National Venture Capital Association.

The following are interviews with David Marquardt at his office in Menlo Park, California, which took place on October 11, 2011 and February 28, 2012. My name is Carole Kolker. This interview was conducted for the Venture Capital Oral History Project of Harvard Business School and the National Venture Capital Association. This interview has been lightly edited for clarity.

THE EARLY YEARS

Carole Kolker: *Okay, Dave, we're going to get started. Thank you for setting aside this time; I know you're busy. We're going to start with your early years, so for the record could you tell me when you were born and where?*

David Marquardt: February 1, 1949, in Montclair, New Jersey.

CK: *How come your family was living in New Jersey?*

DM: That's where I grew up. I went to Lawrenceville School in New Jersey, went to Columbia University and studied engineering, an undergraduate degree in mechanical engineering. In 1974 I moved to California. So if you were an engineer back in those days, everything that was happening was on the West Coast. And so I interviewed with a lot of different companies and I got a job offer in the Bay Area, and all I wanted to do was to come out here.

CK: *What were your parents doing in New Jersey?*

DM: My dad owned a family business, a paper distribution company in New York, and mom was a homemaker.

CK: *Did you have any siblings?*

DM: Three siblings. I'm the oldest; I have a sister a year and a half younger, a brother who is five years younger, and a sister ten years younger.

CK: *The successful oldest child story.*

DM: I don't know about that. (laughs)

CK: *I guess* ***I*** *would have to say that. And did you have a good relationship, more or less, or was there a lot of sibling rivalry?*

DM: No, not a lot of sibling rivalry, but there was a lot of turmoil with my father. I went through some very tumultuous years when I was a kid. So I went to Lawrenceville; I was actually thrown out of Lawrenceville, and my dad had gone there and this was a huge embarrassment to the family. So I basically was out of the house for a couple of years, didn't speak to him at all, maintained a relationship with my mom. And it was actually the rapprochement that I had with my dad, sort of, that led to me going to Columbia. That's when I kind of got my act back together.

CK: *What were your interests, and what kind of kid were you? Were you a tinkerer or were you a reader?*

DM: Very much so. I was passionate about— I used to design speakers, audio amplifiers, cars. I was involved, I always had intense hobbies, mostly hobbies where I was building something or creating something.

CK: *How would you describe the values in your home in terms of education, attitudes towards success? Was there any pressure?*

DM: Well, my dad, being a small business owner, had about fifty or sixty employees, and it was one of those SoHo cast iron façade warehouses back then in Lower Manhattan. His father had founded the company, and his father was a phenomenal entrepreneur. And my dad always said, ‘‘Why didn’t he pick autos or steel, ” because he kind of went to the top of his industry, paper distribution. He was head of the National Paper Trade Association. He was really a big deal in his little niche business there. So my dad and his brother took the company over after their father died; my dad was the CEO and his brother was the chief financial officer. So dinner discussions were usually all kinds of business problems that he was having as a small businessman. As he used to say, “I have sixty employees, so if each one of my employees has only one crisis a year, I have one every week.”

So, you know, we lived with all the problems of running a business in New York and all the graft and all the issues that you have in a small business there. I remember his story when he first took over the company: The elevator inspector came in and said, “Okay, is this going to be the usual?” “What are you talking about,” my dad said. “Well, you know, I’ll give you the certificate; we're going to get the usual payment?” So my dad says, “*I’m* not going to do that."[graft] And of course this was a six-story warehouse, and all the inventory goes in and out through this elevator. And after, I don't know, ten days or whatever of zero revenues, and literally having to just about shut the place down, he finally had to comply with this guy, and that's just the way business is done in New York. So anyway, we grew up with all these stories about some of the sales guys and all the issues he had. So we had a pretty good grounding in what business was all about, just over the dining room table, which was a great sort of training at his elbow. And so my dad never really loved the business. He always felt that you should do something more creative. He loved technical stuff. The most exciting project he had is when he got a Burroughs L9000 way, way back, and he put all his inventory up on it, and he literally worked around the clock for months at a time programming this thing. He didn't have any technical training, but he just loved all this stuff. And the business of buying and selling paper never really interested him a whole lot. But he loved that. And so he always kind of nudged me towards engineering. I had a natural bent for it anyway 'cause I just like to tinker and build things. But I was the only one of the kids that studied engineering in school. And then he was, of course, crestfallen when I went through engineering school, got a job as an engineer, was designing products, and I was having a great time. I remember I called him up and told him I wanted to go to business school, and he was like, "What? Why would you want to throw all that away to get into business? What a boring thing that is."

CK: *So you were doing everything that he had wanted to do. You were living out his dream.*

DM: That's right.

CK: *You said that you went to Lawrenceville. Was there a sports program? Were you active in athletics there?*

DM: I just played intramural sports there. They have the house system there, and so they have all the houses play against each other in all sports. I wasn't good enough to play on the football team there. But everybody — we played baseball, football, and basketball against all the other houses.

CK: *Anything else? Were you on the debate team or in theater?*

DM: Music. We had a band there. We used to play at the Princeton Club parties and we played at a lot of the dances and stuff at Lawrenceville. I was the lead guitar player in the band. And I played in a lot of other bands, too. I played in a band back in my hometown, and I was pretty active in music.

CK: *So thus your love of live music today.*

DM: Yeah. Another story that always amazes people: My roommate there was the only kid in our house from California, and he was this finger-popping guy by the name of Hugh Cregg. And he wanted to be in our band so badly, and we're like, "You don't play an instrument. Get out of here, you have no talent." And all he could do was sort of hit the tambourine and sing. Turned out to be Huey Lewis of Huey Lewis and the News. You know, and then we kind of reconnected years later, and he obviously had a huge hit in the eighties, and he's a great guy.

CK: *So how would your classmates have described you? Were you passionate about anything? Were you exuberant? Were you a team leader? Were you competitive?*

DM: I was always totally immersed in something, whether it was music or — so I don't think they would describe me as— As Huey's often said, "Who would've ever guessed?"

CK: *They just thought you would never get your nose out of whatever you were doing?*

DM: That's right. And I had my share of issues and problems and disciplinary stuff and all that. So I was not what you would call a model child.

CK: *Well, it served you well. You got it behind you. Did you find any early role models or mentors through those years?*

DM: Well, when I got to Columbia there were some professors that became mentors for me. Probably the two primary ones were a guy named Reno Castelli, who was the head of the department for a while, who was a gas dynamics and fluids professor. And then a guy named Dudley Fuller, who taught machine design and lubrication and stuff like that. He was another phenomenal guy. And I got very close to both those guys.

CK: *Just before we get off to college: Did you work for your father, or did you have a job during— ?*

DM: No, my dad sort of really didn't want any of us to work in that business, 'cause he wanted us to go out, find something more interesting, in his view. So I never worked there. My brother did for a while, for maybe a couple years, and that did not work. I mean, the two just butted heads constantly, and so finally my brother left, and I said, "Hey, you should really come out to California, go to business school and do something different." And so I talked him into moving out here. He applied, he was on the wait list, and he finally did get accepted himself.

CK: *In high school, did you ever work in the summer?*

DM: Always. I think I worked in every trade. I worked as an auto mechanic for a lot; I worked for a tree expert; I worked for a plumber; I worked for an electrical contractor. So I always wanted to earn money during the summer, and I always wanted to do something with my hands.

CK: *So you're as motivated to do something as to earn the money.*

DM: Yeah. And I had fun in all those. I had fun, and I realized there's no career here. Like for example, when I was an auto mechanic, after a year of doing that, guys that were thirty years older than I was— So I was moving really fast; I was hustling, because we were getting paid by the job that we did. And I was making about the same money that they were, and I figured, This is not a career, a long-term career, because I can spend the next thirty years and basically go nowhere. So that was very instructive to me. So that happened before college and that's what sort of convinced me, you know, you need to get some more education. And also I was really into auto racing during that— I worked on a Trans Am crew. And one of the guys that was really, made an early mentor, if you will — I can't call him a mentor, he's just somebody that I looked up to — was Mark Donahue, who was a race car driver, and drove for the Roger Penske team. He was a rare bird because he was a Cornell engineering grad, and there were not a lot of engineering grads there. They were doing things that were really leading edge; they were pushing technology; they were doing really interesting things in the way they prepared engines and everything. And I thought, This engineering stuff really makes a difference. And so that was another key thing for me.

COLUMBIA UNIVERSITY 1969 - 1973

CK: *So in '69 you went off to Columbia?*

DM: That's right.

CK: *Graduated in '73. And why'd you choose Columbia?*

DM: So I had a checkered background, for sure. I didn't even have a high school diploma at that point. I got an equivalency diploma. My grandfather, who founded this paper company — his brother emigrated here from Germany, and my grandfather put his brother through — he never went to college, but he was very successful early on, and he put his brother through college at Columbia, and he studied mining engineering. And so when he graduated, he went off to the mines in Colorado. He was asthmatic, and he had a lot of problems breathing, so his doctor told him, "Look, you've got to get into a different climate." So he moved to Los Angeles and got into the municipal bond business and financed the freeways and the sewer systems in Ventura and made a lot of money, and he had no children. And he used to come and visit us every year, Uncle Ernest, he was a great guy. When he passed away, my dad was the executor of his estate. So all of us kids were thinking, "Gee, we're going to inherit a lotta money from this guy." Well, not really. What he did is he gave a lot of it to charity, and he gave a big grant to Columbia. So my dad, since he was the executor of his estate, he was dealing with President McGill and whatever at the time. And that was the entré for me. And he said, "I have this son, and he's interested in engineering." And so he set up an interview for me with the dean of the engineering school at the time, Dean Hennessey. So I went and met him, and we hit it off. He kind of related to what I'd been doing and so on. And he said, "Well, look, you're not going to be able to get in here, you're probably not going to pass muster, but I know a lot of the admissions directors for the small liberal arts schools up and down New York State, and so I'll be happy to introduce you or write a letter for you. But you know, just throw an application in here, just in case" And he goes, "The admissions, the meetings are once a month, and I don't usually go to those meetings" — the next one is three weeks hence or whatever — "call my assistant and have her remind me to go down there, and I'll go down there on your behalf." And so I did, he did, and I got accepted. (laughs) So it's just a fluke.

CK: *So your grandfather's name is Ernest Marquardt?*

DM: Yeah.

CK: *And your father's name?*

DM: Was Karl.

CK: *And your mom?*

DM: Jean.

CK: *That's an inspiring story.*

DM: So it was just a fluke thing that I managed to get in there. And it was tough for me initially because I'd been out of school for a while, and to get into sync and so on; my grades suffered. In fact, I think I was put on academic probation my sophomore year. But I went from a 2.7 to a 3.95 in subsequent semesters, which I think nobody had ever done that big a swing. And then I just kind of went from 3.97 to 4.0, and so on in grad school. So I did very well at the end.

CK: *What happened to turn Dave Marquardt around?*

DM: I was scared that I was going to flunk out. And I guess the other thing that happened is after sophomore year you start getting more into engineering. And I really loved the courses and the professors. And so it was a combination of fear and enjoyment, I guess.

CK: *You said that there were these two professors, Fuller and Castelli, who seemed to have made a difference.*

DM: Yeah. The mechanical engineering department there was relatively small, and it was very tight-knit. We used to have picnics up at Reno's [Castelli]; he lived in Scarsdale, and it was a group of guys that got along really well, and it was a very diverse department, given its size. When I compared it to virtually all the other mechanical engineering departments, they would have all this traditional stuff. They also had a gas dynamics, they had lubrication, which they didn't have anywhere else at the time. And also Reno brought in all these very interesting research projects. Xerox was a big client of his, and he did a lot of consulting for them. So I worked on a number of these projects with him. We built the first scanning engine for the first laser printer, this 36,000 rpm faceted mirror that would spin, and you had to servo it to be very accurate, and this was for the first laser printer that Xerox built. We also did a lot of work on flying heads for disk drives. If you know the way a disk drive works, the head floats on a little film of air, and all the dynamics of how you establish the film and its stiffness and all that. Reno had written one of the two major computer programs to analyze this. And so we did a lotta work on this for Xerox, and for a couple of other clients as well. It was great because he brought all these real-world problems into the department, and then grad students and undergrads could work on them with him, and it was a great environment.

DIABLO SYSTEMS 1973-1976

CK: *I can see how you were just enthralled by what you were learning. Where were you headed after Columbia in '73?*

DM: I interviewed with ten companies, about — Ford Motor Company, IBM, Bell Labs, and I got a buncha job offers. And the only job that I looked at in California was with a small company called Diablo Systems, which Xerox had just acquired, and this was through the Xerox connection.

CK: *Did you know what you wanted to do or how? Did you have a vision for your future?*

DM: I thought I wanted to go into the auto industry initially, because some of the other projects that I worked on, other than the scanning laser printer and the disk heads, were — I worked on, with another classmate of mine, we built an electronic ignition and fuel control system — this is back in the seventies — for cars, figuring that electronics were going to make a big difference there. And so I took all that knowledge, and also all that racing experience I had, and went out to Ford. And you've got to remember this was in the early seventies, and I met the whole team that did the GT40, to win at Lemans and Sebring. And these guys were just so demoralized, because they had all been moved off of this project into other things. And in the early seventies, the EPA, the NHTSA, and the DOT were issuing mandates, often conflicting.

I don't know if you remember back then, but the government was trying to control how many people were working on all these different safety and environmental things. And it's like the whole management of new cars was taken away from the auto companies and was basically being run by the government from outside. So these guys were not having a good time. I don't know if you remember, the cars back then were terrible; I mean, during most of the seventies. Anyway, and it was a gray day, and it was a bunch of gray people, and not excited about what they were doing, and they were just servicing these mandates. They offered me by far the most money of any of the jobs that I looked at, and I just sort of said, "I don't want to do this. This is not the place to make a career."

When I came out to California, the thing that was appealing about Diablo, it was a relatively small company that Xerox had just acquired. They had invented the daisy wheel printer. I don't know if you remember those. They had three divisions: They had the printing division; they had a disk memory division; and a small systems effort. And so I worked mostly on the first two, which were a combination of electronics and mechanical stuff, and worked on a bunch of projects there. And I had a blast. I was living in Foster City. They were in the East Bay, they were over in Hayward, and I was almost living over there. It was like these guys are paying me to have this lab full of all this equipment, and I can design products, and I had a blast. So after about two years, they promoted me to run the biggest project there, which I did for a while until I left and went to business school.

CK: *This sounds like a pretty heady experience with a future. What happened during those three years that made you decide— ?*

DM: So when I first got there, it was still a very entrepreneurial — it was a Silicon Valley start-up, and Xerox had acquired it. And then over the ensuing year or two, most of the entrepreneurs had left because they were trying to run the company from Stamford, Connecticut, or it may have been Rochester at that time, I can't remember where their headquarters were. But the whole sort of entrepreneurial spirit just was pulled apart. And Xerox, because they were making decisions about products and about all sorts of other things, I saw a lot of really bad decisions being made, and it was so frustrating to me. Because as an engineer — and at that time I knew nothing about business or marketing or any of that stuff. So I would just go like, Wait a minute, these guys are not making good decisions, and I'm powerless to do anything about it. So the only way you can kind of get in control of your destiny is to get in a position in management where you can actually make these decisions yourself. And so it just became frustrating, and that's why I applied to business school, because I knew nothing about business, other than armchair stuff from my dad.

STANFORD BUSINESS SCHOOL 1977 - 1979

CK: *Maybe that was when that came together, all you had heard at the dining room table.*

DM: So I applied to Stanford Business School, and it's the only school I applied to because I was living here. If I'd gotten in, great; if I didn't, I would've just kept working there, or I probably would've moved to another company.

CK: *What was it about California or Stanford or this area that was exciting you?*

DM: When I was an engineer back in New York, and I was interested in electronics, all the companies that made all the chips and everything were all out here. And I remember when I came out to interview with Diablo, I had a rental car, and I just drove up to Hewlett-Packard, just, It's here! (laughs) And I drove down to National Semiconductor and Fairchild and all those companies. Intel hadn't even been founded then. So it's just like all these companies are here; and all these smart people who design these products, they must be here, too. This is where I wanted to be.

CK: *So you went to Stanford for an MBA.*

DM: One other thing that's probably worth noting: One of the guys that I had gone to Columbia with who was an electrical engineer, he and I worked on a lot of home projects together. He went off to Digital Equipment and I went to Diablo. And then I recruited him after a year or so to come out here. I just kept telling him how great California was, and he needed to get away from — because he was in Westborough, Mass. And so he did come out and he worked at Diablo for a while.

CK: *Who was this?*

DM: A guy named Tom Olsen. And so the two of us — we both joined the Homebrew Computer Club, which used to meet out here about once a month. I remember when I first met Steve Jobs, he came in pitching his Apple One board, and I saw Bill Gates there one time, he came in to talk about his BASIC Interpreter. It was just an ad hoc bunch of hobbyists that would get together to talk about what they were doing, and then there was sort of a swap meet afterwards where people would sell components and so on. But I got exposure to a bunch of really interesting people through that. So everybody else was sort of toggling stuff in and using paper tape, and we had gotten one of the first PDP-11 — it was the 11/34, which was the first PDP-11 on a chip— and he had gotten it through some friends at Digital Equipment, and we had built a whole system with a hard disk and everything else, which was very advanced for its time. And so we had this, it ran Fortran and real languages, which all these other guys didn't have. So we were like the king of the hill at the Homebrew Computer Club.

CK: *What were you planning to do with this MBA?*

DM: When I went to business school, I really thought what I wanted to do was to go start a company. I wanted to recreate that entrepreneurial environment that I had seen when I'd first gotten to Diablo. And so Tom left Diablo about the same time I did. He went to work for another small company, and I went off to business school, and we continued to work together. I did some consulting for Memorex while I was there. Oh, and another thing I did is, during the summer, I took a job with Sutter Hill Ventures, Bill Draper. They brought me on for the summer, and I sort of saw what they did, ’cause I really had never thought about venture capital. I thought, That looks kind of interesting. They see a lot of deals flowing through, and so on. So that kind of got me piqued about maybe that might be an interesting alternative.

CK: *Oh yes, Bill Draper remembers you well. Did you find any mentors in business school? Was there anybody who really kind of influenced you?*

DM: Yeah, there were a few. There were some just phenomenal professors there. Adrian Ryans was a marketing guy who was just one of the best professors I ever had. Long gone. Mark Wolfson, great accounting prof. Charles Horngren, phenomenal accounting prof. Financial cost accounting. George Parker really helped me understand the financial markets and investment banking and all that kind of stuff. Oh, and probably the best one was Bill Sharp; I had him for three courses, and he was a phenomenal guy. He was an efficient markets, won the Nobel Prize for the capital asset pricing model, and just a phenomenal guy. So I loved his courses, and that got me really interested in finance.

So I guess another contributing factor is, I probably wouldn’t have thought as much about finance and would’ve done something entrepreneurial, but my buddy Tom, he wound up passing away at the beginning of my second year in business school. He was a diabetic, and had had all kinds of problems with his diabetes. And in fact, we had been working on some technology solutions to it, because he had noticed that his pulse rate picked up significantly when he was either hyper- or hypoglycemic, and it usually would happen to him when he was asleep. He had a couple of near brushes where he was almost unconscious. And so we had built a little thing that he could put on his wrist that would keep a monitor on his pulse rate, and if his pulse rate got above a certain threshold, it would turn the stereo on and wake him up so that he could take— And so anyway, apparently it happened, he must've been really disoriented because they found him dead in his shower. So he must've— I don't know what had happened. But anyway, so he would've been my partner if we were going to start a company. He was the only guy who I really trusted both technically and personally and professionally. So then I started thinking about maybe venture capital.

CK: *But you had had this one experience, as you said, during the summer at Sutter Hill.*

DM: Yeah. I worked half-time for Sutter Hill and half-time for Memorex, doing consulting on disk drives.

CK: *So, to also add to your description, high-energy.*

DM: Yeah.

CK: *Have you always had this energy?*

DM: People would describe me that way, yeah.

INSTITUTIONAL VENTURE PARTNERS (IVA) 1979 - 1980

CK: *So you graduated in '79. Where did you go from there?*

DM: So I interviewed with a few investment banking firms, and I interviewed with two venture capital firms, Mayfield and IVA. Reid Dennis, who was one of the founders of IVA, came in and did a guest lecture in one of my small business classes. That was another mentor for me, Hank Riggs, who was a small business professor that I had, who I think left a couple years later and went to Claremont, but he was also a great guy. So Reid came in to talk about deals that he'd been involved in in Silicon Valley — the venture capital industry was very small at that time. It was a few small firms, you know, and they didn't interview at business schools or any of that kind of thing. At the end of his lecture he said that they were looking for a young associate to join their firm. They had three partners and they wanted somebody with a technical undergraduate degree, some operating experience, preferably in Silicon Valley, and an MBA. I raised my hand. "You, young man, come up and see me." So I went and met with him briefly, and he invited me over for lunch at their office, and then I met his other two partners, and they offered me a job, and so I took it. And the partners at the time were Reid Dennis, Burt McMurtry, and Burgess Jamieson.

CK: *But you were just there a year—*

DM: Well, the firm kind of broke up after a year. It's an interesting story. So the three guys had worked together, I think they'd started their fund in '74. And so I started in like late '79. And I would come into the office in the morning, and these three guys would sort of go into their offices, and they would never talk to each other, or would never talk to me, really, unless one of them had a specific deal that they wanted me to go look at with them. And they really didn't get along all that well, they were extremely different personalities. I don't know how many of them you've met, but Reid was a very ebullient, seat of the pants, high-energy, optimistic guy. Burgess Jamieson was a very dour, very conservative, would never do a deal unless he'd done a year's worth of due diligence and had known one of the founders for at least twenty years. And so he was always just down on everything. And Burt was kind of in the middle.

So I learned some important things from that. First of all, they were all really great guys. I got along with all of them really well. I worked on deals with all of them, I flew around the country, and I learned a tremendous amount from all of them. I mean, Burgess is a very structured, very financially oriented, operationally oriented guy, and I learned tons from him. And then Reid really did have an incredible gut, and he could size somebody up or size up a situation pretty quickly and make a quick decision. And Burt was probably somewhere in between. You know, he would do a lot of due diligence, and he had a very structured way that he looked at things, and then could get to a conclusion.

I'd been there not even a year, and Reid calls me into his office one day and closes the door and said — you know, the bull market of 1980 came along, and a bunch of their companies went public and things were looking really good. And so Reid said, "You know, it's time to raise another fund. I've worked with those other two guys for the last six years, and I don't think I want to do another fund with them. How about like you and I start a new partnership?" And I said, "Gee, that's really interesting, Reid. I'm flattered." I don't even have a year's experience in this business. Are you kidding? I was thinking to myself. And so a couple weeks later Burt comes over into my office and closes the door and basically goes through the same thing. And then maybe a week after that I was traveling, looking at something with Burge, we're at dinner, and he sort of says the same thing. And so I was really torn, 'cause I really liked these guys. And so I finally decided to join Burt because I thought, of the three guys, Reid's magic is not that transferable. And the other thing is that Burge decided not to raise another fund right away. So he went for two or three years of just winding the tail down at IVA, and then he finally started Sigma. But I thought of the three guys, I could learn the most from Burt, 'cause he really had a methodology that was transferable to me, anyway. But it was a tough decision.

The lesson that I learned from that was diversity in a partnership is a good thing. Now, in that case it was a little bit too diverse, which caused the partnership to kind of fly apart. But you know, a lot of guys go out and start venture firms with their golf buddies, their drinking buddies, their entrepreneurial buddies or whatever. And I think when you do that, you don't have the richness of perspective that you need. When a new business comes in, I think you need to have a diversity of viewpoints to arrive at a conclusion that takes advantage of that richness. And I really saw that at work at IVA, even though it was painful and these guys would have these battles occasionally. To me, a loosely coupled system was the way to go. You don't want to have everybody thinking the same thing, and you want to have something that's stable enough so that it doesn't fly apart eventually. Because theirs only lasted six years, but it was very successful. They had a bunch of great deals in that fund.

TECHNOLOGY VENTURE INVESTORS (TVI)– CO-FOUNDER - 1980

CK: *In 1980 you were a founding partner of—*

DM: Technology Venture Investors.(TVI) Burt McMurtry and Jim Bochnowski. It was the three of us.

CK: *What was the dynamic of that partnership?*

DM: So Jim, who was the third partner, had had some venture capital experience in the past. He was an MIT engineer, and had worked at Donaldson Lufkin and Jenrette as a securities analyst. And they had a venture capital arm there called Sprout. I don't know if you know the Oak guys, Ed Glassmeyer and his original partner Stu Greenfield? They were both at Sprout, and they left to start Oak. And so they had all these portfolio companies. And so Jim, I think, was recruited from the analyst pool to go in and sort of take over some of these companies, and one of them was Shugart Associates, which was a disk drive company. And so Jim went on the board there, and they went through a lot of problems, and Jim finally had to fire Al Shugart, and then took over as the CEO there for a while. I don't know how Burt had gotten to know Jim, but anyway, he recruited him out of Shugart because Xerox bought Shugart, and after that, Jim sort of became available. So Jim came in as kind of an operating-oriented guy 'cause he'd been running this company for a while. And the partnership, everything went along okay for the first few years.

And then Jim was an investor in a company called Synapse Computer, which was, for its time, a very high-profile project that had raised a lot of money. And things were not going well at all. And so he sort of repeated what had happened at Shugart. He had to take out the CEO, who, by the way, was Mark Leslie, who then went on to do a bunch of other interesting things later on. But anyway, so Jim had to get off all of his boards, and he was totally immersed there for like a year and a half. And eventually, we wound up losing the company. It didn't survive. And when Jim came back, he just sort of said, "I've lost my taste for tech companies, for computer companies, and I want to do something completely different."

We all talked about biotech as being an interesting area, although none of us really knew anything about it. And so he decided that he was going to go full-bore into that. So he started going to the conferences and looking at a lot of companies and so on. I guess this was probably around our third fund or so at TVI. I can't remember exactly when, but we started looking at a lot of these biotech deals, and we didn't even know the questions to ask. We thought we could evaluate management, but there were all these PhDs with white coats on, and they really couldn't talk about the markets. They were very much into amino acids and all this kind of stuff. So Jim brought a couple of other guys in as kind of consultants or venture partners to help him out that had experience in that area.

And when we raised our, I think it was our fourth fund, the big logjam that we had is we needed to hire some more people. Do we get people on the health care side, or do we get people on the IT side? And we were always looking for people that maybe knew a little bit about both, 'cause it'd really almost become like two little partnerships. And so I think when we raised the fourth fund was when we made the decision we should really split this.

So Jim and Costa and I forget who else sort of split off to do Delphi Bio Ventures. And then we raised TVI 4, I think, at the time. And that was when we brought John Johnston on board, who is now my partner here. And that broke the logjam, because then the rest of us knew, Okay, we need another guy in tech. And so we really kind of redefined our focus to software and business services in the kinds of things that we were doing. I think Delphi's been pretty successful, too. So they went and hired some other guys, and sort of went off on their own path in health care.

CK: *What distinguished TVI from other venture firms?*

DM: When I first got into the business, I think there were a few things that were just incredibly fortuitous for me. One was the Steiger Amendment had happened just before that. And so the venture capital industry started to really — well, not only venture capital, but the public markets for small tech companies really started to become more accepting. The second thing is the drop in the capital gains tax, which made a big difference. And this little backwater of tech started to become more interesting. And I would say that the other sort of lucky thing for me was, when I got into the business, a lot of the participants were either from financial backgrounds or were not from Silicon Valley. And I had a pretty relevant, recent technical background which really helped me. I can't say that we'd actually make investment decisions based on how good the technology is, but I found that my technical background helped me communicate with entrepreneurs in a way that others couldn't, because I could really appreciate what they were doing. I knew the right questions to ask, and through that I could evaluate how good their thought process was, how good their strategic view was, and so on, in a language that a lot of other people couldn't. I feel very fortunate that the timing there was just perfect. After that, a lot of other guys came into the industry from Silicon Valley, and so that distinctive competence may have been maybe less so after that. But I really felt that was a big advantage.

CK: *And the other thing I want to know is what made you think that you were well suited for venture capital? It's so interesting, because having listened to your story, I thought, This kid is going to be an entrepreneur.*

DM: There was another life lesson for me when I was at Diablo. I mentioned that I was promoted to run the largest development project there before I went off to business school. I just was terrible at it. (laughs) And I was promoted to it because I was the most competent engineer there, because I really knew the stuff well. The problem I had was the way I would solve problems — like if one of my guys couldn't get something to work right, I would just go do it. And that's not a scalable thing, and I found that out. And I just said, I may not be really good at this management stuff; maybe I'd be better off at doing something that's not management. And people have asked me this many times, "Why don't you just go start a company? Why don't you come in and run this company?" I said, because I learned that being an auto mechanic wasn't scalable. I learned from a lot of these other things that I was probably not going to be great at it. And I thought, Well, venture capital, it satisfies the stimulation that I get out of great technology and out of great people, and I don't have to manage a bunch of people. I don't have to have these crises every week that my dad had. So to me it was sort of the best of both worlds.

CK: *What's more important, the management or the technology?*

DM: Yes. (laughs)

CK: *I like the way you answered that. Can someone learn to be a good venture capitalist? Is it a science or is it an art?*

DM: It's interesting. I've been at it for thirty years now, and I thought I knew exactly what it took to be a great venture capitalist my third or second year into this career. And the longer, the more time I spend at it, the less certain I am that I could judge that. Because, if you think about it, you've met a lot of people and they're all really different. I would say that the common themes are: most of them are really smart in one way or another, they're relatively good at judging people, but boy, they come from all kinds of walks of life. There are people that are technologists, there are people who are, great salespeople, there are people who come from operational background, finance. I think that it's hard to distill down. It used to be, well, as Reid said, "We want somebody with a technical undergraduate degree, some operating experience, and an MBA." I think that worked for me, but it wouldn't necessarily work for other people.

CK: *So there's something else there.*

DM: So for example, my partner John. We had these very rigid criteria; we had this spec, we had a headhunter and everything. We were looking for, I guess it was our fourth partner at TVI, and I'd gotten to know John Johnston. We both lived in the city; we were both single in the city, and we had gotten involved in an investment together while he was at Hambrecht & Quist. And I found him to be a very good student of how companies were performing. It was a board in Seattle; and he would sit there during the whole board meeting, and I'd be engaging with the management, asking them questions and what about this and what about that. He would say nothing. He'd just sit there and say nothing. And then at the end of the meeting, he would ask the one question that just gets at the heart of it. And I watched this for a period of a year or so, and I said, This guy is a good investor. He thinks about what's the next critical thing to make this company successful. He's an English major from Princeton. He worked on a fishing boat. He spent some time in venture capital in Hong Kong, and just had a pretty different background. But everybody got to know him better, and he came in, and he's turned out to be just a great investor. So it takes all kinds. And I think in particular, it's not what makes a great venture capitalist; it's: What's the environment that they're in that lets them be successful? And that's what I think we created at TVI and I think we've created here, too. It's that loosely coupled, where we're all pretty different. I wouldn't say that we're great buddies after work, but we have mutual respect and we come together on Monday afternoons around the table, and I think we make very good investment decisions.

CK: *So there's some art to this.*

DM: Yeah. Nothing succeeds like success, and if you have an early project that does well; like in my case, my first investment was in a company called Seagate Technology, and it's an interesting story. One of the guys that I'd worked with at Diablo, another engineer — we became good friends — he left a little before I did, and he moved to Colorado and I kind of lost touch with him. I'd been in the venture capital business all of about a month, and I get a call at home from this guy: "You know, I've been trying to track you down, and we're starting a company. It's me and Al Shugart and Finis Conner, and we want you to be the fourth founder." And I said, "Well, gee, I'm really flattered, but you know, since I saw you last, I went to business school and I'm now in the venture capital business." And he goes, "Venture capital? Can you write a check?" And I said, "Well, I'm like a junior guy, but I can come down and I can take a look at it." And so I went down to Scotts Valley, and I spent some time with them and looked at what they were doing, and came back and said, "You know, this is going to change the world. You know, this is a small form factor, low-cost hard disk," which from my old computer club days, we had a hard disk on our computer which just was blow away compared to what everybody else was doing. So this could make everybody else's machine accessible to that kind of fast, big memory and all that.

So Reid's comment was, "Al Shugart was thrown out of his last company; nobody's going to back him." And none of those guys had any interest. They didn't want to meet with him. And so I just kept pestering them and kept doing more work and coming back.

And finally Reid said, "All right, if you want to throw a half-million in there, we'll support that." So Ed Glassmeyer and I each put a half-million dollars into the start-up of Seagate. And so we put a half-million dollars, and I think they distributed $63 million from that. So it was a huge hit, very early on in my career. And so then everybody thinks, This guy must be really smart, he must be a really good investor. And so they start sending deals your way; and like I said, nothing succeeds like success. It was just one of those lucky things.

CK: *Yeah, to a point. I mean you do have to have something to bring to that situation, that you did.*

DM: So it was a great partnership, because Ed is Mr. Congenial, and if you've met him, I mean he was just always positive and supportive, a real cheerleader. I was in there, asking all the tough questions, because I really knew the technology. Like, "This doesn't make any sense, and Al, you're not telling the truth." And so on. So I used to say that I'd hit him low and Ed would hit him high; he'd smooth over all the rough edges. It was a great, interesting partnership on the project.

CK: *So were you on the board of Seagate? With Ed?*

DM: Yeah.

CK: *And you were able to guide them?*

DM: Yeah. I was like a burr under Al's saddle. (laughs) And Ed was the salve.

CK: *You say you need that diversity.*

DM: Yeah. It worked really well. Yeah, that diversity, by the way, works on boards, too. Some of the most successful boards that I've been on, there's a good sort of natural tension there.

CK: *Well, I want to talk about boards. But first, I know you've been involved in some companies that have become icons, almost, in the tech world. And of course, you have your Microsoft story, I'm sure. I would like to hear about it. And you know, maybe how this came to you and what your initial reaction was to what Bill Gates was doing?*

DM: So as I mentioned, I'd seen Bill present at the Homebrew Computer Club, and I remember being pretty captivated by him, just his intensity and his incredible knowledge of what he was doing, of his world.

CK: *And he was pretty young.*

DM: He was probably twenty-one or two when I first saw him.

CK: *And you were in your twenties also.*

DM: Yeah. So Bill is six years younger than I am. So when I first went up there, he was probably twenty-three and I was twenty-nine. A guy who used to work at Shugart named

Blair Newman, who died many, many years ago, was in the office one day, and he was kind of a smart, wild, and crazy guy, and he and I were just talking free-form. And he was saying that Bill Gates — he'd gotten to know Bill pretty well because they'd been working on a project together, and he said, "You know, Bill has sort of been thinking about getting serious about building a business up there, and in fact he just hired this guy, Steve Ballmer, from Stanford Business School." Steve was two years behind me, so we didn't overlap, but there were a number of people in the class in between that we both knew. And so I'd heard the legend of Steve at Stanford Business School. He'd come in and gotten straight Hs, which is just perfect grades. He was by far the smartest kid in the class. And so I figured, it's worth going and taking a look. So I called Steve up out of the blue. I was going to be up in Seattle for something else. "Let's grab lunch." So we went down to Duke's Restaurant.

Apparently a few other venture people had been up there already, and Steve and I just really hit it off. We just started talking about the business, and I was asking a lot of questions about what they were doing, because at that point all they had was a couple of games and some languages and that was it. That was long before DOS. And I was asking a lot of questions about strategy and this and that, and he goes, "You know, all these other guys that are up there, all they want to do is look at the numbers, and, 'Gee, you know, we're going to make you rich and take you public.'" And he goes, "That's not what Bill wants to hear." He goes, "Basically, I don't let any of these guys get near Bill."

And at the time there were sixteen or so programmers sleeping on the floor up there. I'm sure you've seen that picture that goes around on the Internet. That's pretty much what I found. So Steve said, "You've gotta get together with Bill."

So the only time that Bill could carve out of his busy schedule was a couple of weeks after that. This was in the fall of 1979. No, 1980. Yeah, fall of 1980. He was going to a University of Washington versus Arizona football game with his parents, his two sisters, and his grandmother, because his mom was on the Board of Regents at the University of Washington and they had a box seat there. So we went to the game, and it was a brisk day up there. And of course, Bill shows up in a polo shirt and pants, and he's freezing. So I had a sweater on and a jacket; I gave him my jacket. We spent almost no time watching the game. He was describing his compiler technology on the back of the program. And we just, we hit it off. And so I spent most of the next year just going up there. I'd fly up there on Friday night and spend the weekend either at Bill's house or Steve's house, talking about business, going out and partying at night, and trying to figure out how to get it organized. It was a partnership between Bill and Paul [Allen] at the time, and there were a lot of complex tax issues. And Bill never really wanted to raise any money because the company— When I went up there, they were doing about five million in revenues, and probably making two and a half to three — never needed it!

CK: *When did you meet him? When did this relationship first start? When you first went up there to just chat with Steve?*

DM: Yeah, when I first went up there in the fall of 1980. And we actually closed our investment in September of '81. So it was pretty much a year of just going up there.

CK: *Were you wooing him or were you just fascinated with what they were doing?*

DM: I was just sort of helping them out with building the business. In the venture business, you're buying and selling at the same time! You're trying to figure out, Are these crazy guys ever going to really do anything interesting; and if so, then how do I get myself positioned to be able to help them do it. And so I spent a lot of time up there helping them recruit people. I helped them recruit Charles Simonyi, who was a key early guy, and then just working with Steve on business strategy. They had these OEM customers and had started to engage with IBM on this operating system. And then, are we just going to become a low-cost contract programming shop for IBM, an outsourced sweatshop, or is there some way we can build a business out of this, which led to the fixed fee to IBM, but the retention of the code, which we could then sell to other people, and that's what created the PC industry, basically.

CK: *But at the time, had you made an investment in—*

DM: No.

CK: *This was just—*

DM: What else was I going to do? (laughs) I was single. I had nothing going on here. So I would just fly up there, and I had a lot of fun.

CK: *Go on.*

DM: So we wrestled with — there were also a lot of personal issues between Bill and Paul, which continued and continued on. And so we had to take this partnership, kind of formalize it; then we had to incorporate the firm, and then get stock ownership out to the employees. So I think Steve — I don't want to attribute motive — but I'll take a flyer on it anyway. So when we went up there, the company was profitable, it was very profitable. They never really needed any cash. In fact, we invested $1 million in September of '81. They never spent a nickel of the money we invested there. And I think Steve made an early decision that he really wanted to get an outside investor involved for a variety of reasons. First of all, he wanted some adult supervision. It was hard for me to even imagine that, because I'm twenty-nine at the time. But I was six years older than they were, and as I told Steve, "I graduated from Stanford and you didn't." (laughs) So I had all the marketing courses and stuff that he didn't. The second reason was Bill had promised him 8 percent of the company, and it was all kinda loosey-goosey, it was like, "yeah, we'll give that to you," but nothing was really documented or whatever. And I think Steve realized that, Okay, if we get an outside investor, all this stuff is going to get nailed down, because they're going to want this thing incorporated, they're going want stock that is documented, and all these promises and stuff will all get kind of nailed down, which did happen. And so, and the other thing that I think he realized is that the only way we're really going to really hire great people is to have equity available for them and have a board that is a more balanced board, and it's not just Bill, who's got a very strong personality. And I think prospective employees are going to want to see that there's some balance there and that there's some governance, if you will. That's the in-vogue word now. And so the original board was me, Bill, and a guy named Kay Nishi, who was their Asian rep. And why he was on the board, I can't remember. But it was; Bill decided that that's who else should be on the board. And so we incorporated. We closed our investment. I think it was incorporated in July, we closed our investment in September of '81, and the IBM PC was announced right about the same time. And it just exploded.

CK: *What a great story. Who were the other VC firms that were courting them?*

DM: I know that TA had been up there; I knew that Sutter Hill had been up there; Hambrecht & Quist had been up there; Xerox Ventures had been up there. Those are the ones that I can remember, and there may have been a couple more. But I don't think any of them met with Bill; they all met with Steve.

CK: *So what did your partners say when you told them you wanted to— ?*

DM: (laughs) So one of the things we decided as part of this investment, we were going to bring some management into the company. Bill and Steve came down, and I remember we were meeting with a couple of recruiters, we were in a conference room, and they're very animated, both of them. Steve's got a huge voice, and Bill— I remember walking out of the meeting, and one of the admins said, "We would never invest in people like that, would we?" (laughs) My partners thought they were a little crazy. But you know, at the end of the day they said, "You know, hey, you've been spending a lot of time up there, you know these guys extremely well. If you feel good about this, go for it." And so they were very supportive.

CK: *Would you describe them as hypo-manic? That's kind of the word that's used for this nonstop energy.*

DM: Yeah. Well, as Bill always described, there's two kinds of people in the world: There are high-energy people and then there's everyone else. (laughs) I looked at all the big software companies of the era. There was MicroPro, Personal Software, which had VisiCalc, Microsoft and Digital Research, which had the CPM Operating System. And I'd already met with the other three companies, I just went and cold-called them before I went up to Microsoft. And the thing that blew me away about Bill was he knew more about those companies than they did. I mean, he knew every line of code. He knew all the mistakes; he knew all the brilliant things that they had done. I remember just being shocked at the knowledge that he had of what was going on in his industry.

CK: *Was this a competitive spirit that he had?*

DM: He's extremely competitive, and he's just a sponge, he just sops up data. Yeah. He knew all the people there. He knew where they'd gone to school. It was just blow-away to just have him sit there and, he just knew everything.

CK: *So what was your impression of this kind of person? Was it someone you felt you could work with?*

DM: No, it was somebody that I want to invest with. He could've been starting a tennis shoe company. He was just a compelling individual.

CK: *And you've been on the board at Microsoft for thirty years?*

DM: Thirty years last month, as a matter of fact.

CK: *So that's probably another story right there. I'm sure people have asked you about Microsoft and how you were introduced to it and how you were able to bring it to your company. Is there anything that people just don't ask you, don't think to ask you about this experience?*

DM: I guess like all companies, the ones that are really successful— Look, they face a lot of challenges now, but they've faced huge challenges in the past, too, which a lot of people just don't remember. Bill was convinced the company was going to die five times before already. There was the threat from WordPerfect, there was the threat from Linux, there was the threat from Netscape. There's always been some boogieman that's going to kill 'em. And they've managed to figure out how to overcome these things or how to get themselves organized to get to the next level; and they're going through the throes of that right now, and we'll see if they're, in fact, successful at overcoming the current challenges.

CK: *Over thirty years, how has your role on the board been? What do you feel that you've been able to contribute with all these challenges that you're talking about.*

DM: Bill has a pretty strong personality and so does Steve. And I think a lot of people inside the company probably don't challenge them as much as they could or should. I think when you're on the board of a company, you sort of have to figure out what does the CEO need to make the best decisions? And does he need somebody that's going to support him and be a cheerleader? And yes, sometimes that's the case. Does he need some healthy skepticism? Does he need somebody that's going to take him to task on things? And you sort of have to figure this out, and it changes from time to time.

CK: *So your role is to—*

DM: All of the above.

CK: *We're very interested in the role of venture capital on boards, because it seems to be something that can take up a lot of time. Do you have a sense of how much board time you give overall?*

DM: It's a lot.

CK: *Is it 50 percent of your time or is it—*

DM: I'd say it's about 50 percent. It varies year to year, but I'd say overall, it's probably 50 percent on the boards that you're already on, and the other 50 percent looking at new or dealing with investors or whatever.

CK: *So there's a lot of handholding or psychotherapy?*

DM: Cajoling, handholding, hitting with a bat. It's a little of all that, yeah.

CK: *Do you get phone calls in the middle of the night with some of these companies?*

DM: Yeah, and you make phone calls in the middle of the night, too. (laughs)

CK: *You were involved with Sun. You talked about Seagate, Compaq, Linear Technology, others. Is there any other challenge that really has a great story to it that would be—*

DM: Well, Sun's probably the other company that just went through a lot of interesting turmoil and so on in the early days. Sun was founded by Andy Bechtolsheim, who's probably the most creative, best hardware engineer I've ever met. He was discovered by Vinod Khosla, who found him in the labs down at Stanford, and sort of grabbed him by the lapels and said, "We gotta go start a company." And then he brought in his buddy from business school — and by the way, Vinod and Scott Nealy were a year behind me in business school — brought Scott in to be a manufacturing guy, 'cause he'd had a little bit of manufacturing experience. And then the three of them recruited Bill Joy, the Unix software guru from Berkeley, at the time. So John Doerr and I had spent some time with the company and had committed to invest. And I can't remember when, but it was early in 1982. And one of the commitments that we had had from Vinod, who was the CEO at the time, was that he was going to let us bring in a real experienced manager to run the company. And as we were a few days from closing the investment, Vinod started waffling on his commitment. As a result of that, the investors pulled away and decided, he's not living up to his commitment; he's not going to do this.

And in the company lore, that happened on a Monday, which they call Black Monday, when we kind of walked away from it. The business was going through the roof at the time. People were sending checks in the mail for these workstations, and they were selling largely to educational institutions. So they scrambled around and they visited a lot of other venture firms trying to get funding, including TA, because Jeff Chambers was in the same class with those guys. And everybody else turned them down because of the apparent management issues. Finally, Scott called me up and said, "Look, will you come back to the table? We really will commit to do this. You know, I've got an absolute commitment from Vinod." And so we came back together and we decided to go ahead and fund it. And so John Doerr and I went on the board with Vinod. Bob Sackman and Doug Broyles had already been on the board, and I think that was it, the original board. And so we started right away going out to recruit a CEO. We wound up hiring a guy named Owen Brown from Digital Equipment, who I don't think anybody was particularly enthused about, but anyway he became CEO. Vinod was a pretty commanding presence as well. I think Owen never really was able to deal with Vinod. He was there for a while. He actually recruited some very good people in from DEC. He hired Carol Bartz, Bernie Lacroute, and a number of other senior people. Anyway, he started to build a management team. But he started faltering. And so he finally was let go, because he was not being very effective — a sort of palace coup.

Vinod took charge again, and Vinod started to be very disruptive in the company at that point. Scott had always been a huge supporter of Vinod all through this. Finally, Scott called me up one weekend and said, "We gotta talk," and it's like, "You know, I've supported Vinod, but I can't anymore. He's just too disruptive. We need to do things differently." And so I think Tom Perkins, John Doerr's partner, at that point made a very strong bid to get Paul Ely to come in there as CEO. I interviewed him, and a bunch of the other guys did. And I just didn't think he would've been a good cultural fit for the company. Just what he wanted to do with the company, his view of how to build the company was kind of at odds with what they were doing. So we couldn't support that. Tom got very upset about that. And two of the directors, Doug Broyles and I sort of decided, You know, Scott's got most of the people in the company working for him in manufacturing, and I think, at least if we bring an outsider in, it's going to just cause too much turmoil; we need to have somebody from the inside, at least for the next six months or so. Once things get stabilized, then maybe we can consider bringing an outsider in again. So over the strong objections of most of the rest of the board, we finally won them over and made Scott CEO. And he did an absolutely *fantastic* job. Just got the culture sorted out, got the team all pulling together. He's a natural salesman. He really did a good job with the sales force, because the company was really teetering on the edge of blowing apart at the time when we put him in there. He did a phenomenal job for the next, I don't know — what was that, '82? I think I left the board there in 1990, and Scott was still doing a great job then.

And the reason I left the board was, you know, Sun and Microsoft started out in completely different businesses, and over time the spheres of influence overlapped to the point where it just got too uncomfortable. Since I invested in Microsoft before Sun, I recruited Ken Oshman to take my place on the board, and figuring that he would sort of carry my spirit. My role in that board sort of was Dr. No, because John Doerr— Have you met him yet? Well, John Doerr is a brilliant, creative guy. He's got twenty interesting ideas every meeting, and you need somebody to kind of filter that and pick up on the one good one every month or so and help the organization maintain an even keel. I felt that Ken was the kind of guy that would do that, and I think he did.

CK: *What do you think has given you your confidence?*

DM: Part of it is just having seen a lot of things, having seen most of these things before. Having seen a lot of the mistakes and a lot of the victories, it gives you a perspective. And I'm a big believer that great technology and great teams will win, and if you get that right combination, it will be there.

CK: *When you're involved with a company, what is your relationship with the entrepreneur?*

DM: It's the entrepreneur. A lot of venture capitalists really think it's all about them. You know, they're the kingmaker. And I just think that's pretty far from the truth. I think that our job is to be a support infrastructure, we're a service industry, we are there to help the entrepreneurs, we're there to guide them, keep them from making mistakes that we've seen before. But the people who really create value are the entrepreneurs. It's really all about them.

CK: *Because I've wanted to get into your relationship with the entrepreneurs. And I think that's something that ''d like to explore with a little more time.*

DM: Sure.

CK: *So we're going to stop here and agree to continue as soon as possible. And again, thank you.*

DM: And I was going to say, in another month or so you'll really like coming to California.

CK: *Oh, I love coming to California, almost anytime. So again, thank you for this time, and I look forward to seeing you again.*

DM: Great.

CK: *Thank you for NVCA and for Harvard.*

DM: Well, good luck on the project.

This is a continuation of an interview with David Marquardt, taking place at his office in Menlo Park, California. My name is Carole Kolker. Today's date is February 28, 2012.

CK: *All right, Dave, let's get started, or let's continue where we left off. We talked about your childhood and Diablo, IVA, TVI, Microsoft, Sun. You talked about those stories and they were very instructive. I felt it was important for me to get back down here to Sand Hill Road and spend a little more time with you. Where I'd like to start is — what you were talking about working with Bill Gates and working with some of these entrepreneurs. So*

I'm thinking in general, what is your relationship with entrepreneurs? Is it a close working relationship? Are there boundaries? Is there tension? Is there all of that?

DM: Yeah. Everyone's different. I guess I always feel that my role as a board member is to make sure that the board is stable. My view is that oscillations in a company start at the top. If you have little perturbations at the board, you've got huge swings by the time you get down into the rank and file. So the board needs to be relatively consistent. It needs to be balanced so that it can stay consistent. Usually, with either entrepreneurs or other board members, there are people that are very optimistic, come up with lots of interesting ideas, sometimes four or five an hour. So the job of the board is to sort of moderate those, think about them, and help the entrepreneur pick the one or two a year that really need to be sort of focused on and support them in making sure that that happens, and help them filter out all the other stuff.

CK: *Are there any examples you'd like to use?*

DM: Yeah, when I was on the Sun board, there was an interesting balance because Scott McNealy is a go-for-it kind of guy, and we had some board members that were also kind of go-for-it kind of guys, and so I felt that my role there was to kind of be the adult in the group and ask the tough questions and make sure that things get fully vetted before we launch off into these different directions. In other cases, in other boards, there may be too many staid, financially-oriented people, and the entrepreneur needs a little support to go for it and to throw a little bit of gasoline on that fire when it comes up. So it really, it all depends on the personalities around the table. Like in the case of Microsoft, I think when I invested Bill was twenty-five and I was thirty-one, something like that, and we kind of grew up together. I used to go up and spend weekends there, either at his house or at Ballmer's house. We used to go out and party at night. We would work hard during the day when I was up there, and we faced a lot of really tough problems. We still do, and so we figured out how to marshal the organization to go solve these problems, climb over these walls, or whatever. As you live in the trenches with somebody for a number of years like that, it's a very strong bond. I was never in the military, but maybe it's like when you're in a foxhole with somebody, and you're under enemy fire, you develop this huge dependency on one another. It's kind of a magic thing. I hear veterans talk about that.

CK: *Well, that's interesting, because one of the questions that comes up during these conversations is the relationship with other VC firms in terms of "band of brothers," but what you're describing sounds to me as if you get this relationship with — sometimes with the entrepreneurs.*

DM: Because it becomes a relationship of trust. The CEO, on a lot of things, who else can they go to talk to? In the company, everybody's got a vested interest in one thing or another thing, and you become the one person they can talk to who is totally on their team and has no axe to grind on any of these things. So I think it's very important when you're on the board of a company to develop that relationship of trust with the CEO, where you respect each other. So it's tough to be his drinking buddy or his golf partner. You may be that, but you've also got to be somebody that they respect and that they seek out your opinion on things. Or they'll call you up at eight o'clock at night or eleven o'clock at night and say, "Hey, I had this idea. What do you think about this?" First of all, you have a close enough relationship where they'll call and you'll get the information before they act on it. You get to voice your opinion, and then they get a chance to make a decision taking that into account.

CK: *Your role really seems important to the direction that they're going to be taking — and that they have somebody — and there are other board members to work with. How are the other board members selected?*

DM: If it's an early-stage company, they're selected because they invested. If there's a syndicate of three venture capitalists, each one of them will have a representative on the board. There's some of them that are really great value add, and then there are other ones that you do everything you can to shield the CEO from that person. So it all depends.

CK: *Then how do you achieve this balance that you say is optimum for the board CEO?*

DM: Sometimes you have a difficult board member who just is looking at things the wrong way or whatever, and so you try to kind of take the burden of all of that and shield the CEO from it. Every board is dynamic and it has its own set of personalities, and the overall goal is to make sure that the CEO has got a group that's supporting him when he needs to be supported and challenging him when he needs to be challenged. Whether it comes from you or from someone else on the board, I view my job as a board member to make sure that that dynamic happens. You can't always achieve it, and it's not always optimal, but we're always driving for that. The other issue that you're always dealing with is people problems, because companies that are growing fast, it's very stressful on a lot of people, on a lot of relationships. So to the extent you know the other people around the CEO, I think that you can add tremendous value; because either you were involved in recruiting them or promoting them, or you spent a lot of time with them during business reviews or off-sites or whatever, so that when you have the discussion with the CEO about, "Hey, the engineering guy is just not cutting it," you know the guy personally. And you have your own opinion about what his strengths and weaknesses are, and sometimes it's just a matter of the company needs to be reorganized in a way to make him more effective, or maybe he should be a CTO, not a VP of engineering, and take the operational stuff away from him. By understanding the nuance of all those personalities and how they work together, I think is very helpful. The CEOs realize that, because the real problems they deal with are more people problems than anything else. So if you are unbiased, you're not part of this team, but yet you have knowledge, you can be a very valuable sounding board to the CEO.

CK: *So this is a real people-oriented business. In every way.*

DM: Very much so. Sometimes I say we're either underpaid, or overpaid psychologists.

CK: *That's a good point. So, I probably don't need to ask this question, but what do you think is more important, the technology or the management, if you had to lean one way or the other?*

DM: Management. Because there are occasional companies that come up with something that's so compelling that they succeed despite the management, but I think that is a small percentage. Usually what happens is a really good team of people get together and usually the business that winds up making them quite successful is different than what they started doing because they read the market, or they figure out, Gee, this technical approach didn't work, and they vector left or vector right, or whatever they have to do. Ultimately, they make it successful. So if I had to place my bets, I would rather bet on the management than on the technology.

CK: *When you're looking at companies, how do you go about vetting a company if you're interested in investing in them, backing them?*

DM: Back in the early days, I always felt that the big advantage I had was having a technical background. So after having just told you that it's all about management, having a technical background was extremely important, because I was deep enough in the technology of most of the companies that I look at that when I'd meet with a team, I could understand at a pretty fundamental level what they were trying to do. Even though I may not be making the bet based on the technology, I could really understand their thought process and I could appreciate their IQ. If nothing else, I can appreciate that this guy really has figured something out that's fundamental, and I can communicate with him in a language that he understands. So that, very much I think, helped me vet ideas early on.

CK: *I was wondering, how do you have the foresight to understand that what they're presenting, what they want to do, has a place in the market in the future? I mean, kind of seeing around the corner.*

DM: We don't have to be visionaries. They are the visionaries, and if they can't articulate to you how what they're doing is extremely important, then you probably shouldn't invest, because it's not my vision that I'm investing in, it's their vision. So they need to be able to explain how they're going to build a big business, or how this technology is fundamental, where it fits in the marketplace, and all that. And if they're able to do that, that to me is what makes an interesting investment opportunity.

CK: *That's an interesting answer. When you started TVI, who were your partners for your first fund?*

DM: Burt McMurtry and Jim Bochnowksi.

CK: *Who invested in that? Who did you turn to, to invest in your first fund?*

DM: At IVA, the original investor base was insurance companies. At TVI, the historical investor base was largely endowments and foundations back then. I'm just trying to think if we had any individuals. I don't think so. We had a couple of small, private foundations, but no public pension money.

CK: *And no other VC firms?*

DM: No.

CK: *Are there other VC firms that you turn to work with as a general rule?*

DM: Yeah. Not in every case, I mean, Microsoft, we invested alone, but in most of the investments we did, we'd syndicate with other venture capitalists.

CK: *Are there any that you just would go to — that you tended to work with?*

DM: Back in those days, there were a lot of firms that were just sort of linked. If A was doing it, B was probably doing it, too, or that had sort of an informal partnership relationship. We never really had that because our view always was that for any particular investment, if it was in a semi-conductor company, we wanted to have a co-investor that was really strong in that area; if it was a software company, we wanted somebody who understood that. So we were always looking to find someone who would be a good board member and who understood that industry, who would help the entrepreneur rather than favor-sharing. Because our view is, there's enough interesting companies around, and we always had enough deal flow and other people did that we would always try to syndicate with people who we thought would be the best for that particular situation. Hopefully, as you do that for a number of years, you build a much broader set of relationships, rather than just this one. As you do successful deals together, they would send stuff to you, and it worked out pretty well.

CK: *So you see this is kind of a networking, a West Coast—*

DM: It's also— I just went through that whole diatribe about how a CEO needs somebody that he can talk to. Well, if you're on the board, you need somebody to talk to, and having another vested party involved that's on the board that you respect, that may have a slightly different perspective than you, is a great partner to have, because then, when things are not going well, you have somebody to call up and go, Oh my God, my suspicion is the CEO is just not cutting it. What do you think? And work together in partnership. We've always liked syndicating for that reason. You have another interested party that has the same basic motivations that you have to try to do the right thing.

CK: *I was wondering if, because of your tie to Steve Ballmer because of Stanford, if Stanford has provided you with some kind of a network in any way?*

DM: Yeah. Sun Microsystems, the two founders there were the class behind me in business school, Ballmer was two years behind me. So Stanford has been a great network, just because a lot of people who have gone through the engineering school or the business school, there's usually one degree of separation to a huge network of people. I think that helped in Boston also. Being in a university town, whether it's around Harvard, MIT, or around Stanford and Cal here, I think that is a very fertile place for new enterprises and start-up ideas and technical talent.

CK: *Well, since you just mentioned Boston, do you see a difference in the East Coast and West Coast in terms of their venture capital culture? Maybe looking back?*

DM: What was it that Scott McNealy said? "Route 128, do they even plow that anymore?" (laughter) It's amazing, because Boston was really the hotbed back when I first got into the business. I think there are still investments that are happening there. Clearly, there was a lot of biotech stuff there. There were some telecom companies there. All the original computer companies were there. I remember the old saw was, if you want to build a computer company, go to Boston. If you want to build a semi-conductor company, go to California, because there were no computer companies out here, and there were really not much semi-conductor back there. Then Apple and HP started to move things west, and then Sun. There really hadn't been much new in the way of the computer business in Boston. Now I don't even think there's a lot of telecom there. The Boston area has not been as fertile, and I can't understand why that is.

CK: *You don't think it's cultural?*

DM: I'm sure it's cultural, but can't— Boston was always a much more conservative, financial environment. What do they say? Everything that's loose rolls to the West. There are a lot more crazies out here.

CK: *So there's more likelihood to take a quantum leap or jump on something and get excited about it?*

DM: I don't know if you've read the Steve Jobs book, but when you read about Steve in the early days, you get an understanding of why California is like what it is.

CK: *How much do you invest emotionally in these companies?*

DM: A huge amount. I mean, it's not quite like your children, but they're very intense relationships. You've got a lot of money at stake, which is important, but you invest a lot in the relationship with the CEO and the team — getting to really know them and understand the dynamics of their team and all that. It's a big investment.

CK: *Do you have an example of any investment that kept you up at night?*

DM: Virtually every one of them. I don't think I've ever had one that didn't. They've all been through really tough times. They've all been through near-death experiences, even the most successful ones.

AUGUST CAPITAL CO-FOUNDER 1995

CK: *I want to go on to look at August Capital, which you co-founded with John Johnston in '95. What happened to TVI? Why did TVI disband?*

DM: The senior partner at TVI was Burt McMurtry, and he was kind of winding down coming up to 1995. He really wanted to retire, do more travel with his wife. His kids had been long out of the house, and so I sort of thought that we would just continue on without him. The partners at the time were Burt, me, John Johnston, and Bob Kagle. We were the four investing partners. Bob had always wanted to work with Bruce Dunlevie, who had worked at Merrill Pickard and previously at Goldman Sachs. They had worked together before that at BCG, I think, and they were close friends. And Bob had suggested Bruce a couple of times, to join TVI. First when he was at Goldman Sachs and he left and went to a computer company, and then when he left to go into the venture capital business. I think we interviewed Bruce both times, and Bob had a very close relationship with him and really wanted to bring him into TVI. We had made the decision — we all liked Bruce a lot — but our view was, or at least I think it was a shared view, was that Bruce was very much like Bob, of similar background. I think I maybe had mentioned this last time — my view has always been that the best venture capital firms have a group of partners that maybe have some shared values, but have different perspectives that bring different experiences, just a different way of looking at things, so that when you sit down to actually talk about investment opportunities, you're getting the richness of a much broader set of perspectives. Our view was always that Bruce was a super guy, but he was too much like Bob and it wasn't bringing something really new.

So when Burt retired, I thought we were all going to start again, but Bob, again, really wanted to work with Bruce, and it was sort of a condition. Like, I'll join you guys if I can bring Bruce. We were like, we'd really like you to make your decision first, and we'll go ahead and we'll consider Bruce again, and you know what we didn't like last time, and you also know what we liked, so we'd certainly be willing to reconsider him. He said, "Nope. If it's not Bruce, then I'm out."

So Bob and Bruce became the two, sort of, founding partners of Benchmark, upstairs. Then a bunch of other guys got added, and so they actually raised their first fund a little before we did. Their first fund was hugely successful. I guess the only other thing that was different about the two firms early on was that Bob always loved consumer stuff. And back in the eighties when we were doing consumer stuff, we invested in a yogurt-like food; we invested in Home Express, which was a department store chain; we invested in Office Club, which merged with Depot (which was very successful, the others, not so much). He was uncomfortable with technology. He was trained as an engineer, but he was just always uncomfortable, maybe because he never worked in project development.

And as I always used to say, it was interesting, the firm kind of split along the line of who was on the network and who wasn't. Burt used his computer keyboard, at the time, to hold pictures of his grandchildren, and Bob didn't even have a computer in his office. The rest of us were all on email and the Web and that kind of stuff. So Bob really wanted to focus more on consumer, package goods, retail, and those sorts of projects, and we really wanted to do more technology. And so I think what really worked out well for Benchmark is that the consumer Internet came along shortly thereafter, which was a huge hit for— He was an original investor in eBay. Bob is a great guy, a really smart guy. So that worked out really well for them. We sort of focused more on technology, which worked out really well for us. So, the firm, it was sort of an unintentional split, but it happened.

CK: *What was your philosophy for all August Capital? Was it similar to TVI?*

DM: Very similar.

CK: *The way you would interact with your partners.*

DM: One man, one vote. Go on the board of 80 to 90 percent of the companies that we invest in, so be very involved. Pretty much all the tenets of TVI were carried forward into August, I would say. Benchmark had a different model. Their model, initially, was all partners have equal economics, which we never had at TVI, and we never had at August either; it's pretty close, but it gets adjusted every fund. That was very important to Bob, to have all partners have equal ownership. I guess the other difference is that Benchmark has had a lot of partners that have come in and come out, and we never have. So the equal ownership builds different kinds of tensions. We have tried to manage those tensions by adjusting people up and down and to make everybody happy and productive.

CK: *Your vision for August Capital was to be focused on technology. You were going to stay that course?*

DM: Right. We didn't really want to be a specialized fund either. We didn't want to be a software fund or an Internet fund. So we did everything basically from semi-conductors to business services. If technology was a key component of the strategy of the company, we were interested, and we wanted to be pretty broad-brushed in that; but we weren't going to do healthcare, we weren't going to do natural resources, and we sort of decided that we weren't going to do clean tech either. The reason we don't like healthcare is because we don't like having to deal with the FDA, and the reason we don't like clean tech is because you're really dependent on the government for subsidies and all that, which we just never felt comfortable with. So we would always look at a clean tech deal that had a stand-alone economic proposition, but if it relied on subsidies, we were uncomfortable with that. We're not good at lobbying. We don't like to spend time in Washington.

CK: *Let me just move ahead to the "bubble," and how August handled the bubble. You were in a lot of tech stuff.*

DM: Not well. It was very frustrating living through the last bubble because we kept— These recent grads from Stanford or Cal or wherever would come in with a PowerPoint deck, and they would go through their pitch, which probably didn't even have a business model, and then at the end of it they would say, "Well, we already have two term sheets. We're expecting one tonight, so if we don't hear from you tomorrow, the deal is going to trade away. Oh, and by the way, we're raising $10 million at a $100 million valuation." So we just kept saying no, because we were pretty disciplined about the kinds of deals, the kinds of management, et cetera, and we went for two or three years watching those companies raise money, go public. Well, classic case in point — Webvan. David Bierne, who was a partner at the time at Benchmark— Bob asked David and Louis Borders to come down and meet with John and me about Webvan. Louis went through his whole pitch about how they were going to build these $32 million distribution centers, and they were going to just dominate groceries over the Internet. John and I kept asking questions like: "Why are you doing this? Why are you building this big fixed investment and distribution centers? If you want to find out whether people are going to buy groceries over the Internet, why don't you just hire some kids to go pick stuff off the shelves at Safeway and see if the market proposition can be validated?" "Oh, you don't get it. You don't get it." So we didn't do it. They raised a ton of money; they went public; I think they got up to a $5 billion market cap at one point. That was very typical of the kind of things that we looked at. Eventually, a lot of them crashed and burned, as did Webvan, but we really avoided a lot of the craziness, just because we were pretty disciplined. At the very end of it, probably three years into it, we began to think, The world really has changed. We made a few mistakes where we did some crazy stuff, but it was very little and very late. So we pretty much got through it unscathed.

The one investment that we did make right in the heat of it was Cobalt Networks. We invested $10 million, I think we bought 20 percent of the company for $10 million, something like that. It went public a year later and traded up to a $5 billion market cap. Then, as the market started to cool, they got acquired by Sun for $2 billion. So it wound up being a great investment for us. The real seminal deal that we probably wouldn't have found if we had gone crazy, was Seagate Technology. Seagate is a disk drive company that I was actually an investor in the original start-up. I had gotten to know the CEO [Steve Luczo] a few years back when he was an investment banker. He was a tech banker at Salomon Brothers and Bear Sterns, and I just thought he was a great guy. He was a few years behind me at Stanford Business School, Class of '84, I think. He knew that I knew all the management at Seagate, because I was an original investor with Al Shugart, Finis Conner, Tom Mitchell, and Doug Mann. Steve did a bunch of M & A deals for Al, and finally Al brought him in to be his head of corporate development and then build a software strategy. He then became chief operating officer. After he joined Seagate, he used to just call me up from time to time, at random. Like, "Gee, I'm having all these problems with Al. Here's what he's doing. What do you think?" He knew that I knew Al, intimately. So I would just share my opinions about things, et cetera, and so we became friends. And then one day he called me up and he said, “You know, these private equity guys have come up with this brilliant structure to take the company private, and I need somebody who understands the industry, so would you come down and take a look?”

I had been away from Storage for, I don’t know, fifteen or twenty years. Probably fifteen years, and I found that things really hadn’t changed all that much. There were some cool new things that they were doing, and so we spent a bunch of time and did a lot of due diligence and decided that this was an investment that we really wanted to do. Then we were stuck with a situation of, okay, in order to get a seat at the table, to get a board seat, I think we were offered $150 million. Now we had a $450 million fund that we were investing out of, and we had a 15 percent concentration limit, like many other funds. And so in order to do the investment, we had to do a road show with our limited partners to get them to buy off on waiving this concentration limit. It took a while, and I kept hearing — I think I heard the story of Prime Computer ten times, because Whitney did this, and Russ Planitzer did the deal and it didn’t work out very well — this is going to be a disaster. So finally, Dave Swensen at Yale — we went and described the whole thing to him — and he said, “You know, I know why you have these concentration limits, but you know, I have a pretty diversified portfolio of venture managers, and there’s really not a whole lot of deals that any of you guys could do that are going to move the needle for me. So I feel like I’ve got enough diversification here, and I can see you’re passionate about this deal, and I think it makes a lot of sense. So I'm all in." When that happened, the dominos fell, and the rest of the investors went along with it. So we put a third of the fund, basically, in this one investment, and it was a home run. I think we made nine times our money on that, which was phenomenal.

CK: *In how much time were you— ?*

DM: We made the investment in 2000, and of course, at the time, everybody thought we were crazy. Who wants anything physical? Disk drives. That's so 1980s or whatever. Right? All I could do was look at the technology roadmap. I could look at the cash flows and it looked like a really interesting investment! I also thought Steve was just a terrific guy. In a classic private equity fashion, a lot of money was dividended out. They recapped it a couple of times while we were there, and then we kept selling shares as it became public, and eventually distributed the tail of it. So the whole investment period was probably eight years or so, but the bulk of the returns probably were distributed out in the first five years, I would say.

CK: *That* ***was*** *an experience. It's interesting.*

DM: Oh, it was a great deal.

CK: *Has VC changed a lot since '79, or how has it changed? I mean, because of the bubble, or because of time, or maybe a new generation of venture capitalists.*

DM: It's a business that looks so incredibly fun and easy from the outside, and is even really more fun, but a lot tougher on the inside. In the last bubble, a lot of new entrants came into the business. A lot of people raised funds. The business got incredibly competitive. Many raised these huge billion-dollar funds. Of course, as you'd expect, returns weren't very good for quite a while; there was too much capital in the business. A lot of new entrants in the business that had never really seen a cycle before. So you had people just doing irrational things. That sort of happened a little bit in this last — we're sort of in a bubble — I don't know where we are in the bubble. We're in one, I just can't figure out whether we're on the front end of it, or we're on the back end of it. A number of new funds have gotten raised. A lot of new people have come into the business, just in this last three years. So valuations and time to commit on deals—

So there are two things that form a bubble for me in the venture business: One is just the valuations go up. But the more important thing is that time to commit goes way down. You meet with a team and, like I mentioned before, they have two term sheets already, and if you don't commit by tomorrow the deal is going to trade away. We don't ever do very well on those kinds of situations because again, we're relationship investors, and it's important to really get to know the management team — go out and have dinner with them, get to know everybody in the company to really form an opinion about how interesting the opportunity is. When you have to sit and listen to a slide show, compelling though it may be, and have to make a decision right away, we don't make great decisions in those situations. Some of them work, but I'd say most of them don't because you don't know the people.

CK: *August Capital sounds as if it's still functioning or operating in the same mode as TVI.*

DM: Old-fashioned venture capital.

CK: *How about your network of partners that you bring — or investors that you bring in. Are you still doing that same diversity?*

DM: I would say our investor group has changed somewhat. Our last fund, I think we had four new fund of funds. So the problem, the downturn in '08 caused major problems for endowments and foundations. A lot of them had either the numerator problem, the denominator problem, or liquidity issues. So we lost a few investors in the last fund-raising. It turns out that fund of funds, which— We'd only had four fund of funds historically, and we never really liked fund of funds investors, because in a sense, they're intermediaries. We always like dealing with the actual principals. But the fund of funds guys were the only ones that really had dedicated capital for this asset class in any scale back in '08. So as a consequence, we have more fund of funds investors. The fund of funds have gotten better, too. Back in the eighties, they really were agents, and I think that a lot of these funds have been around for quite a while now and the people aren't changing as often as they used to. So they've become a more stable group.

CK: *Are there certain fund of fund groups that—*

DM: The original ones— Our largest investor, and one that's been with us right from the beginning, is Horsley Bridge. They're great. They understand the business, they have a core group of people that have been there a long time. Actually, our point person there is Elizabeth Obershaw, who used to be at HP Pension, and she was an investor in our fund at HP, back before the Compaq merger, and then they merged together their whole investment management and pension stuff and it became kind of a mess. So she left and went to Horsley. We have Harbourvest; we have TIFF; we have Paul Capital; a lot of the usual suspects.

The other thing that maybe is a little bit different is, in order to become a partner at August Capital— I may have mentioned this the last time. We really view our role — we are investors, pure and simple. We're not operators, and we're not agents. So to be a partner of August Capital, you'd have to either have a track record of success in the venture capital business, or you'd come in and scrub in for a few years and basically show us that you really can do this business. So I don't care if you're the CEO of IBM or whatever, if you don't have that, you're not going to be a partner here.

REFLECTIONS

CK: *Do you see venture capital as a romantic question in some way, just looking back?*

DM: The romance, more than anything else is the people who start companies are the most dynamic, creative, motivated people on the planet. Being able to work with them every day, I can't imagine anything better. Maybe if you had some great musical talents that you could share with the world, or great literary talents, and I have none of those, given that, I'm vicarious. So I feed off of the amazing intellect of these entrepreneurs.

CK: *I was going to ask you what continues to excite you. You've been in the industry quite a while now.*

DM: There's always something new, there's always some different way of looking at things that jogs you, and it's very stimulating.

CK: *Did you ever stop and think you might have enjoyed something else?*

DM: When I got into the business, I originally thought that I wanted to be an entrepreneur, that I wanted to be in a start-up. I've often thought back, gee, that might have been fun, too. But anyway, it is what it is.

CK: *I mean, you didn't want to run a company or— ?*

DM: I was a terrible manager.

CK: *Or what were you involved in, cars?*

DM: Yeah, I like all that stuff.

CK: *But you never wanted to do something in that area?*

DM: I never found any of those things that I really thought I could be great at. I mean, they're all fun. I ride motorcycles, I ski, I play golf, and I'm okay at all those things, but I'm not world class.

CK: *What is it that you are good at? What are you saying that you are good at? We talked about your being well suited for venture capital. There is something that qualifies you. As you said, you don't want to run a business and you couldn't be great at these other things, but you've been very—*

DM: I think I may have mentioned last time, there's three kinds of people in business: there are principals, agents, and operators. I tried being an operator, and like I said, I was not a great manager. I just didn't have the patience. I don't think I'm a good enough salesman to be an agent. I found being a principal, an investor, has worked really well.

CK: *What have been your personal rewards working in this industry?*

DM: Enormous. I've made a lot of money; I've got a lot of great friends. It's been fantastic. Look, when Facebook goes public, people are going to have made more than any of us have ever seen, maybe all of us put together. So it's not at that level, at least for me. And it's not like the Steve Schwarzmans of the world, or the big private equity guys, but I think all things considered, it's the most fun, exciting, rewarding at the scale. If your goal is to be the richest guy in the United States, you're not going to get there in venture capital. Well, maybe some of the Accel guys will in Facebook, we'll see. But I'm just saying that it's a business that's very rewarding in a lot of ways. It's very stimulating, there are great relationships, great people, fascinating technology, interesting business problems. I can't imagine anything more fun.

CK: *Do you feel like you're contributing to the economy, that what work you do is contributing to our country?*

DM: I don't think about it that way, but there are lots of jobs that have been created, hundreds of thousands of jobs from companies that I've been involved in.

CK: *What do you do when you're not doing venture capital? How do you take a break?*

DM: I ski a lot in the winter, although this winter hasn't been very good. I play tennis a couple of times a week. I play golf maybe once every week or two in the summer. I ride motorcycles. I think that's about it.

CK: *I know over the years you've taken time out. You were president of the Western Association of Venture Capital, a director at NVCA, and on the advisory board at Princeton?*

DM: The Institute for Advanced Study at Princeton.

CK: *Chronicle Publishing Company, you were on the board of Chronicle Publishing.*

DM: I was. It's a family newspaper that — kind of complicated— We used to live in San Francisco, and when we moved down in the Peninsula, one of my neighbors was an elderly woman named Nini Martin, who was a great lady. When we moved in, she treated us like one of her own kids. She hosted parties for us, she always invited us over, and one drizzly Sunday in the winter, she called me up and she goes— She was one of the family board members of Chronicle Publishing, which own the San Francisco Chronicle. They owned two other newspapers in other cities; they owned KRON, it was the NBC affiliate at the time in San Francisco; a couple more television stations; they had cable TV properties — the island of Hawaii and a patchwork in California; they owned a couple of book companies. What else did they own? I think that's it. But anyway, she calls me up and she goes, "Oh, I probably need to talk to you." So I said, "Okay." So I walked across the street. She gets in her car and drives to her back gate, and I talked to her for an hour and half. She goes, "Oh, we really need your help. We're having a lot of problems in our family business. Blah, blah, blah, blah, blah." So she sort of talked me into going on the board there, which is the only corporate board I've ever been on where I didn't own stock in the company, or whatever. But I just did it as a favor to her. They were wrestling with all kinds of issues at the time. It was like Family Feud. There were three families that were owners, and they all had different views about what ought to happen. The guy who was running it, John Siaswho, had just come in, was a great guy who figured out how to navigate all this stuff pretty well. While I was on the board, we wound up breaking it up and selling the newspaper division, we sold the cable properties and all the rest of the stuff, all the different buyers. It was a very complicated transaction, but it was incredibly — the family did very well from this. All these properties got sold. I think the last of them was sold in 2000, right at the peak of the market, so it worked out quite well. Anyway, unfortunately, she died a few years ago and the house got sold. But that's how I wound up on that board. It was interesting. I learned a lot about the newspaper publishing business and media in general.

CK: *I imagine you had some expertise just in terms of all that you've done with these companies that they needed.*

DM: Yeah. It was interesting because there were these three family factions, and they were kind of all warring with one another, and I really got along with all three of them. I could see the reasons why they felt the way they felt, and I thought we came up with a solution that really was in the best interest of all of them. So I think it worked out pretty well.

CK: *I think I asked you about mentors early on in college. Are there any VCs that you've admired a lot?*

DM: All the guys in the generation before me. It was a small industry back then, but I was either looking at companies with or on the boards with a lot of the guys in the generation before. My close mentors were the guys at IVA that hired me, who were just terrific guys, all three of them. I think I described to you how different they all were, which was good for me because I got a real good perspective. Tom Perkins, I was involved with him in a number of things back in the day; Dick Kramlich; even little bit of Tommy Davis back then; Gib Myers, Brook Byers, a lot of the guys back in that generation that I all worked with. Even Arthur Rock, I even met with him a few times.

CK: *I know I said I would just take an hour, so I don't want to abuse this privilege, but I do want to just mention your family, since this is your story. You have two children?*

DM: Three.

CK: *Three? Now, I don't know how that slipped by.*

DM: Yeah, Hope just turned twenty-two, Deke is nineteen, and Adam is sixteen.

CK: *And what are they doing?*

DM: Hope is a senior at Scripps College at Claremont in California, Deke is a freshman at Chapman University in Orange County, and Adam is a junior at Sacred Heart, right down the road here.

CK: *Oh, you think anyone is going to follow in your footsteps?*

DM: Good question. I've told this to my wife. My two boys, I don't think either one of them alone would be good in this business, but I told her, "If I could sort of mash them together, they would be awesome." Because my younger son is just — he has the best memory of anyone I've ever met, except for maybe Bill Gates. I mean, he just is a sponge. So anyway, he analyzes, he knows deep, deep information about all kinds of stuff. But you ask him to make a decision, like, do you want black or do you want white? Do you want this? He can't make a decision. My older son doesn't analyze anything, but he's compulsively decisive. He is intuitively good at games involving logic and strategy. They're really different. My older son is a great athlete, but he's never been a great academic. He does okay, but he figures out very quickly what he wants and he goes after it, and he's very decisive. As different as they are, they're like each other's best friend. So it's interesting. They should start a venture fund together as partners!

CK: *It's like your management team. And your daughter?*

DM: My daughter is the creative, artsy-fartsy one in the family. She's a very talented musician, she loves drama. Her current passion is video, so she's working on an internship with a company in Southern California called Radical Media, and she's really good at it. They produce video advertisements, music videos, and some documentaries. Very creative folk.

CK: *Oh, that's great. And your wife keeps busy — let's see, you have one still at home.*

DM: One still at home, and she — that's almost a full-time job for her.

CK: *And this is Lori?*

DM: Yeah.

CK: *I just wanted them included in your story because I'm sure they've kind of been there.*

DM: To the extent that I've spent a lot of time doing a lot of the stuff with companies and whatever, she's really been the one that has managed everything at home, and really well. Just totally on top of everything.

CK: *I know you travel a lot. Is there anything you'd like to add, or anything that I didn't ask that—*

DM: I just feel so lucky to have been part of this whole thing. I mean, it was an accident, sort of, that I got into it, and it has just been fantastic.

CK: *Yeah, well I guess so. Okay. I want to thank you.*

DM: I think venture capital is our secret weapon, and it's too bad that Washington doesn't realize that.

CK: *What do you mean by that?*

DM: It doesn't exist anywhere else in the world than here. I'm sure lots of people run the stats on this. It almost makes me cringe when I hear Obama talking about how we're going to have an economy that's built to last. We're going to bring manufacturing back to the United States. We're going to have tariffs on— It reminds me of somebody back in the 1920s saying, "We're going to be an agricultural economy; we are going to put up tariff walls against any agri-stuff that's come from — and any of this manufacturing stuff, we're going to tax them." I just think that we have a very dynamic economy. I don't think manufacturing is the path to the future. I think it's the path to the past, and we'll manufacture stuff here when it's economic to do so, and the new industries are information-based. They're service businesses, they're all sort of other things. And so the venture capital industry is the industry that really — that first of all backed all these manufacturers to begin with, and it's the industry that's going to back all the new economy stuff that's yet to come. Anyway, I just hope that they realize that. I've also always felt that the government is probably the highest cost producer of any good or service, and is also the worst allocator of capital. To the extent that Washington thinks, Oh, we're going to invest in Clean Tech, and we're going to invest in rebuilding our manufacturing or whatever, it'll be money poorly allocated. The venture capital industry is a lot better at allocating capital, or just the capital markets in general.

CK: *It certainly was the right field for you. I want to thank you for—*

DM: Yeah, good luck with the project. I'm glad you got Harvard involved. That's fantastic.

CK: *Well, thank you for Harvard. I mean, they really appreciate that you've agreed to participate, and the time you've given, and I want to thank you, too. And always, a thank you from Chuck Newhall.*

DM: Yeah, well he's such a great guy, and he just has such passion around this. I love it. I wonder what he's going— I mean, he said he's not part of the new NEA fund. I wonder — I can't imagine him retiring.

CK: *That's what other people have said.*

DM: I'm sure he's going to help his son out because his son has a fund of funds, who's actually an investor in our fund. I'm sure he'll wind up helping him out, and he'll stay involved. Yeah. He's got a great wife, too.