Regional Oral History Office
The Bancroft Library

University of California
Berkeley, California

Paul Bancroft III

EARLY BAY AREA VENTURE CAPITALISTS: SHAPING THE ECONOMIC AND BUSINESS LANDSCAPE

Interviews conducted by
Sally Smith Hughes
in 2010

Since 1954 the Regional Oral History Office has been interviewing leading participants in or well-placed witnesses to major events in the development of Northern California, the West, and the nation. Oral History is a method of collecting historical information through tape-recorded interviews between a narrator with firsthand knowledge of historically significant events and a well-informed interviewer, with the goal of preserving substantive additions to the historical record. The tape recording is transcribed, lightly edited for continuity and clarity, and reviewed by the interviewee. The corrected manuscript is bound with photographs and illustrative materials and placed in The Bancroft Library at the University of California, Berkeley, and in other research collections for scholarly use. Because it is primary material, oral history is not intended to present the final, verified, or complete narrative of events. It is a spoken account, offered by the interviewee in response to questioning, and as such it is reflective, partisan, deeply involved, and irreplaceable.

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Paul Bancroft III
photo courtesy Paul Bancroft III

Project Overview

Early Bay Area Venture Capitalists: Shaping the Business and Industrial Landscape documents through videotaped interview with the first generation of venture capitalists the origins and evolution of venture capital in California. The project explores and explains through the words of participants how venture capital in the state originated in the 1960s and 1970s, its intersection with national legislation and policy, the significance of its location, and its role in creating new companies, new technologies, and new individual and institutional wealth.

The Project

Venture capital was not a term when these narrators began to practice "risk investment" in the late 1960s and early 1970s. The oral histories describe the evolution of the field into the industry of today, focusing on its earliest emergence in Northern California. The narrators describe their circuitous routes into venture capital, their individual approaches to its practice, illustrative investments in key companies, the significance of its location in the Golden State, and its contributions to creating, financing, and building new companies, nationally and, increasingly, internationally.

Conceived and generously funded by Paul "Pete" Bancroft III, the project in its second year has interviewed twelve individuals. In the third and final year, the project scope expands to include interviews with representative investment bankers, attorneys, and early venture-backed entrepreneurs, as well as with additional venture capitalists. Completed oral histories, including those donated by related projects, are available at:

http://bancroft.berkeley.edu/ROHO/projects/vc/

An advisory board meets periodically to select individuals for interviews and advise on general direction.

Members: Paul Bancroft III, William Bowes Jr., William Draper III, Jerome Engel, Charles Faulhaber, Franklin Pitcher Johnson, and Alan Mendelson.

Project Director and Interviewer: Sally Smith Hughes

Videographers: Julie Allen, Caroline Crawford, and Linda Norton

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PAUL BANCROFT III

BIOGRAPHY

8/1/2010

Paul "Pete" Bancroft was an early participant in the venture capital industry, serving as a general partner in Draper Gaither & Anderson, which was the pioneer venture capital partnership founded in Palo Alto by General William Draper, General Fred Anderson, Rowan Gaither and Laurence Duerig in 1959. Mr. Bancroft joined D G & A in 1962 and worked closely with fellow younger partners Donald Lucas and Crawford Cooley until the firm was disbanded in 1967.

Thereafter he became Vice president, Venture Capital, of Bessemer Securities Corporation, a large private investment company in New York and California and in 1976 was named President, CEO and a director of Bessemer. He retired as CEO in 1988 but continued consulting and venture investing with Bessemer until the early 1990's.

In 1973 Mr Bancroft was one of the founders and initial directors of the National Venture Capital Association. He played a major role as President and later Chairman throughout much of the mid 1970's.

Through the years he served on 30 or more corporate boards and also for three years as a Trustee of Carnegie-Mellon University. Mr. Bancroft remains on two boards, the Paul and Monica Bancroft Family Foundation and the Friends of the Bancroft Library at UC Berkeley.

Mr Bancroft graduated from Yale University in 1951, did post graduate studies at Georgetown Foreign Service Institute, served in the Department of Defense and subsequently as an officer in the US Air Force stationed in Korea and Japan before commencing his business career. Since returning to his native California around the turn of this century Mr. Bancroft has devoted considerable time to the Bancroft Library which was founded by his great grandfather, Hubert Howe Bancroft.

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01-00:00:32
Hughes: It's March 31, 2010, and this is the first interview with Pete Bancroft, otherwise known as Paul Bancroft III. We are in his apartment in San Francisco.

Why "Pete" when your formal name is Paul?

01-00:00:53
Bancroft: Well, I was named Paul III when I was born, and since my father was Paul Jr., immediately after that he started calling me Little Petey. And as I grew up I didn't like Little Petey very much, and so therefore it gradually morphed into being Pete, which is what I prefer. I've had a lot of fun through the years because when anybody calls and asks for Paul I know it's an insurance salesman or somebody I really don't know, so I've found it's a useful tool to continue.

01-00:01:23
Hughes: Yes, very handy. I should say that there is a longer oral history that your daughter Kim took that gets into the Bancroft family history in great detail. But I'd like to record at least a potted version, maybe starting with Hubert Howe Bancroft, the Bancroft Library's founder.

01-00:01:55
Bancroft: Sure. Absolutely. He was born in 1832 in Granville, Ohio, got part way through high school and then went back to Buffalo, New York to go to work for his brother-in-law, who was his older sister's husband, in a book shop in Buffalo. He sort of apprenticed there for a couple of years, and during this time the Gold Rush came along, and his brother-in-law decided to send him out to California with a consignment of books to sell in San Francisco. So in due course they sent off the books to go around the Cape. He went down and went across the Isthmus of Panama, came up to San Francisco, and then went to work in the gold fields for six months while he was awaiting the arrival of the books. And when they arrived, just about the time he got ready to set up shop and sell them, his brother-in-law died, and most of the assets that were readily available were in the books that he had been sent. So he felt it was incumbent upon himself to get rid of those books as fast as he could and go back East to try and help take care of the affairs of his sister.

He arrived here early in 1852. He then returned east to help settle his sister's affairs and spent another year or so, tried to settle back into a combination of Granville, Ohio and Buffalo and really didn't like it. He had been bitten by the California bug. He decided that he was going to come out here and make a lifetime career of being in California. I think he was intrigued with the rapid changes he had seen in his first trip and wanted to learn more about this developing area. He perhaps didn't know the exact statistics at that point, but

as we now know, there were fewer than seven thousand non-Indians in the whole of what's now the state of California in 1847. And within two years after that a hundred thousand people had come in because of the Gold Rush.

01-00:04:12
Hughes: Amazing.

01-00:04:12
Bancroft: So a whole new civilization was being developed out of this sleepy little community out here. He evolved over time into first being fascinated by it and then wanting to record it. He realized gradually that this was kind of the last march of Western civilization. That it started in China and moved across Asia to Western Europe and then jumped the Atlantic to the eastern seaboard and as far west as St. Joe [St. Joseph], Missouri. And that really is as far as the developed part of America had gotten, except for Lewis and Clark and a few trappers. There was this huge hiatus until all of a sudden the Gold Rush, and then the big jump. He was absolutely intrigued with that.

01-00:05:02
Hughes: Interesting that he caught the historic aspect of it, whereas, speaking in broad terms, most people were looking at a way of making money, either through gold or setting up businesses.

01-00:05:27
Bancroft: Well, he was anxious to make money. But he was fascinated by the fact that most migrations have been of families and have been very slow, and you barely eked out a living. Here there was an instant money economy that was being created out of nothing. Because of gold it was a very liquid economy. Most of the miners hated their mining, but they had to eat and they had to have clothes and they had to have all kinds of things. Many of the miners had been dirt farmers in the East who left farming precisely to look for gold, but when they got out here and found what was going on they realized that up in Marin County and out in the Sacramento Valley there were all kinds of places to grow food, to sell food to the miners as a cash crop. So you had an instant commercial civilization developing in one fell swoop, starting with a hundred thousand people from the Gold Rush.

01-00:06:31
Hughes: Was he well educated?

01-00:06:33
Bancroft: No, he was pretty well self-educated. He became very *well* self-educated. I have found as I have read through *Literary Industries*: [*A Memoir*] that he liberally quotes people in French and in Latin. He was very well read, and it was all done on his own, because he only got through half of high school.

01-00:06:55
Hughes: Well, do you want to lead up to the library part of it? [laughter]

01-00:07:01
Bancroft: Sure. This developed over time. First of all he was trying to do some chronicles, specifically the Handbook Almanac for 1860, and he had a gent named William H. Knight working with him. They would try to chronicle one period after another in California history. He would go out and acquire whatever pamphlets or magazines or newspapers he could find. He gradually built up this shelf of stuff for Mr. Knight who, with him, was trying to do the equivalent of an almanac of this area. One thing led to another, and he was kind of nuts about collecting. He didn't want to sell anything that he ever got. And he began looking further and further afield to find what he could. He discovered in going to Europe and sending some of his agents to Europe that a lot of the second sons of wealthy people in England and France and Germany and elsewhere— The firstborn son always had primogeniture and so would inherit whatever the family estate or fortune was. The second sons were well educated but either had to join the army or fend for themselves. And many of them came out here as visitors and kept diaries. He suddenly found, himself and through his agents, a number of these diaries available in London and Berlin and elsewhere. So one thing led to another, and then he extended his studies to go all the way up to Alaska and down to Mexico and as far east as the Rockies.

So he began building up this set of materials, and they started out down on Merchant Street and Montgomery where Tommy Toy's restaurant is now. Then eventually he got a building at the 721-731 Market Street area, and as his business grew it wasn't big enough to house the library and his printing business. Also they were very worried about fires. And so over a period of time he eventually bought a plot out on Valencia Street, just off Mission. There he built a pretty well fireproofed building in the center of some empty ground with a big fence around it and space—because there were a lot of fires in San Francisco—so that it would be out of harm's way. This was highly fortuitous because the big earthquake and fire of 1906 arrived, the fire was halted only a block away from the library building. Meanwhile, he had been negotiating for some time to sell the library to the University of California. And this was a wonderful story because while the library had been appraised for something over $300,000, they had agreed that he would sell it to the University for $250,000. He got quite close to the wire on that, and they came to him and said, "Mr. Bancroft, we can only raise $150,000. Would you consider selling the library to us for that?" And he was highly incensed and said, "No way! My library is worth $250,000 if it's worth a penny." So he anonymously gave $100,000 to the university, and they in due course bought the library for $250,000. And that's how it came to be there [at the University of California]. It remained housed on Valencia Street, however, until a week or so after the 1906 fire whereupon it was hastily transferred to the Berkeley campus.

Of course, it's a great special purpose library that compares, I think, to the Beinecke [Rare Book and Manuscript Library] at Yale, and a very few others.

It's not a big part of the Berkeley campus but I think it's an important part of the campus and the history. And it's continued to grow. You know more about it than I do because you are there a lot more than I am.

01-00:10:57
Hughes: All right, let's go up through time, starting with your grandparents on both sides and a little bit about your parents.

01-00:11:24
Bancroft: Okay, well, [Hubert Howe Bancroft] and his second wife, Matilda, had three sons and a daughter. He had been married once before to Emily Ketchum and had a daughter, Kate, with her. Emily died in 1859. HH married Matilda in 1876 and produced the three sons and a daughter at the tail end. He was always, unfortunately, more partial to boys than he was to girls, at least that's what I found out as I've gotten to know various members of the family. His oldest son was Paul Sr., who was my grandfather; then he had a slightly younger brother, Griffing, and then the youngest brother, Philip. Philip really made something of a name for himself as a farmer in the Central Valley. He ran for the US Senate twice and was a well known figure in Northern California. My grandfather, Paul, was a supervisor in the City of San Francisco, elected either two or three times around 1907, 1909, 1911.

01-00:12:28
Hughes: Do you remember him?

01-00:12:29
Bancroft: Oh yes, I remember him quite well. He was married to a woman named Louise Hazzard from San Diego. They had just the one son, Paul Jr. Paul Sr. had gone to Harvard, as had his youngest brother, Philip, and he lived and worked in San Francisco, loved fishing and loved poker, as did his younger brother Philip. They taught me both fishing and poker at a very early age. It's kind of run in the family. He lived until 1957, because I remember very well that he was going to be eighty later that year, and he really wanted to see his first great-grandchild, who would have been my eldest son. He didn't quite make it; he died just before that. So that's why I happen to remember that year. It was also the same year that my mother died. She also really wanted a grandson, and that didn't work either. My grandfather and grandmother lived out in Sea Cliff [a San Francisco neighborhood], and I remember him as a kindly, rather taciturn elderly gentleman.

01-00:13:51
Hughes: He was a businessman?

01-00:13:55
Bancroft: More or less. Hubert Howe was very strong, and as often happens, the next generation doesn't accomplish quite as much. My grandfather was put in charge of managing the Bancroft properties, which included the building down on Market Street and where the Galaxy Theater now is. It was the St. Dunstan's Hotel in those days, on Van Ness and Sutter. But other than being a

supervisor in San Francisco— I have read newspaper clips where he apparently made a significant contribution in helping to get the architect to design what's now City Hall, which is one of the better-looking buildings. I had not known that until recently. I found that out because Hubert Howe's wife, Matilda, my great-grandmother, kept a diary which I had known nothing about until my daughter Kim found it recently over at the [Bancroft] library. So Kim and I spent a day going through that diary, and in it there were newspaper clippings of my grandfather and his contributions to City Hall. And so, wonder of wonders, I'm learning more as I grow older.

01-00:15:14
Hughes: All right, and then your birth and your siblings. Tell me about that generation please.

01-00:15:23
Bancroft: Well, Dad was an only child, and I was an only child, also. Dad was born in 1904, and he lived until 1995. He went east to Yale, not to Harvard, and then he worked in New York a good part of his life. I might back around a little bit for a moment to my mother's side of the family. They were very Irish. The family name was Manning, and my mother's grandfather was about the same vintage as my great-grandfather Bancroft. John B. Manning came over from Ireland during the potato famine and worked as a stevedore on the New York docks. He saved a little bit of money and apparently, I'm told, he invested what little he could save in Union banknotes, which during the Civil War were selling for about ten cents on the dollar because in New York they thought the North was going to lose the war. When the North did win the war, why his ten-cent-on-the-dollar bank notes were worth a good deal more. So he stopped being a stevedore and went into Wall Street.

01-00:16:38
Hughes: Oh my heavens. Only in America, right? [laughter]

01-00:16:43
Bancroft: Right. The Manning side of the family did rather well, and he was involved in some very interesting things. Among the more interesting was he thought at one point there was going to be a canal built through the Isthmus of Panama. There was a little railroad that ran through there, so he went down through his connections in Wall Street, and he bought a major interest in the railroad, so he had a controlling interest in it. And then a gentleman named [Ferdinand] de Lesseps, who had built the Suez Canal, came along with the French government, and they decided *they* would like to build the Panama Canal. They came to him and they wanted to buy the stock so they could control the railroad. Well, he had paid about $4 a share for all of the stock that he was able to get, and he sold it for $200 a share to the French.

They tried very hard to build the Panama Canal, and of course they ran into yellow fever and all of the problems that came up. And so they eventually abandoned it, whereupon they dumped the stock back on the market, and he

was prescient enough to buy it back again, for the most part at pretty close to $4 a share! And eventually when, under the Teddy Roosevelt regime, America wanted to build the Panama Canal, he agreed to sell it to the United States government for not a penny more or less than he had sold it to the French government. So he sold it a second time for $200 a share. He had seven or eight children, and my Grandfather, Daniel Manning, was one of those. He was a stockbroker, but he didn't do terribly well in life; he went up and down like a yoyo; he was a speculator.

01-00:18:41
Hughes: Is this family in New York?

01-00:18:44
Bancroft: They stayed in New York throughout. So my mother, Rita Markoe Manning, was born in New York in 1907 and grew up in New York. She and my father met over in Europe in 1927, I think, when he was just getting out of Yale. He chased her around New York and married her in 1928, and I was born in 1930 in New York. And so that's the story of both sides of my background.

01-00:19:10
Hughes: You were born in the middle of the Depression.

01-00:19:12
Bancroft: Right in the middle of the Depression. Yes, my father, when he got out of Yale, started out as a stockbroker, and when the crash hit he ended up selling cigarettes. He used to walk up and down Broadway every day peddling Philip Morris cigarettes. I remember it because when I was a young man there was a little midget dressed in a red suit and a red hat who looked like a bellboy in a hotel, and his name was Johnny [Roventini]. And all the advertising on the radio in those days was, [imitating Johnny] "Call for Philip Morris."

01-00:19:42
Hughes: I remember that.

01-00:19:47
Bancroft: Little red hat.

01-00:19:47
Hughes: Yes, cocked on the side of his head.

01-00:19:50
Bancroft: So my father brought Johnny dutifully to meet me, and of course Johnny was about my size. [laughing] I was like eight or nine years old, and I got a big kick out of meeting Johnny. Anyway, Dad and Mother were divorced in 1935 when I was five years old. And then Dad stayed on in New York, and my mother ended up marrying a fellow named Blair Foster out here.

01-00:20:14
Hughes: You were living with your mother?

01-00:20:16
Bancroft: I was living with my mother for the most part. My stepfather was— His father, Walter Foster, had started with a dentist named George Kleiser, the old Foster and Kleiser billboard company. And so I grew up with Blair Foster as my stepfather and my mother, although I visited my father each year.

01-00:20:37
Hughes: What was home life like in terms of discipline? What kind of expectations were there of you?

01-00:20:48
Bancroft: They were pretty tough. They wanted to be sure I wasn't spoiled since I was an only child. Particularly as I got into my early teens, they were a little rough on me, particularly my stepfather. When he'd get upset he used to ask me what I'd do if he threw me out of the house without a nickel. And of course I didn't know what I'd do, but I was determined at that stage of the game I was going to make enough nickels so that I'd be able to take care of myself. And I look back on that as probably one of the better things that happened to me, because it gave me a lot of incentive to succeed.

01-00:21:30
Hughes: Oh really.

01-00:21:32
Bancroft: But it was generally a fairly happy home life.

01-00:21:37
Hughes: Was Yale always in the cards since your father had gone there?

01-00:21:43
Bancroft: Well, my father had gone to Exeter and to Yale, and he was a real bon vivant who had a *lot* of fun in life. He didn't make a whole lot of money, and he wasn't supporting me as I grew up; I was really being supported by my stepfather. My stepfather had gone to a place called Culver Military Academy in Indiana, and to Stanford. I always wanted to go to Yale. Early in World War II when I was in the sixth and seventh grade— Well, my father was in the navy in Washington; my stepfather had joined the navy out here and eventually went out to the South Pacific. But I had a feeling all along that if I went to my stepfather's boarding school, Culver, he might pay the freight for me to go to Yale afterwards, even though my father had been to Yale, and that's exactly the way it worked out. So I became a lobbyist at a very early age.

01-00:22:49
Hughes: Did you have a reason for wanting Yale other than the fact that that's what your father had done?

01-00:22:54
Bancroft: I thought a great deal of it. I saw Dad every summer, and the tales he told me of Yale and his Yale friends that I met I've always enjoyed immensely. And I

should also say that a very big reason for going there is it just happened to be three thousand miles away from home. [laughter] So it got me across the country. I loved Yale. I didn't like Culver very much, although it was good for me, but I truly loved Yale.

01-00:23:26
Hughes: I read that you roomed with Bill [William D.] Witter. [telephone interruption]

Bancroft: I had grown up knowing Bill here in San Francisco, and when I got to Yale, my first year I was rooming with three of the people that I had been to Culver with. But since I knew all them I really wanted to branch out. And Bill grew up in San Francisco and had gone to Hotchkiss; his roommate at Hotchkiss had been a fellow named Brad Dillman who had then come to Yale. And the last roommate was a fellow named Bob Arnold who had grown up in Seattle and then gone to Lawrenceville. So we all got together at the end of freshman year and roomed together for our remaining three years while we were in college. Bill and I were very close friends and continued that way until the day he died.

01-00:24:31
Hughes: Did that lead to other business relationships?

01-00:24:37
Bancroft: Yes, Bill and I did some investing together. He is also the one that introduced me to Bessemer Securities, which I would not have known, I don't think, without Bill getting me in there.

01-00:24:52
Hughes: We have a series of interviews with the Witter family. There's one with a Bill Witter, but it isn't your Bill Witter.

01-00:25:17
Bancroft: Right, there's a Chicago Bill, as I called him, William Witter. William D. Witter, who was my roommate, was Dean Witter's second son. Dean Witter started the firm of Dean Witter and Company. His oldest son was Dean Witter, Jr. or Cap, as we called him, and the younger brother was Bill, or my Bill, if you will. He worked for Dean Witter for a number of years, and then left to start his own firm, with his father's blessing. I stayed in quite close touch with him through that period. After Yale and the service, Bill Witter went to Stanford Business School, and while he was there he roomed with Don Lucas, who later was one of my partners at Draper, Gaither & Anderson. So it's a small world.

01-00:26:03
Hughes: Yes, it certainly is. I've noticed all the interconnections among the first-generation venture capitalists. What did you major in at Yale?

01-00:26:12
Bancroft: Mostly the *Yale Daily News*. I was intrigued with being on the *News*. I loved it, and I spent most of my waking time there. My true major was a divisional—sociology, psychology, and literature. But I really enjoyed the newspaper. Also, while a junior at Yale, several of us started a publication called *Careers* which we sold during the summers. Well, we sold advertising during the summers and then distributed it to colleges, so I guess that was my main occupation, if you will.

01-00:26:51
Hughes: And what was *Careers*?

01-00:26:56
Bancroft: *Careers* was a book in which we sold what effectively were full pages, or two pages, of advertising to companies who were recruiting in the Ivy League campuses. But they didn't treat it as advertising; they treated it as the opportunity to do an infomercial, if you will. I didn't know the term in those days. They wrote up who they were, what kind of college graduates they were looking for, and how you should go about applying. And we sold those ads for $235 a page to all the companies we could find that were recruiting in the Ivy League. Then we had the book printed and bound into hardcover and distributed free of charge to college seniors all through the Ivy League, up and down. It was fun, and we made some pretty nice money out of it. Then we got broken up by the Korean War, so as soon as I graduated, instead of continuing with *Careers,* I joined the military.

01-00:28:04
Hughes: That must have been a novel idea, was it not?

01-00:28:09
Bancroft: Yes, it was. It kind of came out of the advertising concepts I had practiced at the Yale *News* where I used to do New York weekend pages or college ski weekend pages. I would go to the various colleges, mostly girls' colleges, and we would go to all the restaurants nearby and get them to do advertising with us to put in the *Yale News*. The *Yale News* had five columns. There were two columns of advertising on the left and two on the right, and then we'd have a column of editorial in the middle. We would use the editorial to write up the restaurants that advertised, of course. It was a good way to spend some time away from Yale, to meet girls, and it was quite profitable for the *Yale News* because we were getting a lot of money for a one or a two-page ad.

01-00:29:05
Hughes: You were more on the business side, right? You were not a journalist writing articles?

01-00:29:09
Bancroft: No, I was always on the business side, and I ended up being business manager of the *News*. That and advertising were always the things that I was most interested in.

01-00:29:17
Hughes: Had it always been in your mind that you were going into business of some sort?

01-00:29:31
Bancroft: Yes, I figured always I was going to be in business, in part because starting at an early age I wanted to make money, and in part because my background through my stepfather had been with advertising through the billboards, the outdoor advertising. So I really kind of thought I wanted to go into an advertising agency during a lot of this period. Not for sure, but it was kind of the area that I was heading in. I didn't get into the real interest in finance until, really, we started *Careers*. And at that stage of the game, why some of my father's friends who I was talking to said, "You know you really ought to go into Wall Street because you'll find that it'll be much more to your liking than advertising."

01-00:30:26
Hughes: And that was convincing?

01-00:30:26
Bancroft: Well, it was. With *Careers* I ended up selling two pages to Merrill Lynch, and I had a grand time doing that. They bought two pages describing their hiring practices and what have you, and I thought it was a wonderful firm. It turned out that a man named Bob Magowan, who later became chairman of Safeway, was, at that time, the vice president of marketing for Merrill Lynch. He was married to Doris Merrill, who had been the daughter of Charles [E.] Merrill, who had started Merrill Lynch. My father knew that family well, and so I had an in to this guy, but I didn't use it. I went in cold turkey, and it was only after I had sold the two pages in *Careers* to Merrill Lynch that the personnel manager, to whom I had made the sale, introduced me to Mr. Magowan for his blessing. I didn't mention the family connection until after he approved the sale to *Careers.* I was always very proud of the fact that I had not used the contact in order to make the sale. But it made me very partial to Merrill Lynch.

Many years later when I got out of the service I went back to Merrill Lynch, and that's where I started.

01-00:31:47
Hughes: You graduated from Yale in 1951 and then immediately went to the Georgetown Foreign Service Institute?

01-00:32:02
Bancroft: What happened was, immediately out of Yale I joined what we'll call the Department of Defense and spent some time with them. They put me through various kinds of training programs. I went down to Fort Benning with them, and eventually I was going to go overseas, and this wasn't making sense because they wouldn't promise me credit for the draft if I spent three years working as a civilian. I said, "Well, you know, if you're not going to promise

me credit for the draft I think I better quit." So I did, and I was able to get a direct commission as a second lieutenant in the air force, partly because of the ROTC training I'd had at Culver, and partly because of the sort of intelligence and public relations experience that I'd had in Washington. They sent me to Georgetown Foreign Service Institute. It was basically a foreign relations course at Georgetown Foreign Service Institute. I had a very good time.

01-00:33:19
Hughes: And then you went to Korea and Japan, right?

01-00:33:25
Bancroft: I did. I went to Korea and spent all of 1954 there, and at the end of that I was due to— If I had come home, I would have had another year under my air force contract. I learned in Korea that if I transferred to Headquarters Fifth Air Force (Rear), which was in Nagoya, Japan, I could extend my Far East tour for six months. And when I got home then, in July of 1955, I would get out of the service right away, because if you had less than six months left to serve in your contract they wouldn't reassign you.

01-00:34:14
Hughes: Oh really.

01-00:34:17
Bancroft: So I thought gee, this is great. By this time I had gotten married to the former Mae Godwin, whom I met in Korea, and so we moved to Nagoya, Japan, where we lived in a little Japanese house for six months while I worked at Fifth Air Force Headquarters (Rear) and had a grand time.

01-00:32:35
Hughes: What were you doing for the military?

01-00:34:31
Bancroft: In part I was writing propaganda pamphlets. I was also in basically the estimates end of intelligence where you gather all of the stuff that comes in, and you do write-ups for the troops and briefings of the general staff. Where I ended up, I really enjoyed it because there was a major I was working for who had to brief the commanding general of Fifth Air Force every morning on the news of the day, but the classified news. I was preparing the briefings for him. He turned up sick one day so they put me in as the substitute briefer. I was shaking in my boots, because I was— By that time I think I was a first lieutenant, and here I was, giving a three-star general a briefing. This went on for several days until the major for whom I was working recovered. When he came back to work the general threw him out and kept me doing the briefings. So the rest of my stay there I had just a fine time. [laughter]

01-00:35:42
Hughes: So that was a four-year stint between Yale and your getting out of the military in 1955?

01-00:36:14
Bancroft: Yes, I got out of Yale in June of ’51 and I didn’t really have a chance to join the business community until late 1955. I spent three years in the air force and a year mucking around with the Defense Department.

01-00:36:36
Hughes: And then you went to Merrill Lynch. But briefly [1956-57], right?

01-00:36:42
Bancroft: Well, I went through their training program, and while I was finishing that up my mother took ill. Actually, after I got out of the service I went on a delayed honeymoon, because I got married in Hong Kong. My wife had come from Florida, but she was stationed in Korea, and we got married in Hong Kong.

01-00:37:10
Hughes: So she was in the military?

01-00:37:15
Bancroft: She was also working for the government as a civilian. [chuckling] We met in Korea under the auspices of some friends, and we got married eventually in Hong Kong. In November of ’54 my mother and stepfather came out to Tokyo on a visit, and I took what they call an R&R and went to Tokyo, taking my eventually to-be wife there with me, and so she met my parents. I was thinking seriously about marrying her, and I talked them into staying over from Thanksgiving until Christmas; they went to Hong Kong. So we took another R&R at Christmastime. We got married in Hong Kong during the Christmas holidays and then moved into the Japanese house in Nagoya. I enjoyed my service career. In any event, when I got out the following July, we took a six-month trip around the world. I got a job at Merrill Lynch but then took a deferral before I went to work while we took the delayed honeymoon.

01-00:38:31
Hughes: You got the job at Merrill Lynch without using your in?

01-00:38:29
Bancroft: Well, by using my two pages that I’d sold them years earlier in *Careers*, I told the same head of personnel that I’d like to join Merrill.

01-00:38:41
Hughes: Yes, but not using your connection?

01-00:38:45
Bancroft: No. Besides I think Bob Magowan had already joined Safeway by that time. Anyway, while I was in the training program my mother took ill with cancer, and so I came out and spent around Christmas of ’56 and the beginning ’57 here. She had a lung cancer operation, and it didn’t work out very well, so she only had a few weeks after that. Merrill Lynch was nice enough to let me work in their San Francisco office while I was here, so I was still technically training. But I would get up at the crack of dawn every day and commute to San Francisco and do some work in their back office.

01-00:39:09
Hughes: Now was that routine for financial houses to have a training program for new recruits?

01-00:39:45
Bancroft: The bigger ones did. Interestingly, my father's best friend at Yale was a fellow named Herbie [George Herbert] Walker, [Jr.] who was the uncle of President Bush I [George H. W. Bush]. He was Bush's mother's brother, and he had a firm in New York called G.H. Walker and Company. I had sold G.H. Walker and Company a page in *Careers* way back when. And so I went to see Herbie and said, "I think I'd like to join Wall Street. Can I go to work for you?" And he said, "Sure you can." But he said, "Frankly you'd be of a lot more use to me if you got some training first, and I suggest you go to one of the bigger firms where they have a formal training program." And I said, "Like Merrill Lynch?" He said, "Yes." I said, "Okay." So, that's when I went to Merrill Lynch.

01-00:40:44
Hughes: That must have been your first formal training in finance/business?

01-00:40:50
Bancroft: Yes, other than having been business manager of the *Yale News*, because that *was* a profit-making organization, unlike most college newspapers.

01-00:40:57
Hughes: How much did you learn in the training program?

01-00:41:10
Bancroft: Well, I learned a lot about accounting, because I never took accounting at Yale. For a guy that ended up in the investment business that was kind of dumb. [chuckling]

01-00:41:21
Hughes: But Yale doesn't have a business school, does it?

01-00:41:23
Bancroft: Oh yes, they've got a very good business school. School of Management.

01-00:41:31
Hughes: And they did in those days?

01-00:41:33
Bancroft: They did not. It started after that. But my problem was that by the time I might have gone to a graduate school, business school, like Harvard or Stanford where most of these people you've been interviewing went, I was married and had spent enough time in the service, and I wanted to go to work. So I decided I really didn't want business school. A lot of people have asked me if I missed it, and the answer is, as the years went by I certainly could have used the breadth that I would have gained there. But on the other hand, as some of your

interviewees have said, you kind of pick it up as you go along in the school of hard knocks.

01-00:42:17
Hughes: Don Valentine said in his oral history something to the effect that he deliberately avoided hiring MBAs. [laughter] So maybe you did just as well doing it the way you did it.

01-00:42:37
Bancroft: Well, we each have our foibles. If he avoided MBAs— I found through much of my career when I was looking for people to bring into the companies we were financing, I would avoid either the East Coast or the West Coast because I felt people that grew up in the Midwest had a very fine work ethic, in comparison to many of the people I had known on both coasts. So I was very partial to hiring people with a Midwest background.

01-00:43:05
Hughes: You didn't stay at Merrill Lynch very long [1956-57].

01-00:43:13
Bancroft: I finished the training and they put me in an office on Forty-eighth Street. I sold securities for about six months, and I didn't really like it—largely because I had to develop customers, and I had always thought that I might want to come back to California some day. But I didn't want to be dependent on a lot of individuals whom I was selling stocks to. I really wanted to get into what we called the buying department in those days, which was the investment banking end where the companies would be who you were really working for rather than developing individual clients. I tried to agitate in Merrill Lynch to do that, but they wouldn't make the change. So I figured after I sold securities for six months I'd probably paid them back for the training they gave me, and so I thanked them very much and left, and that's when I joined [F.] Eberstadt [and Company] downtown [1957-62].

01-00:44:13
Hughes: Was it just the way things went that people did the training program and then sold securities?

01-00:44:21
Bancroft: Yes, basically it was a sales training program to turn you into a customers' man or account executive, as they called them then and still do.

01-00:44:31
Hughes: And then you end up at Eberstadt, which is an investment—well, they're both investment banks, aren't they?

01-00:44:42
Bancroft: But Eberstadt did not have a retail clientele at all. Their business was solely doing deals for companies.

01-00:44:53
Hughes: I see.

01-00:44:49
Bancroft: Either private placements and raising the money or helping to take them public and being the underwriters of the companies going public. And that's what I really wanted to do because I figured I'd get into the meat of businesses by doing that. So, Eberstadt was very good; they hired me for a 50 percent raise from what I was making at Merrill Lynch.

01-00:45:14
Hughes: They weren't dismayed by the fact that you had spent a relatively short time at Merrill?

01-00:45:23
Bancroft: No, because they also understood that I had stayed long enough to pay them back for the money they'd put into me.

01-00:45:27
Hughes: I see. And you probably told them why you left.

01-00:45:30
Bancroft: Oh sure, absolutely. I enjoyed Eberstadt immensely. Again, I learned a whole lot because what we were doing there was we would provide financings for companies that were trying to raise the money either privately or publicly. For example, one of my best jobs at Eberstadt, I was sent out with an associate of mine, Bradford Mills, to Hawaii, and we got into two of the big five out there, Hawaiian Commercial & Sugar and Alexander & Baldwin. Alexander & Baldwin already owned a good part of Hawaiian Commercial & Sugar and wanted to acquire the balance. Brad Mills did what we call a factual analysis of Alexander & Baldwin, and I did a factual analysis of Hawaiian Commercial & Sugar. And then we wrote them all up into a give or take fifty-page private memorandum, which is like a prospectus describing everything about the business. Then Brad and I put our heads together and tried to decide what the proper values should be for each company and what ratio should be used for the one to acquire the balance of the other so that they would merge. We then went back and presented our work to Mr. Eberstadt and the other partners who then refined it to their liking. They would meet with the heads of the companies. They were the investment banker who recommend what the terms of the merger ought to be and, in effect, blessed it.

01-00:46:53
Hughes: Were you just picking this up? Because you hadn't had any experience with mergers, and I imagine that's a pretty complicated thing to do.

01-00:47:12
Bancroft: You learn as go. [chuckling] The writing of the factual report was a way of really getting to know the company and getting it all written down and analyzing everything about it you could. And that put both Brad Mills and me into a pretty good position to argue with each other what relative value each

company might have to the other. Of course we had a lot of help from the partners we were working for, who showed us where we were crazy or told us when we were right. And that's the kind of thing we did.

Another deal was United Artists. There was a company called Ziv Television Productions that did the series on Lassie. Remember when you were a kid there were all those episodes of Lassie? Well, Ziv was going to be bought by United Artists, and United Artists wasn't sure what kind of price they really ought to pay. So one of the things I did was to work hard on doing an analysis of Ziv and of United Artists and then presented that to my boss who then worked on what the terms ought to be. You learn a lot in something like that.

01-00:48:31
Hughes: Now were people higher up becoming impressed with Pete Bancroft?

01-00:48:40
Bancroft: I hope so.

01-00:48:44
Hughes: [laughter] Well, you're not that old, and you haven't had formal training, and they could have looked skeptically—is this young man going to really prove himself?

01-00:48:57
Bancroft: That was always an early problem because one of the things that I was encouraged to do with Eberstadt was to bring in business. You know, in addition to doing the work of the firm that other partners were bringing in and working for them, I was *encouraged* to bring in business. But I was only twenty-seven years old, and I looked like a baby then, and I'm told I still do relative to my age of eighty at the moment. So I looked like I was still pretty wet behind the ears, but that's the way it goes.

01-00:49:31
Hughes: Well, by now you have connections, and you come across now, and I'm presuming then, as a very suave and sophisticated person. Were the social graces, that I presume you had then as you do now, oiling the machinery somewhat and making contacts with people whom you could then do business with?

01-00:50:02
Bancroft: Oh I think all of that is very important. I'm reminded of the story years later when I appeared before a panel of students at Yale. I was in the venture capital business by that time, and in the Q&A after the discussion they said, "What is the most important course that we can take at Yale to prepare us to be good venture capitalists?" And much to the delight of the dean, and not to the delight of the students, I said, "Take daily themes so you learn how to read and write in the English language, because if you can't write and if you can't express yourself you can't *sell*, and if you can't sell you're never going to go anyplace." I always felt that it was very important to develop the skill of

being able to speak in public and to sell and to write. And of course I had done a lot of writing at Yale where I used a lot of adjectives and adverbs and had a lot of fun.

When I first got to Eberstadt I was asked by my first boss there, one of the partners, to do a report on a company. I went out and I laboriously— I had taken a typing course in high school so I could type, which made me able to not only write faster but it was more legible. And I came in, and he gave me back the paper the next day. I don't think there were three or four words between red [cross-out] lines anyplace, and he said, "Bancroft, what we're interested in is nouns and verbs and as few adverbs and adjectives as possible. These are supposed to be *factual* reports, so go back and make it better." I learned a whole different style of writing, business writing, which was very helpful later on in the kinds of reports that I did, and to get the training to help go on from there.

01-00:51:59
Hughes: It seems from what you've told me that you're already developing a network of connections, presumably on both coasts.

01-00:52:16
Bancroft: Yes.

01-00:52:16
Hughes: Because you have West Coast family ties, but you've now spent quite a bit of time on the East Coast too. Were you a little unusual in that?

01-00:52:29
Bancroft: I think so. Most of the people that started east, stayed east, and most of those that started west stayed west, unless they went to Harvard Business School. But you have seen in the interviews you've done with these early venture capitalists how important Harvard Business School was to them.

01-00:52:43
Hughes: Yes.

01-00:52:44
Bancroft: And a lot of that was Georges Doriot, whom I never met because I didn't go there. But an awful lot were the connections that they made there that they could use later on.

My father used to tell me as a result of his Yale training in his day that if he wanted to reach somebody in the United States for one reason or another that usually within three or four phone calls he could find somebody that would introduce him to the person. And also I was brought up— Every Christmas and every time my family had a party, I was made to either give a toast or make a talk, so I was taught to talk in front of people at an early age, which I felt was pretty important. I brought up all my kids the same way.

01-00:53:36
Hughes: So the social graces are important for many reasons?

01-00:53:39
Bancroft: Yes, I mean they're not overriding, but they certainly help.

I guess what I should do here is to give you a bit of a segue into what I thought was lacking in the investment banking field.

01-00:53:57
Hughes: Yes, please do.

01-00:53:58
Bancroft: There I found that if we were asked to do a financing for a company, the kind of things I was describing, if we did a good job and it worked, the president of the company who we were doing the work for took all the credit. Whatever it was we were trying to do, like suggesting a merger or what have you, if it didn't work then it was my fault. That seemed to me to be the real world but not necessarily a fair world. The other thing was that you would work for a year and get a fee, because in investment banking, unlike venture capital, your fees come from transactions or what you're paid to do, and—

01-00:54:40
Hughes: Above and beyond a base salary?

01-00:54:44
Bancroft: The fees that the firms would get out, of which I was paid a base salary and a bonus.

01-00:54:46
Hughes: Okay, I see.

01-00:54:54
Bancroft: And so I would find that the first of every new year, the slate was wiped clean. And what are you going to do for me next year [my boss would ask]? So you never built up any credit for what had been done in the past, other than you might develop a reputation with your boss for having done a good job.

01-00:55:15
Hughes: Why would a corporation set it up that way?

01-00:55:21
Bancroft: Well, because the investment banking world on Wall Street lived on fees. They were paid fees for doing private placements or fees for taking a company public. If you have an IPO, an initial public offering, or any kind of offering, you might see it in the prospectus—if the stock is sold at $20 per share, there'll be a 5 or 6 percent fee, a dollar or $1.20, that goes to the underwriters, and the balance ($19 or $18.80 per share) would go to the company and/or to the selling shareholders. Those fees were what we lived on in the investment banking world.

01-00:55:55
Hughes: I see. I was really thinking more of the slate being wiped clean every year. Nowadays many companies put a lot of emphasis on stock purchase plans, stock options, as a way of keeping and incenting people. It seems to me the opposite thing is happening if every January 1 you're back at square one again.

01-00:56:27
Bancroft: That's a whole different matter. You're talking about companies; I'm talking about investment banks. They're just living on fees and—

01-00:56:35
Hughes: But they also want to keep people.

01-00:56:38
Bancroft: Well, that's why they would pay me a nice bonus and give me raises to keep me.

01-00:56:38
Hughes: I see.

01-00:56:42
Bancroft: But anyway, I thought being an investment banker was not particularly good because if I do a good job on behalf of a company, the people in the company who own the stock in the company are going to be beneficiaries long term, while the investment banker gets only his one time fee and must then go on to the next deal. I thought if I could be in a position where I could own stock in the companies that I'm working for, apropos of your mention of options gotten by whatever means, then if I do good work the company will prosper and my stock will grow in value.

01-00:57:13
Hughes: I see.

01-00:57:14
Bancroft: So I said I don't want to be in the investment banking world either; I want to be in the corporate side, which led me to begin to focus on the beginnings of venture capital, because this was in a period where it was just getting going.

01-00:57:26
Hughes: What year was this?

01-00:57:28
Bancroft: This would have been between 1960, '61.

01-00:57:34
Hughes: So that's early for venture capital.

01-00:57:37
Bancroft: That's when it really kind of began—in the late '50s and early '60s.

01-00:57:38
Hughes: Yes.

01-00:57:40
Bancroft: I would come out here in the summers, when my mother was dying in early ’57 and every year thereafter, to stay and visit and renew my contacts on the West Coast. Among them, I made a new friend, Bill Witter’s Stanford Business School roommate, Don Lucas.

01-00:57:57
Hughes: Okay, here we go. [laughter]

01-00:58:01
Bancroft: So I went down to Draper, Gaither & Anderson, and I was enchanted by what they were doing, because they were investing the money that they had into young startup companies. I thought, now this is the right place to be. So I schmoozed them from 1960 until 1962. They started in 1959, and it was in 1962 they finally offered me a job. I came out again in the summer of ’62 and visited down there and met all the partners: General Anderson, General Draper, Larry Duerig, and Bill Draper, who was General Draper’s son, my-age Bill whom you’ve interviewed. I went back to New York hoping that somebody would give me a call. The next thing I knew young Bill, my-age Bill, decided he wanted to leave Draper, Gaither & Anderson to form his own firm with Pitch Johnson, whom you now know all about from the interviews you did with each of them. When Bill left he was leaving a hole in DG&A because they had the three senior partners while Bill had been one of the associates.

01-00:59:22
Hughes: Yes, and Gaither had pretty much dropped out, hadn’t he?

01-00:59:26
Bancroft: Well, Gaither had died by then. So you had basically Fred Anderson, General Draper, and a fellow named Larry Duerig, who had been a securities analyst with one of the securities firms out here. I got a call shortly after I got back east, asking me if I’d like to take over Bill Draper’s accounts and come join DG&A and become a partner.

01-00:59:38
Hughes: Do you think the number of years that had gone by when you were hoping you would be invited was simply because there wasn’t a place? They needed somebody to die or move on. [laughter]

01-01:00:07
Bancroft: Yes. It was a very small field. You know, when you go back to 1959, ’60, ’61, out here you only had Arthur Rock and Tommy Davis. You had some individuals, Ed [Edward H.] Heller and two or three others *as* individuals, but almost nobody else. And when I talked to people in San Francisco about Silicon Valley and venture capital, nobody knew anything about them. I mean not Silicon Valley, it was Santa Clara Valley or Palo Alto in those days.

01-01:00:41
Hughes: Were you using the term venture capital?

01-01:00:44
Bancroft: No, it was 'special situations' or 'private investments', as you've been told by some of the others. That's what we called them in those days. [tape change]

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02-00:00:00
Bancroft: When I was out here, I would start trying to find out about venture capital or special situations or that kind of investing down on the [San Francisco] Peninsula. I had some friends that I'd made from growing up who were in Montgomery Street, and I had of course had some time with Merrill Lynch, and so I had some contacts there. I found to my amazement that almost nobody in San Francisco knew anything about Hewlett or Packard or the company Hewlett-Packard. And they had no interest in what was going on down in the Peninsula.

02-00:00:37
Hughes: How do you explain that?

02-00:00:41
Bancroft: Because San Francisco was very insular. Through Blyth & Company and Dean Witter, they had their financings, and they were interested in Hawaii, and they were interested in lumber products, and they were interested in the kinds of things that had been their traditional businesses.

02-00:00:57
Hughes: I see, none of this tech stuff.

02-00:01:01
Bancroft: The whole idea of this *thing* going on down there—that's very dangerous. The only one that I knew who knew anything about it and said, yes, it's kind of interesting, was Bill [William K.] Bowes. My interest there sparked at a very early time; it was in 1960, '61.

02-00:01:23
Hughes: Yes, that's early.

02-00:01:24
Bancroft: My father had known Tommy Davis, and I think Davis & Rock started in 1961. So it was suggested that maybe I ought to try to meet Tommy or talk to Tommy or meet Arthur [Rock]. But I had known Don Lucas, and so it seemed to me that Davis & Rock were just starting up, but Draper, Gaither & Anderson was already fully fledged from 1959. So that's where I kept heading back to, and they finally came around in 1962.

02-00:02:02
Hughes: Was anybody talking to you about the risks of venture capital? Your experience so far in the financial world had been with pretty conservative institutions. Was it running through your mind that there is opportunity here, but there's also great risk?

02-00:02:44
Bancroft: Well, all through this period I felt that some of the younger companies I knew anything about might be higher risk, but they were higher opportunity. And somewhere along the line, I evolved the rationale in my mind that if you stand a ruler on edge, and if six inches is an equilibrium, if you dare as high as seven you might fall as low as five. And that's going to be it. If you shoot for ten or twelve you might end up at zero, but if it works it's going to be pretty exciting. So I clearly understood the concept of risk.

There was a classmate of mine at Yale named Carl [W.] Knobloch, [Jr.] who had gotten early into a company that went through several metamorphoses, but it ended being in the shell home business, U.S. Shell Homes. They wanted to go public, and I thought maybe that was the first company I could bring into Eberstadt. Instead, Hayden, Stone walked away with the deal, and there just happened to be a fellow named Arthur Rock at Hayden, Stone at that point. Carl Knobloch and I remained friends forever. But you know Eberstadt wasn't really prepared to risk that kind of underwriting, but Hayden, Stone was. So I knew there were firms that were willing to do it, and the concept appealed to me.

02-00:04:15
Hughes: Well, you said in the context of not wanting to be dependent on your stepfather that you wanted to make money. Was there more to it than the independence that risk investment represented?

02-00:04:36
Bancroft: Not at that point. That came later. You know, the joy of helping to start a company and watching it grow and develop, and helping to create jobs and watching companies grow like a baby, and the thrill that comes from that came later. Early on it was providing financing money for companies and learning how companies work and what you need to do to get the money for them.

02-00:05:06
Hughes: What about the motivation of providing for your wife—and you have at least one child by now? Do you have more?

02-00:05:14
Bancroft: Yes, '57 I had my first one, a son Brad. In '58 the second one, a daughter Kim. Then in '60 the third one, a son Stephen. We were more prolific than we really meant to be. [laughter] Then I had a fourth one in 1962, Gregory, not to leave him out. [chuckling] Yes, well, that was all part of my motivation. I wasn't trying to make money for the sake of sitting there and counting it; I

wanted to have it so that I would have complete financial independence, lead a comfortable life and could educate my kids. When I was with Draper, Gaither & Anderson, I used to have lunch with my stepfather periodically. One day I was able to take him to the Woodside Pub, buy him lunch, and tell him that the previous year I made more money than he had ever made in a year. And so from now on he wasn't going to be a stepfather, but I hoped he'd be a friend. We ended up being very good friends. So that all played into the motivations.

02-00:06:17
Hughes: Let's get back to Gaither, Draper & Anderson. What did you find when you arrived?

02-00:06:31
Bancroft: I found an interesting hodgepodge of investments that they were making. Mostly individuals, Don Lucas or Crawford Cooley or General Anderson would find something, and they'd go into it.

02-00:06:47
Hughes: Not necessarily high tech?

02-00:06:47
Bancroft: It was more high tech than not, but not necessarily, unlike many of your other interviewees who stuck with high tech. I inherited a couple of companies from Bill Draper. One was a very mundane company that made different kinds of toilets and things down in Los Angeles, and the other was Corbin-Farnsworth, which has been mentioned to you by several of your interviewees, that was making defibrillators. I have noticed in some of your interviews there have been differing stories about Corbin-Farnsworth from different people, like four blind men looking at an elephant, trying to describe it. The true story of Corbin-Farnsworth was I inherited it from Bill and went on the board.

We got to the point where we really needed some money, and we needed a home. They made very good defibrillators but they didn't have the marketing. And so we had to find a place to put the company. We looked at all of the drug, pharmaceutical, instrument-type companies and determined that Smith, Kline & French might very well be the best fit. But nobody knew anybody in Smith, Kline & French, and having been in the investment banking business, I didn't really want to pay a fee to an investment banker for the introduction. I'd been in that business. So I got out the Standard and Poor's directory, and I looked up all the officers in Smith, Kline & French. It turned out that the vice president of marketing was the youngest senior officer they had. So I said to myself, the youngest senior officer and in marketing in particular is probably the right guy. So I called his secretary cold turkey and eventually arranged to meet him, and eventually Smith, Kline & French bought the company. The only reason I claim more accurate knowledge than some of the others is because they were only peripheral shareholders, while I was on the board at that point, having inherited Bill Draper's position, and I was responsible for selling the company. Both company founders, Messrs Corbin and Farnsworth

were fine upstanding people, and they made fine defibrillators. Fortunately, Smith, Kline & French could see that and bought the company.

02-00:09:14
Hughes: You picked Smith, Kline because you could see that the defibrillator that you were trying to sell would fit—

02-00:09:25
Bancroft: Their product line. It seemed to be a very good fit with some of the instruments that they were selling, better than a lot of other companies.

02-00:09:34
Hughes: And did it work out for Smith, Kline?

02-00:09:36
Bancroft: Yes, it worked out very well.

02-00:09:37
Hughes: I'm reading into what you're saying that Corbin-Farnsworth was kind of a problem child before you sold it?

02-00:09:49
Bancroft: Well, it was a problem child only because of the unavailability of ongoing financing. Sixty-two to '67 was a rotten market, as you've heard from others. We couldn't really take companies public, and there was no exit for this company, and it needed to grow. We had very limited capital ourselves at Draper, Gaither & Anderson.

Another company they had was one called Electro-Engineering. I inherited the board seat from Bill. There was an interesting old Swede, Wally Wahlgren, who had started it and was running it, and he had a plant up in Forestville. DG&A had made the mistake of taking a minority position in a company where the founder and chairman owned a majority of the stock—and you couldn't budge him. And so I learned from that before I began investing myself, *never* [with emphasis] get involved where the individual founder of a company is running it and where you are completely at his mercy, because once in there's no way out. I was asked by General Anderson to find an exit, so I did something I really don't much like to do. Every board meeting I went to I made myself so obnoxious that he eventually wanted to get rid of me, so he had the company buy in our stock. [laughter] Bill Bowes characterized it pretty well.

DG&A was the earliest, true venture capital partnership on the West Coast in the form that most venture capital firms are still now run, where you have the general partners and then some limited partners putting up the capital. The general partners collect a fee, a small percentage of the money invested to cover their overhead, and get 20 percent or so of the profits, to the extent that there are profits. That's been the mold in which most venture capital firms have developed.

02-00:11:50
Hughes: And where did that come from? Who invented it?

02-00:11:58
Bancroft: I think that came out of Ed [Edwin E.] Huddleson, [Jr.] who was one of the principal lawyers at Cooley, Godward & Huddleson, San Francisco. Ed Huddleson was General Anderson's lawyer and just a wonderful man.

02-00:12:09
Hughes: Did he have a model for it in another industry?

02-00:12:16
Bancroft: I think they kind of invented this thing.

02-00:12:16
Hughes: Really!

02-00:12:19
Bancroft: I don't know. By the time I got there the firm had been founded, so I knew about it. But I just have given him credit because General Anderson always said he was the sharpest knife in the drawer, as far as being a lawyer was concerned. And I thought he was a very bright lawyer who cut through to the business end of things instead of getting lost in red tape.

DG&A itself was not really terribly successful. It was a great learning period, and I learned a lot from '62 to '67 while I was there. Then the firm broke up because in the middle of it General Draper really wanted to leave, retire. General Anderson got lung cancer, and so he died in 1967 or thereabouts. But we broke up the firm, and it hadn't really made a lot of money. We did okay, but not by the standards that later developed.

02-00:13:25
Hughes: But it did well enough that Pete Bancroft was bitten by the venture capital bug, right?

02-00:13:33
Bancroft: Very seriously. My main memory arising from DG&A is one of the companies we invested in called Mark Systems. It was a little company that developed a camera, a very high-tech camera, for spy planes, where from fifty thousand feet you could read the license plate of a car in a parking lot below. Of course it was highly classified, and they also developed stabilized optics, where if you hold something you don't shake, which they now have, to various degrees, in all kinds of cameras. But they were an early forerunner of all this.

We invested in them as a startup somewhere around 1962. I put a little bit of money in. General Anderson had the lovely habit of lending money to Don Lucas, Crawford Cooley, and myself so that we could make larger investments. I put in money at $1 a share, and with some help from General Anderson, I ended up with fifty thousand shares at a buck a share.

What really gave me the taste for the venturing business came when I was down in Cabo San Lucas with Bill Edwards and his first wife Betty and two or three other people on a vacation. We flew down in a light plane, and the runway ran from the sea up a hill. You would come in and land at the sea end, go uphill, and figure you could stop by the time you got to the end of the runway. And when you left, you would get to the top of the hill, you'd turn around, and you'd go like hell down there hoping you'd be airborne by the time you ran out of runway. But it was a great, great vacation.

While I was there Mark Systems had its IPO. It was one of the very few companies that in 1964 went public. I got a telegram saying the IPO went effective—that was the term we used in the trade—went effective at $8, opened at $24. It was like many of those young companies when they are being well received; the underwriters underpriced it so that the people who bought the stock in the initial offering paid $8, but the extra demand was such that it immediately starting trading at $24. Well, I figured if I had fifty thousand shares at $24, that was $1.2 million, so I had made a million bucks, which of course I hadn't necessarily made, because you couldn't sell it. [chuckling] But the bug bites pretty hard when that happens.

02-00:16:26
Hughes: Yes, that's pretty dramatic evidence.

02-00:16:30
Bancroft: So I bought a lot of drinks for everybody in Cabo San Lucas.

The sequel to that story is, a number of years later a lot of competition developed and Mark Systems was not holding its own. By this time the stock was up at $40 a share or so. I had joined Bessemer [Securities] by that time and was no longer close to Mark Systems. There were investment companies in the marketplace who would buy investment letter stock, which was stock that you couldn't sell except privately, and they in turn couldn't sell so they'd buy it at very steep discounts. I sold a big chunk of what I had to one of these funds at $30 a share when it was trading at $42, and I never looked back. Unfortunately, some of the people in the company, like so many people in so many companies down there in Silicon Valley, instead of selling a portion of their holdings when they could, they'd go to a bank and borrow money based on the stock's then value in the marketplace, and buy a boat or a new home or what have you. Eventually many of these stocks would go to hell in a hand basket when the companies didn't proper so well. The people who borrowed instead of selling would have to pay back the banks in *real* money, and they didn't have the collateral to do it—not unlike houses that today are worth less than the mortgage on them. So I saw at first hand what happened to some of the officers who went that route, which taught me a lifelong lesson: don't get overleveraged.

02-00:18:07
Hughes: Well, maybe people nowadays will listen to you [referring to the 2008-2010 recession with many homeowners under water].

02-00:18:13
Bancroft: Yes, well we've been through several ups and downs in the market since.

02-00:18:19
Hughes: Can we call Draper, Gaither & Anderson the first true venture capital firm?

02-00:18:36
Bancroft: I think it was that on the West Coast. American Research & Development, started by Doriot, was first on the East Coast. And there were various family investors—the Rockefellers were investing, the Phippses were, and later Jock Whitney, among others.

02-00:18:48
Hughes: Yes, but they were private individuals.

02-00:18:51
Bancroft: Yes, but I mean it's the same *kind* of business in that they are investing in early stages of start-up companies. But the true limited partnerships, where others would supply the money and the practitioners would be the general partners, I think DG&A was the first one on the West Coast, along with Davis and Rock, which started in 1961.

02-00:19:17
Hughes: In 1967, DG&A came to an end.

02-00:19:32
Bancroft: Right, and we gave all the assets back to the people who put money in.

02-00:19:37
Hughes: Were you worried?

02-00:19:41
Bancroft: Was I worried about it?

02-00:19:41
Hughes: Yes. You essentially didn't have a job.

02-00:19:45
Bancroft: That's fine. You know we're all optimists in the venture capital business. I think you've been told that by everybody you've interviewed. [laughter]

02-00:19:54
Hughes: Yes, that's true.

02-00:19:55
Bancroft: We were sure we were going to find a way to go. I was immediately offered two jobs, one with Eastman, Dillon. I then went east to see Bill Witter, who I'd stayed in touch with, and he said I ought to go and talk to a guy named

Jack [John M.] Kingsley, who was running Bessemer Securities, because they had a venture operation. So I did, and fortunately I was offered a job in both. But there was one big difference: at Eastman, Dillon I would have had to solve both ends of the equation, meaning I would have had to find the companies to invest in, and then I would have had to go to the local partners and get them to agree to invest. So I was both putting the deal together *and* finding the capital. Whereas, on the other hand, Bessemer had the money because they were a fairly well-funded private company from which investment funding was always available. So at Bessemer I would only have to solve one side of the question. I had to convince my boss at Bessemer, and/or the board of directors at Bessemer to make the investment. But if they decided to, the money was already in place. So I said to myself, gee, I'd a lot rather only have to solve half the equation than the whole equation. So I jumped at joining Bessemer and moved east.

02-00:21:23
Hughes: Did Bessemer Securities think of itself as doing risk capital investment?

02-00:21:38
Bancroft: Yes. Bessemer at the time I joined it was worth perhaps $400 million. And about 60 percent of it was in marketable securities like their own mutual fund. About 20 percent was in real estate, and the other 20 percent was in so-called private investments, half of which was in shipping in Norway and other things, and the other half, or about 10 percent, was in so-called high risk. When I joined to take over their venture capital, I was in charge of what we called the high-risk/high-return portfolio.

02-00:22:24
Hughes: So they were hiring you as what we would call today a venture capitalist?

02-00:22:33
Bancroft: They were hiring me to be the equivalent of what a general partner is in a venture capital partnership. They were supplying the money, and I was finding a place to put that segment of their money, which was the high-risk end of it.

02-00:22:52
Hughes: Corporations maybe a few decades earlier might have been in securities but would not have been in risk investment. Is that a new—service isn't quite the word—a new corporate operation?

02-00:23:19
Bancroft: A new activity. Yes, most of that for most corporations came along later. Remember, I said earlier the Rockefellers and the Phippses and Jock Whitney and AR&D were *among* the very few in the East who would undertake to do high-risk investments. Laurance Rockefeller started Eastern Airlines. Before that there was no high-risk capital available except from a few individuals who were wealthy.

02-00:23:55
Hughes: I get it. The question I was trying to ask is, banks, corporations, whatever, looked at what was happening on the West Coast and decided they should get into venture capital investment because it might pay off?

02-00:24:27
Bancroft: That came along in the seventies and early eighties when the insurance companies. For example, Reid Dennis out here was working for Fireman's Fund until he broke away. They were among the *few* corporations that were doing this kind of risk investment. In one of your interviews, somebody was talking about corporations like Intel and others setting up a venture capital arm. For the most part, their interest in doing it was to fund some developing research or products that they might be able to integrate into their own major line of activity.

02-00:25:03
Hughes: It was a different purpose, wasn't it?

02-00:25:06
Bancroft: Different purpose—which was very true. We were scared to death of having companies like that come in. I'm wearing my venture capital hat when I say that, because the venture capital part of an Intel or another company was very small, and nobody had—that wonderful expression that I've known all my life but you professed not to know until a year ago—their *skin in the game*.

02-00:25:29
Hughes: Yes, I had never heard it before.

02-00:25:30
Bancroft: Individuals at these venturing organizations had their own money invested and had everything to lose if the investment didn't work out. If you don't have something to lose, you don't pay the same attention that you do otherwise. So we never wanted to have large corporations with us in anything we did at Bessemer, largely for that reason. It all came to pass a little bit later on, particularly after ERISA [Employee Retirement Income Security Act] came in in the mid-to-late seventies.

02-00:25:58
Hughes: Yes, but you went to Bessemer in 1967, and you went to do venture capital. So the powers that be at Bessemer Securities hired you for what I'm imagining is a new activity.

02-00:26:18
Bancroft: They had been doing it; the Phippses had been doing it. Remember Bessemer is just an extension of the Phipps family.

02-00:26:28
Hughes: Oh, I see. I forgot that connection.

02-00:26:32
Bancroft: The Phippses and the Rockefellers and Jock Whitney.

02-00:26:33
Hughes: But they were unusual, right?

02-00:26:34
Bancroft: Very. How Draper, Gaither & Anderson really got started is because Fred Anderson was a very close friend of Jock Whitney's, and Jock Whitney operated a—

02-00:26:49
Hughes: So this was going through the family, so to speak.

02-00:26:52
Bancroft: Sure, exactly. That's really what it was.

02-00:26:54
Hughes: It's not a widespread phenomenon at all.

02-00:26:58
Bancroft: No. Reid Dennis had a slight offshoot because Fred [H.] Merrill, whom he was working for at Fireman's Fund, encouraged him to put a little of his own money into the little deals he was finding. That was very rare, very rare.

02-00:27:13
Hughes: And nobody worried about the ethics of that? I'm trying to think if there even is an ethical component. I guess you could argue the opposite: that if you're willing to put your own money in, it shows your good intentions.

02-00:27:30
Bancroft: Well, I can give you two good examples, I think, going directly to your point. In the case of Reid with Fred Merrill, the deal was if there was going to be less than a total of $50,000 going into something, Fireman's Fund wouldn't touch it, because the fund was so big that it couldn't bother itself to invest $50,000. If the investment was to be $250,000 or more, then Fireman's Fund wanted to take a look at it. If it's going to be less than that, you [Reid] take it.

In the case of Bessemer, the deal *I* made with them was look, I want to put my own money into everything that I'm bringing to you, and you've got to allow me to have a piece of it.

02-00:28:03
Hughes: That was your upfront negotiation?

02-00:28:08
Bancroft: Yes.

02-00:28:08
Hughes: This is what I need to come to Bessemer.

02-00:28:11
Bancroft: Right, and they said, "Well, why should we do this? Because you're taking money away from what we might be investing." In other words, "If we're going to put $400,000 into a company and you take $25,000 of it, that only leaves us $375,000." And my argument to them was, "Hey guys, wouldn't you rather have this little pipsqueak who's working for you putting up what is a lot of money to him and betting on the same thing that he's betting your money on? Shouldn't you feel safer doing that than if I said, 'Oh I'm going to put your money in, but I'm not going to put any in; I just want a salary?'"

02-00:28:47
Hughes: And they bought that argument?

02-00:28:47
Bancroft: They bought that.

02-00:28:47
Hughes: You now had your own personal nest egg, right?

02-00:29:04
Bancroft: From Mark Systems. I could put $25,000 apiece into the various things I recommended to Bessemer, and I did.

02-00:29:08
Hughes: Do you think the fact that you *were* putting some of your nest egg into it made a difference in how you went about investments?

02-00:29:23
Bancroft: Absolutely! If I hadn't been able to put my own money in, I wouldn't have been interested in doing it, for one.

02-00:29:33
Hughes: Yes, but you would have found another situation.

02-00:29:38
Bancroft: But I wasn't interested in that. I was interested by this time in developing companies, because I'd watched Mark Systems, and that's what I wanted to do. And my condition for doing it was that they cut me in. Now there were two stages here of people being cut in. In the first stage, like what I'm talking about, Bessemer permitted me to put my own money in alongside theirs. And I'd get X shares of stock, and they'd get Y shares. They didn't have the carried interest of a partnership—that developed through Draper, Gaither & Anderson, and Bessemer didn't do a partnership for many years, until after I left. They allowed people to put money in. The partnership says, in effect, you put up the money; we'll invest it, and we get 20 percent of the profits, you get 80 percent. That's another way of cutting *in* the people that are doing the work.

02-00:30:44
Hughes: So was your piece of the action then just the fact that you were allowed to invest?

02-00:30:50
Bancroft: That was all I had most of the time I was there.

02-00:30:50
Hughes: And did they put a ceiling on that?

02-00:30:54
Bancroft: No, because the size deals we were doing, I never could compete. [chuckling]

02-00:30:58
Hughes: So they didn't need to. [laughing]

02-00:31:00
Bancroft: No, they didn't need to. What eventually happened, the next stage at Bessemer was, instead of creating a partnership, they loaned me some money to invest in these deals, when we were doing more and more of them as time went on. So I was using their borrowed money. The arrangement I had with them was that at the end of the year we would see how Bessemer was doing, and if I hadn't made my goals for Bessemer, which was another whole issue, then the first thing they'd do was cut any bonus that they were going to give me, and if I had done worse they would cut my salary.

02-00:31:51
Hughes: There was quite a lot of pressure there?

02-00:31:53
Bancroft: Yes, and you know I thought that was fine, which is part of the reason I'm so damn mad at all these CEO compensations today. Their companies lose money, and they make millions. I was always tied to how well I did for Bessemer. The better I did for them, the better I did for myself, which seemed to me fair.

02-00:32:09
Hughes: Was that an unusual arrangement at that time?

02-00:32:11
Bancroft: Highly. And that evolved, after I retired, into setting up Bessemer Venture Partners as a true partnership in which Bessemer invested. Bessemer Venture Partners still operates out of Palo Alto. So it has evolved like most of the other limited partnerships now.

02-00:32:27
Hughes: What would you call the original arrangement at Bessemer?

02-00:32:58
Bancroft: Well, I was allowed to invest with my own money. And if they made money, I made money.

02-00:33:05
Hughes: Yes, but they were going to dock you if you didn't do well.

02-00:33:08
Bancroft: No, not at that point. They didn't lend me money until I had been there a few years.

02-00:33:07
Hughes: Yes, you said that.

02-00:33:15
Bancroft: My first few years, stage one, was I co-invested with them in everything I put them into. If they made ten times their money, I made ten times on my money.

2-00:33:24
Hughes: Why did venture capital go the partnership route?

02-00:33:30
Bancroft: The reason it did is because more and more money was being required to go into companies as the industry grew, and the general partners didn't have that kind of money themselves.

02-00:33:42
Hughes: I see.

02-00:33:42
Bancroft: The partnership concept grew so that they could raise many millions of dollars, and the general partners would get a fee of 1 percent or 1.5 percent. It finally got up to 2 or 2.5 of the money you put in, just to operate, to open the doors in the morning. And if a company was bought for $1 million and sold for $3 million, that meant there was a $2 million profit, and 20 percent of that profit would go to the general partners, and the other 80 percent would go to the limited partners. That's the traditional way that these things have developed, and that's good except that, as with anything, people got greedy, and they began raising more and more money as the industry grew. They began demanding more and more fees. And it finally evolved, unfortunately, to the point where the venture capital partnerships were investing so much money that with the fees they were getting, the 1 percent to 2.5 percent of the assets, that they were making more money that way than they were on the profits that were being made when the investments were sold. It meant that they were really starting to lose sight of really making money on the companies they were investing in. Which is why Arthur Rock and others are saying the world has kind of gone topsy-turvy today—I don't mean today, but up until recently.

02-00:35:15
Hughes: If I'm understanding you right, venture capitalists operating in this new way were making enough on the fees so that they didn't have to worry quite as much about the success of the company. *Your* generation, almost everybody,

puts a lot of emphasis on venture capitalists not just investing money—it's also building companies.

02-00:35:44
Bancroft: Right.

02-00:35:48
Hughes: Doesn't a lavish fee structure discourage people from helping to manage the company?

02-00:36:02
Bancroft: What happens is you get bigger and bigger and make more and more investments. You don't have the time or necessarily the degree of interest in following progress. Because if you're getting a big fee each year irrespective of what happens—

02-00:36:17
Hughes: Well, that's what I mean.

02-00:36:17
Bancroft: But you're getting 20 percent of the profits. If there are no profits, you get no profits. But that of course works totally against the interests, or should, of the limited partners who put up the money.

02-00:36:28
Hughes: Is that problem fundamental to the bubble bursting?

02-00:36:35
Bancroft: I think it plays a very big part in it. Plus the fact that the pendulum always goes too far in one direction or another, and things go in fads. The market will go crazy for one kind of investment for a while, and then nobody wants it, and it'll go back. There are always these swings.

02-00:36:51
Hughes: This is skipping up to the present time but that's where the conversation took us, at least in my mind—

02-00:37:03
Bancroft: You're the leader. [laughter]

02-00:37:06
Hughes: Do you think that there is a silver lining to the recession and that people will start examining behavior?

02-00:37:20
Bancroft: Absolutely, there always has been before, and there is right now. I was listening the other night down at the Western Association of Venture Capitalists meeting that now there are deals begging. Prices to buy have come way down because entrepreneurs can't raise money because the venture capitalists don't have any liquidity. Venturers are now beginning to see a better climate to invest than they have in a long time. So it always goes that

way. When we get talking about the NVCA [National Venture Capital Association], I'm going to trace for you the period from '69 through the mid-seventies to the end of the '70s, and we ought to do that in another session. The statistics are fascinating as to what happened and how the industry almost disappeared and why it came back.

02-00:38:09
Hughes: Yes, I want to hear that.

I read that Bessemer Securities had something called the anti-portfolio. Does that mean anything to you?

02-00:39:09
Bancroft: No. Within Bessemer Venture Partners they used to carve out some money that they could invest in public companies that had become orphans in the market. I've never heard the term that you just referred to.

After some period of time I changed jobs, and you probably don't want to go into that because that's the latter part of my life where I became president of Bessemer [1976-1988]. But there you have a different focus. As I said, 10 percent or so of the assets were in high-risk investments, and then there was real estate that produced ordinary income. The main body of money was invested in marketable securities. Bessemer is owned by a number of trusts, the beneficiaries of whom are members of the Phipps family. The way it worked was that the venture capital or high-risk portfolio was supposed to generate the greatest compound rate of return. That's what it's meant to be, and if it doesn't do it you ought to get fired, and if it does you get a pat on the popo. The real estate created a lot of the income because they were mostly in it for income, and you got dividends from the marketable securities portfolio. The older members of the Phipps family get the dividends each year. Whatever capital gains are made is reinvested so it will grow for future generations. So that was the operating motif of Bessemer.

And you know, all during the time that I was there in charge of the high-risk investments, we were generating a return of around 30 percent a year on that part of the portfolio, which was a much higher rate of return than you get on real estate or on marketable securities. The challenge I always was given was that every year I ought to be able to increase—this is after I was president—the net income of Bessemer which is paid out to the beneficiaries by a rate greater than inflation. And every year I should increase the underlying value of the stock at a rate greater than the growth in the S&P 500. Those were the bogeys that I had.

02-00:41:53
Hughes: You made those the criteria?

02-00:41:58
Bancroft: Well, I agreed to them when they made me president and set me up.

02-00:41:59
Hughes: So they were setting them and you were agreeing to them?

02-00:41:58
Bancroft: Yes, we were negotiating it. But that was my bogey, and that was how I was basically compensated, or not. I was telling you earlier about how they could cut into my bonuses and salary.

02-00:42:14
Hughes: Did that ever happen?

02-00:42:17
Bancroft: No, actually that was one of the reasons I retired when I did as president, in 1988, because I'd had eleven or twelve straight years of its working well, and I thought gee, I'm not sure I can keep this up forever. [laughter]

02-00:42:31
Hughes: Get out while the getting's good.

02-00:42:32
Bancroft: Besides I was getting old enough. I really by this time wanted to work for myself rather than work for somebody else. So that's why I stepped down.

02-00:42:39
Hughes: How was it to shift from Draper, Gaither & Anderson to Bessemer? You were trying to adapt, I would think, to a whole tradition of investment through the Phipps family. There must have been a long history of expectations.

02-00:43:16
Bancroft: Yes, well, they were a corporation, Bessemer Securities Corporation. The president was a fellow named Jack Kingsley, and I worked directly for him.

02-00:43:24
Hughes: So the Phipps family was in the background?

02-00:43:27
Bancroft: They were the directors, and behind them the shareholders. So we had a number of Phippses on the board with whom I interacted. The chairman of the board was always a member of the Phipps family, but they always had an outsider as president. Henry Phipps, when he set it up in the beginning, said he wanted to have this thing set up to run for the benefit of his heirs. They should always supervise what was going on with their money, but that it was basically better to have a stranger running the company because it's a lot easier to fire a stranger than it is to fire a cousin, which is absolutely right.

02-00:44:07
Hughes: And maybe a little distance is good too.

02-00:44:07
Bancroft: Yes. So they had a long history. Jack Kingsley was not a member of the family. I worked for him until he retired, and then for his successor, Tom

Keesee, for a couple of years, and then they made me president. So then I had the venture capital group working for me the last twelve years I was there.

02-00:44:29
Hughes: Well, you certainly moved up the ladder. Was it more than year after year you were bringing in good money? What were they looking at?

02-00:44:48
Bancroft: Why did they make me president?

02-00:44:48
Hughes: Yes.

02-00:44:50
Bancroft: The guy who had been made president, my immediate predecessor, was not working out to their satisfaction. They had offered me the job after Jack Kingsley's retirement, but I said I really didn't want it because I was very happy running the venture capital end of things. They then said two years later, when things weren't working out with Tom, "Well, if you don't want it, we're going to go on the outside and hire somebody to come in." At that point, I had been there from 1967 through until 1976, and I had several people working for me in the venture capital end; I had my entire net worth invested in that part of the firm. I was frankly scared to death that if they brought somebody in from the outside, he might not understand the culture, and he might want to do something on this venture capital end that I didn't want tinkered with. So I said okay, I better take it. So that's why I accepted the job and became president.

02-00:45:56
Hughes: I see. Now you were into yet a whole new realm of endeavor in a sense. It's the same company, yes, but you're now president, so how did you get up to speed?

02-00:46:17
Bancroft: Well, I knew a lot about marketable securities because I had been in the securities business on and off all my life. I didn't know much about real estate, but I thought there was a very good man there who could run the real estate, and a guy that was not so good that *was* running it at the time. That was why my predecessor ended up retiring. So as soon as I got in, I got rid of the guy who was running the real estate and put in the gent I thought could do a good job, and he did a very good job. So you basically delegate.

02-00:46:48
Hughes: Do you do that easily—fire people?

02-00:46:55
Bancroft: I never fire people easily; that's been a very difficult thing to do. But delegating I don't mind. To me there's a difference between delegating and abdicating. If you delegate, you want to keep an eye on what they're doing and stay in close touch. If you abdicate, you say okay it's your baby, you run

it, and I never believe in abdicating. But see, I became president during the Carter years, and I thought Carter micromanaged the whole bloody country practically to a standstill, which we'll talk about when we get into this other—

02-00:47:26
Hughes: Yes, but he came up with some policies that you must have liked.

02-00:47:35
Bancroft: Congress did; he didn't.

02-00:47:35
Hughes: Yes, well, true.

02-00:47:39
Bancroft: Anyway, I didn't find it difficult to delegate, and I had to, unfortunately, get rid of a number of people who had started companies that we invested in because they couldn't grow with the companies. My favorite story about that is: you start with a string quartet, and the lead violinist is the leader, and you play wonderful music. But as you grow and develop an orchestra, you've got to bring in other instruments and other help, and the leader of the string quartet often cannot grow into becoming your conductor. At that stage of the game you've got to find a conductor or else, to use my favorite expression, you end up with cacophony instead of a symphony.

02-00:48:30
Hughes: But it seems to me that critics could have said that about Pete Bancroft.

02-00:48:36
Bancroft: Sure.

02-00:48:37
Hughes: Because up until now, you've had responsible positions, but they've been pretty well defined. And now you were head of the show.

02-00:48:48
Bancroft: Well, if it hadn't worked, I'm sure they would've gotten rid of me.

02-00:48:51
Hughes: Yes, but I imagine you also had to learn some new skills. It was not enough to know venture capital now. So what happened? How did you do it?

02-00:49:09
Bancroft: I learned, I guess I learned, because it worked! [laughter] If you're capable of growing and willing to grow and eager to grow, you do. And I had a downside to protect, which was I had Bill [William T.] Burgin and Neill [H.] Brownstein running our venture capital at that point. And I had another separate venture capital operation in Brad Mills, the person that I originally went to Honolulu with to do the study way back in Eberstadt days. They were being provided money by Bessemer for new investments, into which I was also investing, and I wanted to be sure that they continued to keep being

provided the money. I knew that I understood the venture capital field because I had been in it a long time, and the other was frankly easier, I thought. We had good people running marketable securities, and I knew we had a good man able to run the real estate, so it was just a question—

02-00:50:06
Hughes: So you delegated.

02-00:50:13
Bancroft: Yes, absolutely.

02-00:50:15
Hughes: Do you think you were breathing down the necks of the people running the venture capital operation because that had been your baby?

02-00:50:23
Bancroft: The question is did *they* think so—and the answer is no. Because at one stage of the game after I became president, they said, "You know, something might happen to you, and we may be better off forming a partnership, a limited partnership, like all the rest of these folks have, because if something happens to you and your successor doesn't like us, Bessemer might not go on investing with us." So I said, "You've got a point." I went to Dinny [Ogden Mills] Phipps, the chairman, and I said, "These guys would like to consider setting up a partnership so that there are outside investors besides Bessemer." He said, after a lot of thought, "Okay, if they really want to, we'll go that way." So I went back to them and said, "Guys, okay, if you want to go out and find outsiders to invest, and if you think they'll be as easy to work with as Bessemer, we're willing to go that way." And they thought about it and came back and said, "No, we don't want to".

02-00:51:24
Hughes: Oh really.

02-00:51:25
Bancroft: Later on they formed a partnership after I retired.

02-00:51:28
Hughes: Why did they say no?

02-00:51:38
Bancroft: Well, when they were told they could, they were empowered to be able to. The reason they then didn't is because they were perfectly happy with the arrangement with Bessemer, because if they had good investments to make, I was always able to get the money from the board *for* them. Now, had they made bad investments, I wouldn't have been able to get more money from the board, and had we done enough of those, the board would have had my head. Very simple.

02-00:52:06
Hughes: You were there twelve years—

02-00:52:12
Bancroft: Yes, as president. I actually joined Bessemer in ’67, and I retired as president in 1988 and stayed on until 1992.

02-00:52:19
Hughes: Oh right, it’s longer than twelve, isn’t it?

02-00:52:22
Bancroft: Yes. I had twenty-five years with them.

Interview #2: April 7, 2010
Begin Audio File 3 04-07-2010.mp3

03-00:00:00
Hughes: It’s the second interview with Paul Bancroft III, better known as Pete. And it is April 7, 2010. We’re going to focus this time on venture capital per se, having spent the first interview on your previous career. I’ll start with the classic question which is, what do you consider to be the most important aspect to look at when you are considering a possible investment in a company?

03-00:00:57
Bancroft: Oh, I think really much the same as everybody else: the people and the quality of the people and the qualifications of the people are really the thing that matters the most. Like almost everybody else in the field in the early days and still today, I spend a *lot* of time with the entrepreneur, or would-be entrepreneur, who comes in seeking investment—trying to learn what makes him tick, trying to learn about his ethics and his drive and his motivation and his abilities and his qualifications. And, almost as important, has he got a team? And if he does, how do they blend and mesh with him?

When it all comes together, then you look at the business plan. Actually to be perfectly honest, you usually look at the business plan first to find out whether it makes any sense or not. Somebody who writes a business plan that has him doing $1 million in sales the first year and $100 million the second year with a 50 percent profit margin clearly has never run a business and isn’t qualified to run a business. So if that’s the kind of business plan that we get, why we usually say goodbye to them before even going on. But assuming the business plan makes sense, then the people are terribly important.

The other thing is the size of the potential market. If you have somebody who’s going to spend years designing the finest gold-plated widget that ever happened, but when it is designed and ready to go there’s only a market for ten or fifteen of them, clearly that isn’t something that any venturing company ought to back. So I think in the early days you needed to be reasonably certain that the market was at least $100 million potentially and hopefully several hundred million.

And then when you get through the people and the market and the business plan, I guess the next thing is you check out the technology as best we could. Like many of my fellows in the field, I was not a technologist, so we'd have to go find somebody to— As I used to like to say, has this person reinvented Kleenex? Or has he really got something new? And then you want to check the potential competition. Who else is out there? Is he in the forefront? If there are already three companies engaged in this technology, you probably don't want to back a fourth one; it's better to have the first or the second in the field.

You put all of those things together and spend as much time getting to know the person as you can, and eventually go home and sleep on what you've learned. I used to wake up at four o'clock in the morning, and something inside would either say okay let's go with this, or no, I don't think so; we'd better turn it down. Eventually the decision is made based on one's instinct, and of course what is your instinct except the sum total of all your experiences in your life. If you make a bum investment, hopefully you learn and your instinct gets better the next time around.

03-00:04:30
Hughes: Did you get better over time?

03-00:04:34
Bancroft: Well, I hope so; we had a pretty good record.

03-00:04:36
Hughes: Were you flooded with business plans, some of which you probably didn't get past the first page?

03-00:04:52
Bancroft: Yes, that all depended. Back in the days when I was really doing this in the sixties and seventies when I was at Bessemer, we would probably look at three hundred proposals a year, and we might invest in three or four.

03-00:05:11
Hughes: Really.

03-00:05:12
Bancroft: Yes, we had a pretty good choice, and I think that's important because I've known some individuals who— Somebody comes along and sells them on a concept, and if it's the only one they've seen, they're likely to think it's great and go into it, and they have nothing to compare it with. It's always very important to be able to check out this proposal against some other. You don't ever really make an investment unless you're convinced going in that the guy has a great chance of making it, or that his company or team does. But on the other hand, it was certainly my experience in the early days, and probably still is, that out of every ten investments you make, there are going to be two or three that go belly up. And there are going to be a number in the middle, kind of the living dead; you might make a little; you might lose a little eventually.

03-00:06:11
Hughes: Is that pretty true across the board?

03-00:06:13
Bancroft: I think so. Some people, I think Reid Dennis probably had, at least he believes he had, a better record of winners versus failures. But I think it's generally true that out of every ten investments you make, there'll be two or three that will do really well, and of those, one or maybe two will make many times on your money—enough to make up for the losses you incur on the other ones. But you think they're all going to win when you go in, or else you wouldn't go in.

03-00:06:44
Hughes: Is there any common denominator, in your experience, of what goes wrong? Is there one piece that is more likely to go wrong than another?

03-00:07:04
Bancroft: Oh I think by and large it will be the failure of the founder or chief executive to be able to deliver what he had thought he was going to be able to deliver. Another hurdle comes several years downstream. I have always likened founding a company a little bit to a string quartet where your founder might be the lead violinist, and he can operate and make very wonderful music, but only with three other people. As the music grows, or as a company grows, and you need, in the case of a company, additional financial help, manufacturing help, personnel help, other things, you've got to spread out and hire more people. At that stage of the game, the leader of the company has got to become more like a symphony conductor or an orchestra conductor than like the leader of a string quartet. And unfortunately a number of them don't make it. That is usually the next most critical thing that comes along in the early stages of building a company.

One would hope, and I always hoped, as did all of my compatriots, that if the founder was *not* going to be able to make it as a conductor, you could convince him to go back to the laboratory and invent the next generation of product, stay with the company, stay on as chairman, but bring somebody in with a business background to run it. And sometimes we'd be successful and a lot of the time we wouldn't. That was always very sad because the founders by this time would get mad and think that they knew how to take the company to the next level, whether their board believed it or not. As often as not, they'd leave in a huff and sell their stock prematurely, which always was a shame. And I think there's not a one of us that didn't feel that one of the very few *bad* aspects of our job was when we had to get rid of a guy we'd backed. Because you get to like them all; you get very close to these people.

03-00:09:27
Hughes: And it was their idea in most cases too. It was literally their baby.

03-00:09:32
Bancroft: Absolutely.

03-00:09:35
Hughes: Do you have any clue what percentage of companies that you invested in over time in which a founder had to be forced out or moved to a different position in the company?

03-00:09:53
Bancroft: I think in a great many of them either that happens, or if you can't quite work that, you merge the company into a larger company so that they get absorbed. The main thing, eventually, from the viewpoint of *my* board of directors at Bessemer was: how was the portfolio performing? During the time that I was there—and it's been going on since for the most part—we would tend to average in the venture capital portfolio; longer term, a rate of return of about 30 percent compounded per year. That was a lot better than the rest of Bessemer did. But remember, only 10 percent of Bessemer was in venture capital; the rest of it was in marketable securities and real estate with a lower rate of return but more safety. We were the high-risk portfolio, and we were expected to take large risks and hopefully have large returns. The measurement is not on any one or two companies; it's really on how the portfolio does over time.

03-00:11:02
Hughes: Pete, were you alone pretty much making the decisions about which companies you would consider?

03-00:11:19
Bancroft: Well, in my first year or two there was just me. And then after that I was fortunate enough to hire two people, Bill Burgin and Neill Brownstein, to come in, who were each thirteen years younger than I. But we began building up a team that way.

03-00:11:36
Hughes: And they'd had financial background?

03-00:11:38
Bancroft: They had had, in each case, a financial background. It really was a wonderful experience because I convinced my boss, who was at that point president of Bessemer, that I really needed some help. And so I interviewed a number of people, including both Neill and Bill; they had totally different backgrounds. Neill was working for Ned [Edgar Francis] Heizer, [Jr.] out in Chicago, and Bill was with one of the banks, a bank analyst in Boston. I couldn't make up my mind which one I wanted so I went to Jack Kingsley, who was my boss, and said, "Hey boss, could you interview both these guys and help me decide?" So he did, and about a week later I got together with him, and I said, "Well, what'd you think?" He said, "I think you ought to hire them both!" [laughter] I did, and they worked together in the same office for a while and then in different offices. Eventually Bill stayed East, and Neill came out to California. But really that was the early make-up of our venture activities. And there was another fellow named Bob [Robert H.] Buescher, who had

been with Fairchild Camera and who was a big help in terms of helping us stay organized. He was sort of our administrative partner, if you will.

03-00:13:02
Hughes: Were these four people, you included, coming at things from a slightly different perspective? How uniform was your approach?

03-00:13:12
Bancroft: Yes, we'd interview the people, talk to them. Eventually, in the early stages when I was still running just the venture capital, I would make a decision that I wanted to do it, do the write-up, and take it to my boss who was president of Bessemer. If he approved, I would take it to the monthly board meetings of Bessemer as a whole. I always thought it was funny because we were talking about very small investments by their standards, of several hundred thousand dollars per investment, and they were used to dealing with a *lot* of money in the marketable securities. But of course everybody got intrigued with this high-tech stuff that we were doing. Often in our monthly board meetings I would find myself spending more time than was really deserved for the amount of money I was looking for. But everybody kind of was interested in this high-risk end of the business.

03-00:14:08
Hughes: Were you raising a fund?

03-00:14:12
Bancroft: No, I did not do a fund in the historical sense. Bessemer had a big pool of money. At the time I joined them and became president, they had about $400 million and—

03-00:14:26
Hughes: That was set aside for risk investment?

03-00:14:28
Bancroft: No, about 10 percent of that was set aside.

3-00:14:31
Hughes: I was going to say, that's a lot of money.

03-00:14:33
Bancroft: No. They had a pool of revolving funds. They were cashing out of things and going into things all the time. And so I would just draw on that pool. If the board approved the investment, then I'd just draw on the pool for funding.

03-00:14:50
Hughes: Were you doing pretty well from the very get-go?

03-00:15:05
Bancroft: Yes, I had pretty good luck from the beginning.

03-00:15:08
Hughes: Bessemer could have done without a venture capital branch, could it not?

03-00:15:16
Bancroft: It certainly could.

03-00:15:17
Hughes: Had they been doing any of that before you appeared on the scene?

03-00:15:21
Bancroft: They had had one person in there doing it in a modest sort of way before I got there. There was a fellow named Peter Brooke who ended up going up to Boston and joining Tucker, Anthony. Charlie [Charles L.] Lea, [Jr.], who ended up being a very close friend, was at Bessemer when I first ran into Bessemer. I was trying to sell Bessemer on investing in a company that I was in out here in Draper, Gaither & Anderson. Charlie Lea didn't like the company; he thought it was a turkey, but we became very close friends and have always stayed that way.

03-00:15:55
Hughes: Was Kingsley the one to convince that venture capital should be an ongoing aspect of Bessemer?

03-00:16:09
Bancroft: Well, yes, broadly, but really on a deal-by-deal basis that we ought to be going into this one or not going in. He was very good. I only recall being turned down once for an investment that I went to the board with, and that was more for political reasons than for any other reasons. So I really had a very easy time with it.

03-00:16:36
Hughes: I understand that in the classic partnership form of venture capital all it takes is one general partner to nix a deal and it doesn't happen. Is that indeed true?

03-00:16:56
Bancroft: I think that usually is true. You see, after I left, Neill and Bill did the primary venturing investments. And then after I retired in 1992, they eventually formed a partnership, and Bessemer Venture Partners has grown and is run now very much like everybody else. They have an office down here in Palo Alto, and I think they still have one in the East. I'm not really very close to them anymore. But it's run more like a traditional partnership now.

03-00:17:41
Hughes: It sounds to me before that happened, while you were still active there, that you had a lot of power in your hands.

03-00:17:51
Bancroft: Well, in that particular area our board was either going to believe in the things that I wanted to invest in or not, and if they hadn't, presumably, they would have gotten rid of me.

03-00:18:01
Hughes: Was that always in the back of your mind? I mean, that could be a great anxiety-maker.

03-00:18:13
Bancroft: Well, I was always, number one, optimistic, and number two, I was putting what little money I had in side by side with them. So if I didn't think it would work, I wouldn't have volunteered to put my own money up, and if I hadn't done that, I wouldn't have asked them to go in.

03-00:18:29
Hughes: This is a terribly general question, but what can you say about the personal characteristics that go into the average, if there is such a thing, venture capitalist? Optimism—you've certainly mentioned that several times.

03-00:19:01
Bancroft: You've got to be optimistic, and you've got to enjoy what you're doing so when you wake up in the morning and look in the mirror, you're smiling and looking forward to the day, which is part of being optimistic. I think having a real interest in listening to what people have to say—you've got to be a good listener. I find if the venture capitalist does all the talking, he doesn't learn very much about the people he's thinking about investing in. Very important to listen and very important to compare the person you're talking to with the other people you see and judge who looks and feels like they have the makings of making a real company. Eventually it becomes instinct if you do it often enough.

03-00:19:56
Hughes: Yes, instinct, intuition.

03-00:20:00
Bancroft: I lump the two together, synonymously

03-00:20:04
Hughes: You spoke of waking up at four o'clock in the morning and deciding, this deal seems to me to work.

03-00:20:32
Bancroft: Yes, what you're doing is distilling the sum total of what you've learned about the company and the people. You've gotten to the point where you don't think there is a whole lot more you *can* learn, and you might as well make up your mind: are you going to make the investment or aren't you?

03-00:20:44
Hughes: The term 'due diligence' that some people bandy around, are there partnerships that put heavy emphasis on that?

03-00:20:55
Bancroft: Oh I think everybody does, however you want to call it. Everything I've said to you about what I tried to do in looking at a company is, in fact, either doing

due diligence or vetting it, to use the term of art. But that really is what you do. You get to know as much as you can about what they want to do and eventually decide whether you want to make a bet on them or don't want to make a bet on them.

03-00:21:20
Hughes: Do you think everybody uses personal assessment to the degree that you have?

03-00:21:36
Bancroft: Well, from what I'm told by my friends, yes. [laughter]

03-00:21:43
Hughes: Don Valentine talks about market, market, market. I know that there are other things that go into it.

03-00:22:09
Bancroft: Absolutely.

03-00:22:10
Hughes: It's obvious that from person to person there's going to be a slightly different weighting of what he or she pays attention to.

03-00:22:23
Bancroft: Of course. I don't know Don at all well, but from what I have gathered, his main focus *was* on the market, and his main focus has been *if* the company can't make it, less hesitancy to change managements more quickly than some of us. For others of us, the market *is* very important because if you can't perceive it as being big enough to build a decent size or large company then you shouldn't go in. Reid Dennis was very people oriented; Don Valentine is more market oriented. So we each come from where we come from.

03-00:23:12
Hughes: The other thing Don Valentine emphasized, and I don't want to make him the comparison all the time, but he was so strong about it, is the importance of operating experience, which of course he had had, and I don't believe you had. Am I right in that?

03-00:23:32
Bancroft: No, I did not have any myself.

03-00:23:34
Hughes: Do you feel that ever held you back?

03-00:23:39
Bancroft: I often felt that had I worked in a manufacturing or another kind of company, it would have been good. I also felt that had I gotten a master's degree in business administration it would have been good. But I didn't, and it worked out okay.

03-00:23:55
Hughes: I would say so.

03-00:24:02
Bancroft: In the case of Measurex—it was one of my very early investments after I got to Bessemer; as a matter of fact, it was my first one—what I really liked was that Dave [David A.] Bossen had been the general manager of at that point their only competitor, a company called Industrial Nucleonics back in Ohio. He had left it and had come out to California looking for a company that he could run. So he had the experience of having operated a company. He ran into Bill Draper out here, and Bill was the first one to get to know him, and then Bill introduced him to me.

Dave outlined for me on the back of a napkin how he was going to build his company. We talked about the people, and he had a wonderful sales manager, Chuck Worthley, who had been with him at Industrial Nucleonics coming along. He had a guy named Gene Anderson who was technically very bright, who had been with a company out here. And he had a fellow named Erik [B.] Dahlin who had been with IBM; he was a Swede and a brilliant technologist who understood clearly and had worked in the technology that Dave wanted to use. So I felt he had, really, the makings of a very good team. But in order to form the company, he needed $1.3 million. The group out here, the people he had been interviewing at that stage of the game in late 1967 and the beginning of 1968, they were used to making $25,000 and $50,000 investments and pooling them together, and they didn't have the kind of money to reach into doing something that large. So Dave came back to see me, and I thought it made a great deal of sense. We agreed to put in $400,000, which was the key investment to get the rest to come together.

03-00:25:57
Hughes: Yes, and that was a lot for that era, wasn't it?

03-00:26:06
Bancroft: That was a lot, *a lot* for that era. But Bessemer had slightly bigger pockets than the individuals in the group in California. It turned out to be a wonderful investment because Dave was one of the people who was able to ride through the transition and build Measurex to being really a very substantial, good company, and didn't merge it out until he was ready to retire. He was one of the very few who could go from the beginning all the way through. Arthur [Rock] talked about that rarity. Intel was another one. You had Bob [Robert N.] Noyce and Gordon [E.] Moore and the rest of them in there. They had a wonderful team of people. The CEO would change as time went along to bring in people who had more expertise in one area of the business than another, and Intel has become a magnificent company.

03-00:27:01
Hughes: Quite a collection of talent there at the beginning.

03-00:27:09
Bancroft: Yes, but when you're in the beginning, you don't know what's going to happen.

03-00:27:14
Hughes: You didn't know the company would succeed, but you could tell something from Noyce and Moore's track record.

03-00:27:26
Bancroft: They had done it at Fairchild Semiconductor before.

03-00:27:28
Hughes: Exactly.

03-00:27:28
Bancroft: Well, as Arthur said in his interview—it's the only investment he's ever made where he was 100 percent sure from day one that it was going to be winner.

03-00:27:37
Hughes: And wasn't it just a handshake sort of thing?

03-00:27:40
Bancroft: Oh yes, sure! I was trying to get in on that action, but no way. Arthur knew them all very, very well, and he had that one all sewn up. So I got a little piece of it, but not very much. [telephone interruption]

03-00:28:23
Bancroft: One other thing I should say that's interesting: venture capitalists early on and probably still today have a different opinion about another thing. There are some who believe that if you invest in a very bright group of people, and if their first set of products doesn't work, they're smart enough and good enough that they can change up and develop a whole new line of products and be successful as a company. Whereas there are others who look more to the product and the market, and I think Don [Valentine] would be in that category.

03-00:29:02
Hughes: Would you be willing to go the first way?

03-00:29:17
Bancroft: Yes, depending on the people and the reason. I mean that's another thing about California, which we can get to when we talk about the difference between California and elsewhere. People are willing to dare greatly out here. To make a mistake is a learning experience, not a death knell, which it is in many countries and many other parts of our own country. So making a mistake *can* be a learning experience, depending on whether the people are learning or not.

03-00:29:50
Hughes: You mentioned that you had to go elsewhere to get an assessment of any particular technology. Did that mean that over time you had quite an array of experts that you could call upon?

03-00:30:11
Bancroft: Yes. I would take them on as a consultant for a few days to analyze what these people were doing and then to give an opinion.

03-00:30:18
Hughes: So your lack of specific technological background in A, B, C didn't become a liability?

03-00:30:29
Bancroft: Well, I think if I'd had an engineering background like Reid [Dennis] had, it would have been better. But I didn't, and so I sought to make up for it by going out and finding people who could evaluate whether this technology was good or not.

03-00:30:48
Hughes: I assume you mainly invested in high-tech companies, right?

03-00:31:02
Bancroft: That's really what we're talking about out here. We did some other things that weren't high tech, but most of them out here were that.

03-00:31:02
Hughes: So these were techie types that made pitches to you and I guess your board?

03-00:31:20
Bancroft: No, not the board.

03-00:31:22
Hughes: Just you?

03-00:31:21
Bancroft: Yes, it never got to the board except for my write-up after I'd decided to do it, and I would go in to them for an approval or a disapproval.

03-00:31:28
Hughes: So that's different, isn't it, than the way it goes with most venture capital partnerships?

03-00:31:34
Bancroft: Yes, because we didn't have a partnership. To the extent that Neill and Bill and I would thrash things out, we'd talk to each other and help each other decide.

03-00:31:45
Hughes: I imagine that even a business plan got pretty technical, did it not?

03-00:32:00
Bancroft: It could, and if I couldn't understand it, I would try to get them to explain it to me in English. [chuckling]

03-00:32:01
Hughes: Yes, they had to be able to translate.

03-00:32:12
Bancroft: Yes. To be successful in business, you have to be able to communicate, which means reading and writing and talking in the English language coherently and being able to convince people. You know, you've got to be a salesman of whatever you're doing in order to sell it.

03-00:32:29
Hughes: I understand that that's become kind of an art, that there are seminars and tutorials on how one presents a business plan, that sort of thing. But I'm thinking that back in the sixties it must have been much more ad-lib.

03-00:32:55
Bancroft: We were going by the seat of our pants. I participated in a panel up at Yale at one point, and one of the questions from one of the students was: what courses or course should I take at Yale to best prepare me to be a venture capitalist? And I said, "You want to take Daily Themes and English so that you can learn to read, write, and talk in the English language, because if you can't sell yourself and communicate, you'll never get anywhere." And that's far more important than the technology—the technology comes later.

03-00:33:28
Hughes: Because you can get that other ways?

03-00:33:30
Bancroft: You can pick it up from other people.

03-00:33:30
Hughes: That probably surprised the person asking the question.

03-00:33:35
Bancroft: It did. The dean of the college came up to me afterwards and said, "Thank you, because we fancy ourselves as being a liberal arts university. All of these kids want to get too technical too fast, and we really want them to get their basics before they do that."

03-00:33:54
Hughes: Well, I was going to ask you, and maybe you've already answered it by the very fact that you were not a partnership. But is there any other way that you look upon how you operated that was different than that of your colleagues?

03-00:34:17
Bancroft: Not really in terms of the investment process and making the investments. Instead of the investments being in a partnership, they were in one corner of Bessemer's asset pool. But our modus operandi was really quite the same as

with the other partnerships. What did develop over time, and I remember helping early on with some of my confreres in New York, was getting them set up to have an appropriate carried interest, meaning to get a percentage of the profits you make for yourself and your group. Early on, well, as I told you before, in Bessemer they didn't have that, and I had to convince them to let me invest.

03-00:35:08
Hughes: Yes, right.

03-00:35:08
Bancroft: That's how I did it. But over time, it eventually developed into a partnership form whereby the money that would go in to be invested would provide to the general partners of the partnership a percentage interest in the realized profits, which is the way all these partnerships really grew. Draper, Gaither & Anderson, as I think I said last time, was one of the early ones out here. That format was designed by a lawyer named Ed Huddleson at Cooley Godward in the early days, and that whole concept of the way partnerships work still pretty much continues. It's gotten embellished over time.

03-00:35:53
Hughes: I read that the few firms that have a 30 percent carry sometimes cause dissent amongst their limited partners. Did you ever run up against that?

03-00:36:16
Bancroft: Well, I used to hear about it periodically. It used to be that you would have an annual fee of 1, 1.5, or maybe 2 percent of the money invested just to pay your bills. And you would get 15 to 20 percent of the profits. Then over a period of time it changed, and they began to get from 2 to 2.5 and sometimes up to 3 percent of the assets as an annual fee, and 20 to 25, up to 30 percent of the realized profits. Most of them that did that, that I know anything about, didn't stay that way for very long, particularly after the market started tanking, which we'll talk about when we get to the NVCA. But I think the standard is still pretty much 2 and 20: two percent of the money going to pay for overhead annually, plus 20 percent of the profits if there are any.

03-00:37:16
Hughes: Which when you have huge fund is quite substantial. [chuckling]

03-00:37:23
Bancroft: Well, that was how things unfortunately changed, because in the early days we were investing pretty much our own money and money of the people for whom we were directly working, like the Phippses and the Rockefellers and Jock Whitney's company—and Arthur [Rock] out here, and Draper, Gaither & Anderson. But eventually, as the industry grew, a lot of insurance companies and funds were investing rather larger amounts, and the venture capitalists at that point were suddenly finding that they were managing more and more and more money, and those 2 and 2.5 percent fees became pretty big money. Eventually they got to the point, I think, of going too far. The

pendulum always goes too far. They were all trying to raise more money so they'd have bigger funds to manage, which of course means that you can't be as selective in what you're putting the money into. Therefore the quality of the deals was going down, and the corollary of that was that they'd begin competing with each other.

03-00:38:36
Hughes: Are you thinking of the 1990s bubble?

03-00:38:42
Bancroft: No, I'm thinking—

03-00:38:42
Hughes: Even before that?

03-00:38:44
Bancroft: Yes, I'm thinking of starting really to build up in 1980, and then increasing all the way up. I felt as we got closer into the nineties and the 2000s that what was happening, what I consider merchant banking, was infringing itself upon venture capital. More and more people were taking commissions for things, getting fees for things, for managing these huge amounts of money. The returns for the limited partners weren't nearly what they were in the beginning, which they can't be if you're not being as selective as you used to be. So then the pendulum would go too far, and the money would dry up. We'll get to that in a minute.

03-00:39:35
Hughes: It's almost self correcting, isn't it?

03-00:39:37
Bancroft: Yes, basically, sure, and should be.

03-00:39:38
Hughes: You mentioned wanting a piece of Intel and Arthur took it all—

03-00:40:02
Bancroft: Well, Arthur and his group.

03-00:40:08
Hughes: Yes, there wasn't room for you.

03-00:40:10
Bancroft: Not for Bessemer, but I was offered a very small piece early on.

03-00:40:18
Hughes: Did Bessemer usually syndicate, I think is the word? You weren't the sole investor—or did that also happen?

03-00:40:31
Bancroft: No, we were always for the most part, even from the earliest times, having other people co-invest with us. It wasn't a formal group, but just like Arthur

had his group that was investing with him, we had people that we regularly invested with. If we took a major piece of the deal, we would bring other people in for the rest of it.

03-00:40:54
Hughes: Was it a select group? You had a tried-and-true collection of people or institutions that you could bring in?

03-00:41:08
Bancroft: It tended to be that way because it would become self evolving. When somebody asked you into his deal, and you worked well with him, you'd turn around and ask him back into your next deal.

03-00:41:19
Hughes: Does it work that way now, Pete?

03-00:41:22
Bancroft: I don't really know. I think now people have so much money that many of them are trying to grab off the biggest piece of it, and I think it's far more cutthroat and competitive. We never had that in the early days. We never collected any fees. In allocating our investments, one person would take the lead, and one time it might be Bessemer, and one time it might be somebody else. You develop a group that you like to co-invest with, so you call them first. And so it evolves over time. But we never had the competition that developed after that.

03-00:42:03
Hughes: It sounds a bit like a gentlemen's club.

03-00:42:07
Bancroft: Yes, it was.

03-00:42:10
Hughes: People that you knew and trusted, and you could be fairly sure that next time around you'd be let in. Was that, in general, the way it was?

03-00:42:20
Bancroft: Absolutely. At the time we formed the National Venture Capital Association, there were only thirty-seven organizations in the country that we felt were valid venture capitalists. And we all knew each other pretty well.

03-00:42:37
Hughes: I read in a 2001 book that 650 venture capital entities existed.[1] She didn't define what she meant went into being a venture capital partnership.

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[1] Karen Southwick, *The Kingmakers: Venture Capital and the Money Behind the Net*, John Wiley & Sons, 2001.

03-00:42:57
Bancroft: Yes, well there are a lot more now than even that.

03-00:42:59
Hughes: When you were lead investor, was there the assumption that it would be you that would go on the board of the company that you were investing in?

03-00:43:16
Bancroft: In the early days, I would go on the boards. After Bill and Neill came in, eventually I would get— You know, you can only handle so many boards at a time. I would get one or the other of them, whoever had taken the lead in making the investment for us, to go on the board, and I would not.

03-00:43:31
Hughes: Can you give me some idea of what kind of advice you were giving? I imagine that it was less about the technology/science and more about how you develop this company.

03-00:43:53
Bancroft: Yes, a lot of it was really having ongoing intimate contact with the chief executive, because the leader of the company often can't talk to his own people, and he's got to have a sounding board. Well, we would try to be that sounding board as an outside director. So a lot of it was listening. If they wanted to launch a new product or do something, did it seem to make sense? Or I'd at least ask all the questions I could think of to make *him* think about whether it made sense. And then when it gets to the exit strategy or raising additional money, why presumably we could be of some significant help.

03-00:44:46
Hughes: If the entrepreneur is heavily invested, and I mean that emotionally as well as in terms of his or her career in the company, as I imagine the great majority of them *were* or it wasn't going to work, am I correct in thinking that it could get very emotional?

03-00:45:17
Bancroft: Very.

03-00:45:18
Hughes: How did you handle those occasions?

03-00:45:24
Bancroft: You'd try your best to get him to look at the reasonable side of things, and eventually if it didn't work, it sometimes got to the point where you'd convince the other members of the board of that company that a replacement was needed, that the job had outgrown the person.

03-00:45:46
Hughes: So a lot of psychology, dealing with personalities.

03-00:45:59
Bancroft: It's very important, and you know sometimes we ourselves in the field would go nuts. You fall in love with your own company. I remember one *loser* I had that I kept chasing until I practically got an ulcer trying to keep it alive. Finally one of my partners at Draper, Gaither & Anderson, back in the early days, came to me and said, "You know, you have not only walked the extra mile for these guys, but you've walked an extra four miles. Why don't you let it go?"

03-00:46:30
Hughes: Were you in love with the people or with the business?

03-00:46:35
Bancroft: I was determined I wasn't going to lose. [laughter] I thought they were going to succeed.

03-00:46:43
Hughes: No losers on your roster. [laughter]

03-00:46:44
Bancroft: But I lost it all there, and on several others.

03-00:46:48
Hughes: There's a lot to this, isn't there? It's not a black-and-white decision to arrive at the right time to say, "Okay. Enough. I'm going to cut this tie. It's too bad, but that's the end of you."

03-00:47:08
Bancroft: There's not a one of us in my position that isn't likely to say that whenever they've made a decision to make a change, they've always waited six months too long. You just don't want to give up and make a change. You do have to be careful that you don't fall in love with your own companies.

03-00:47:37
Hughes: How much time do you suppose you were spending on nurturing these companies? A lot?

03-00:47:49
Bancroft: Oh yes. When I was running the venture capital part, most of it was spent with the companies that I was invested in. Early on, I spent time looking for new ones, but later on I let Neill and Bill do most of the work in developing the new investments.

03-00:48:06
Hughes: You mean time above and beyond the formal board meetings?

03-00:48:10
Bancroft: Well, now you've got two kinds of board meetings. The board meetings of the companies themselves—

3-00:48:15
Hughes: That's what I mean.

03-00:48:15
Bancroft: They would usually meet monthly, and they would usually be all-day affairs.

03-00:48:21
Hughes: But you'd be on the phone in between, wouldn't you?

03-00:48:23
Bancroft: Oh yes, quite often.

03-00:48:25
Hughes: So another reason why you couldn't be on too many boards, right? There just weren't hours in the day to handle them all.

03-00:48:33
Bancroft: That's right. And then starting in 1974 when they made me senior vice president of all investments at Bessemer, I had to begin easing back from the purely venturing side. Then when I became president in 1976, I had to step way back. From then on I was just really investing in the companies that we were doing. But I was picking up most of my information from Neill and Bill because by that time I was responsible for *all* of Bessemer's investments. I would have been giving short shrift if I had spent all of my time on 10 percent of them.

03-00:49:10
Hughes: Venture capital, it goes without saying, is risky business.

03-00:49:21
Bancroft: It's supposed to be.

03-00:49:23
Hughes: Risk with the hope of high return. Did you have strategies for reducing risk? Was there anything formulaic about it?

03-00:49:40
Bancroft: The main thing was, don't make just one investment; spread your risks among a number of companies because some of them are bound to fail. By spreading your risks, you have better odds of the portfolio as a whole doing well.

03-00:49:58
Hughes: Are we talking about tens of different companies?

03-00:50:01
Bancroft: Well, I used ten because it was a convenient number. For the most part, we would have thirty to forty companies in the portfolio at any one time, in different stages of development. Some being ready to exit, and some starting in fresh. But in the early days we'd make three or four investments a year, and then of course it stepped up as time went along.

03-00:50:26
Hughes: I imagine that an IPO took a lot of your time, right?

03-00:50:36
Bancroft: Yes, but anytime a company got into trouble or had a fire, as we liked to say, it demanded a lot of time. We always had the feeling that you could manage one fire at a time. You maybe could manage two; but if you had three of your companies blowing up at once—

03-00:51:03
Hughes: You must have had some say about the timing of an IPO, right?

03-00:51:10
Bancroft: Oh well, yes. But I mean that depended largely on whether market conditions were ripe for an IPO and whether the company had matured to the point where an investment banker was prepared to take it public.

Often either the company's not ready yet or it shouldn't go public. Maybe it ought to be merged instead, because once you do an IPO, you're out there, standing on your own feet and have some public shareholders that you are responsible to. I think there's a moral responsibility *not* to take a company public until you think it has matured enough that it can stand on its own feet. And of course there are other times when you can't do an IPO because the market simply won't buy it. I'd love to get into that discussion when you let me talk about the National Venture Capital Association, because that's where I have some statistics.

03-00:51:48
Hughes: Well, maybe that's where we should go. But are you happy with what we've said about your approach to doing venture capital?

03-00:52:04
Bancroft: Sure, I think so.

Well, the reason I think the NVCA's important is because it shaped the industry in the early years. In late 1973, we were very aware of the fact that the climate out there, taxwise and otherwise, was getting worse and worse. A fellow named Charlie Smith, who was then at the Rockefellers, and I got together and had lunch. We said we really had to get ourselves down to Washington and find a way to do some lobbying to get some tax relief. At that point the income tax rate was 49 percent, and it didn't matter whether it was on capital gains or on ordinary income. We also realized that if we tried to send a representative of the Rockefellers and the Phippses and Jock Whitney down to Washington, we'd be laughed out of town on a rail because why do these rich fat cats need help? So we decided we'd better try to get organized and get all of the people who were significant players in the venture community involved. We could write them out on the back of an envelope because we knew most of them, but there was nothing formal. So later in 1973, we got together at O'Hare Airport in the Red Carpet Room, Charlie

Lea, Ned Heizer, and myself. In one or two of those meetings, Lionel [I.] Pincus was involved and Peter Brooke and Dave Morgenthaler.

03-00:53:52
Hughes: Are these people from all over the country?

03-00:53:55
Bancroft: These are people, at that juncture, primarily from the East Coast and Chicago. Ned Heizer was from Chicago. Dave Morgenthaler was from Cleveland. Anyway, we wrote up a preamble to what the NVCA ought to be and then got it formed. We hired a fellow down in Washington by the name of Stan[ley] [M.] Ruble to be our first executive director. So we formed this organization; we got thirty-seven members to join, and we put together a board of about twenty. We then decided that we'd better get some research. The MIT Development Foundation had recently done a wonderful study on very young technology companies such as Digital Equipment, Data General, Compugraphic, Marion Labs and National Semiconductor, comparing them with innovative companies such as Polaroid, 3M, IBM, Xerox and Texas Instruments—and with older mature companies such as Bethlehem Steel, du Pont, GE, General Foods International Paper, and Proctor & Gamble. We got that study and wrote it up in our own way as a "white paper" to circulate in Washington. We called it "Emerging Innovative Companies: An Endangered Species."

03-00:55:01
Hughes: Now this was in the mid 1970s?

03-00:55:09
Bancroft: [The following few paragraphs contain some additional statistics and facts added in editing by Mr. Bancroft from the white paper referred to above].

The paper came out in 1976; we had formed the NVCA in late 1973. But what was happening down in Washington was that several factors were conspiring against the growth of young businesses in the U.S. In 1969, for example, there were 548 IPOs or Initial Public Offerings of companies who had net worths prior to the offering of less than $5 million. These small companies raised *$1.458 billion* in 1969. That was the height of the former market before the increased taxes and business climate change really began to drain the economy, resulting in a market downturn. By 1973 IPO's were reduced from 548 companies to only 69, raising only $137 million instead of the $1.4 billion raised four years earlier. And in 1975 there were only four companies able to go public, and they could raise a total of only $16 million. So there was really no market out there for young companies. You were talking a few minutes ago about an IPO and when do you do it. Well, if there isn't any market, there's no way to exit. The same thing has happened in different cycles. And we are going through the same thing now, starting in 2008.

We found from the MIT study and included in our white paper some of these salient facts. Despite the fact that the market was drying up for young companies, and that fewer and fewer people were investing in venturing companies, nevertheless, the companies themselves were doing some wonderful things. MIT compared 1969 with 1974, and during that five-year period, the largest, most mature companies used in the study hired only 25,000 people, whereas the innovative companies hired 107,000 people, and the young technology companies hired 34,000 people. So we have a phenomenon of companies having more and more trouble raising money to grow, but these are the companies that are hiring people. And interestingly, more than that, in 1974 the largest companies in the study paid $1.5 billion in taxes, but the innovative companies paid $2.3 billion in taxes. So the innovative companies were paying more than the largest companies, because the largest companies were hiding behind all their tax shelters, and they weren't really hiring people. The jobs being created and exports and sales growth were coming from the young technology companies and the innovative companies.

Over the five year period 1969-1974 the compound annual growth in sales of the mature companies was 11.4% compared with 13.2% for the innovative companies and 42.5% for the young technology companies. The compound annual rate of increase in new jobs was .6% for the mature companies, 4.3% for the innovative companies and 40.7% for the young technology companies. Finally, the compound annual rate of increase in provisions for income taxes was 7.8% for the mature companies, 8.5% for the innovative companies and 34.1% for the young high tech companies.

So we had this fascinating phenomenon that the young companies the venture capitalists were investing in were really doing quite well, but they were all starved for money because the market was drying up. And so we then started going down to Washington and publicizing this paper.

03-00:58:26
Hughes: How did you do that?

03-00:58:28
Bancroft: Well, we had hired Stan Ruble as our executive director. He pointed us in the right direction of which congressmen to see and which of their assistants to see.

03-00:58:35
Hughes: So this was kind of a one-to-one thing. It wasn't as though you were making a presentation to a subcommittee.

03-00:58:45
Bancroft: Very much so. No, we'd go down and deal with them one at a time until we found somebody that liked us.

03-00:58:49
Hughes: Using this economic argument.

03-00:58:55
Bancroft: Yes, and Ed [Edwin] Zschau, who along in there was a congressman from Silicon Valley, was a big help. But the key guy was a fellow named Bill [William A.] Steiger who picked up on this, and he decided that something had to be done about capital gains taxes. Eventually we got through the Steiger Amendment in 1978, which reduced capital gains taxes, first from 49 percent to 28 percent, and then on down to 20. Eventually it got down to 15, where it is now, until Mr. Obama gets an increase next year. [tape change]

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04-00:00:00
Bancroft: Okay, just to continue with this thought—the Steiger Amendment got passed, and the law got changed in 1978. Remember, there were only thirty-seven venture capital companies when the NVCA started, and in 1973 those thirty-seven firms had the availability of about $600 million total to invest. Right after the tax laws were changed in 1978, confidence in growth began to return with a vengeance. By two years later, in 1980, the industry had grown from 37 firms to 95 venturing firms with $4.1 billion to invest. And in 1998, the 25th anniversary of the NVCA, the industry had 570 venture capital firms with $84 billion under management, and in that year alone over $10 billion of actual investments were made by these firms. So there was this huge change-up during the twenty-five-year period in which the NVCA had existed, and it all came about because taxes went down so that investing in young companies for capital gains was encouraged. It once again became worthwhile to invest longer term in companies that were creating jobs and growing, so that we were basically able to change the economy around.

I was looking at something the other day: in 1999 there were 3,649 separate companies that received $48 billion in investments. This was in the venturing arena. Two hundred and seventy-one companies backed by venture capitalists had IPOs raising $23.6 billion in 1999, and the overall market value of those companies that came out of the venture capital community on the date of their IPO was $136 billion.

So, this little tiny group was able to have a tremendous impact on the economy, and it really was all due to being able to bring the tax rates back into line so that people would dare to take the risks. Because not everybody was making a 30 percent return on their portfolio. As a matter of fact, as things went along and you had more and more competition, the rates of return got lower and lower and lower. But the venture capital community in its early years really chipped in. Reid Dennis and Dave Morgenthaler spent a lot of time back in Washington talking to congressmen and trying to get them to understand the economics of backing younger companies because they're the ones that are creating new jobs.

04-00:02:46
Hughes: I remember Reid Dennis talking about Morgenthaler. Was he a venture capitalist?

04-00:02:58
Bancroft: Yes, Dave Morgenthaler was one of the founders of the NVCA with me. He came from Cleveland. He had Morgenthaler Associates, his family venture capital company, and he had his kids in it. When we formed the NVCA, we made Ned Heizer the first president and then chairman. Then Charlie Lea was the second president and then chairman. I was the third. Dave Morgenthaler followed me, and it kind of went on and on, and the organization grew from there.

04-00:03:32
Hughes: Would it be correct to characterize NVCA, at least in part, as a lobbying organization?

04-00:03:48
Bancroft: Yes. Basically a lot of the work they did was to go out and try to convince congressmen that they shouldn't be too hard on capital gains taxes.

04-00:03:54
Hughes: To this day?

04-00:03:58
Bancroft: Absolutely.

04-00:04:03
Hughes: In that late 1970s period, you were also tapping into a concern, particularly at the Washington level, about the state of the American economy and the place of American competition on the international scene. Everything was going downhill.

04-00:04:37
Bancroft: Sure. Well, we had President Carter from '76 to '80, who tried to micromanage the country. He has been, in many of our opinions, a far better *former* president than he was an *active* president when he was there. [laughter] Reagan came in, and Reagan was very pro-business, and so there was this huge turnaround. Industry, of course, took off and technology took off. And we see until recently a climate that is so totally different from what I remember in the '70's, because we were always struggling to find the money to put into the companies.

04-00:05:22
Hughes: The ERISA Act [Employee Retirement Income Security Act] loosened the investment criteria for pension funds, so you not only had the lowering of the capital gains tax but also a loosening up of sources of funding.

04-00:05:43
Bancroft: Right. It was very good in that sense. The other thing that unfortunately came out of it was the taxing of stock options, which was harmful to the people and the companies.

04-00:06:07
Hughes: And did that happen about that same time?

04-00:06:09
Bancroft: I've forgotten just when it came in, but it was through that period of ERISA. To me the good part about ERISA was allowing institutions to not worry about the Prudent Man Rule in investing a portion of their assets in high-risk investments. The stock option thing was really a shame, because what you're doing there, if you get options to shares at $1, and you exercise the options when the stock is at $10, under the newer rules you would have to pay ordinary income taxes at the time you *exercise* the option even though you didn't have any cash. Because all you're doing is exercising the option and getting the shares, but you have to sell a lot of what you get in order to pay the tax. Then what you have left grows at a capital gains rate. But the practice out here, particularly here in Silicon Valley—less so in the East—was to try and empower almost all your employees by giving them stock options, so that everybody felt a piece of ownership in the companies. I think that was a vital part of why Silicon Valley grew and is still growing.

04-00:07:30
Hughes: Congress was just trying to—

04-00:07:31
Bancroft: Get more money. But it's kind of dumb to try and take money away when you don't have any cash. So you force somebody to sell what hopefully is a golden goose that they're working on to help their companies grow.

04-00:07:51
Hughes: Were you part of any battle there?

04-00:07:54
Bancroft: I was not by that time. I basically set up the [NVCA] retirement program right about 1980 or thereabouts. We had gotten pretty well entrenched with our founding directors, and a lot of them were beginning to look upon being a director of the [National] Venture Capital Association as being a sinecure for life. And of course the industry was growing very fast, starting in 1980, and it became very important to get new, young blood in. So I led a movement to establish a three-year limit on being a director, and then set up three classes so that we had the class that was retiring in one year, and then the second year, and then the third year. And when you retired, you had to get out of the organization, or at least off the board. And since I was one of the founders, I decided to set myself up to go off the board in the first year, so that I could turn to my fellows who were less interested in retiring and say, "Come on guy. I'm doing it; you can do it, too." So we set up a class system, and that has

held true since, and it's been much to the benefit of the NVCA because they now have broad membership. But I moved out of the NVCA at that point.

04-00:09:20
Hughes: Can any venture capitalist or organization belong to the NVCA? What are the membership qualifications?

04-00:09:31
Bancroft: I don't know what they are today, but I would think anybody with a reasonable pool of money and saying he's a professional venture capitalist, they'd probably welcome in.

04-00:09:46
Hughes: Are there annual meetings?

04-00:09:52
Bancroft: Again, I don't know what's happening today. I do know they have at least annual meetings, because I came to the one in 2008 where they invited all the past presidents of the NVCA, and it was here in San Francisco. We have another one coming up this May where I've been asked again, and they're going to throw some award my way [The NVCA American Spirit Award]. So they do have that, but the work goes on all year round.

04-00:10:22
Hughes: Are you happy with NVCA coverage? Do you care to say anymore?

04-00:10:28
Bancroft: No, I think that pretty well covers the early days of it, which I wanted to be sure got covered because of all the people that you have interviewed so far, all of whom are from here [northern California]. Reid [Dennis] was the only who was active back in Washington during the period I've been talking about. Now, in recent years, Dixon Doll was the head of the NVCA two years ago, and somebody from the East is in now, but he's going to be succeeded by a young lady out here, Kate Mitchell, whom I met the other night. So it is now fully national in scope. But in the East we had most of the people that were willing to go to Washington and take the time in the '70's because New York is a lot closer to Washington than San Francisco is. So in the early days most of the water was being carried by folks from the East.

04-00:11:26
Hughes: Well, shall we move to regional advantages?

04-00:11:31
Bancroft: Sure, sure.

04-00:11:35
Hughes: What is your view of the Bay Area in specific, and Silicon Valley even more specifically, in the development of venture capital? Why here?

04-00:11:56

Bancroft: Several reasons. First of all, you had two seats of learning at Stanford and Cal that had a lot of technology available. Secondly, you had a fellow named Fred [Frederick E.] Terman at Stanford who was the father of trying to get technology companies going out here. I think he was the one that induced Hewlett and Packard to start Hewlett-Packard in the garage. Also, through Stanford they began leasing out a lot of the land to companies to start doing that. The climate, of course, is very important because so many people in World War II and in the Korean War coming from other parts of the country would go through here and see what the climate was like, and when they came back they didn't want to go home to their snowy winters.

I don't know what it is now, but it used to be in the early days there were more people living in California who were not born here than who were born here. They all came from someplace else, and they all had the gumption to get up and leave their settled communities in the East where they had family and friends and knew everybody and could have stayed comfortably for life, and come out here to dare greatly. To me California has always been a place to dare greatly, starting with the Gold Rush. I of course knew about it from my early history at the Bancroft library, and the fact that my great-grandfather [Hubert Howe Bancroft] came out during the Gold Rush. I've always felt that California was the go-to place to get things done.

As I said a little bit earlier, you weren't scared to make a mistake here; you'd dust yourself off and start again. All these people would communicate quite freely with one another in these different companies and trade ideas, and it was just a great place to be. Of course, we had a wonderful school system when I grew up. It's gone to hell in a hand basket now, for the most part. Our taxes are now very high, and the state is on the verge of going bankrupt. But it was a classic case for good educational availabilities, lots of companies starting up, lots of jobs, go out and dare greatly in the Promised Land, and I think far more so than Route 128 around Boston. There's a little bit of it down at the University of Texas in Austin because [George] Kozmetsky, who was one of the founders of one of the early companies—Scientific Data Systems that Arthur Rock backed—moved on down. He's dean of the University of Texas in the technological area and has done a lot in the Austin area.

What's happened in recent years is that because of the taxation and the high cost of living out here a lot of companies are offshooting some of their manufacturing and other things, both to the Far East and back to Texas or New Mexico or Arizona or elsewhere. But California's still a magnet for drawing people, and I don't know how much longer it'll go on. It all depends upon whether the business climate gets changed or not.

04-00:15:40
Hughes: I think it was Bill Draper who talked about how large a presence people from elsewhere are in Silicon Valley. He was particularly, I believe, thinking of the Indian presence.

04-00:16:02
Bancroft: Absolutely. Well my daughter went to Stanford undergraduate, and then she went to San Francisco State for her master's, and then to Cal for her PhD. When she got her master's from San Francisco State, I went to that graduation. The graduates in the master's program that year were about 75 percent women and about 75 percent Asian! [chuckling] It was very, very clear who was getting educated and taking advantage of it. And of course now there's so much going on in India that a whole lot of people from India are coming here and going back home. It's all going to change, but I don't know how.

04-00:16:49
Hughes: Do you have any strong opinions about Sarbanes-Oxley?

04-00:17:02
Bancroft: I think they went too far. I'm not an expert on it, because I'm really no longer in the loop. But it seems to me that, as with any well-intentioned legislation, you go too far and ruin the spirit of the good folks.

04-00:17:23
Hughes: Meaning too much reporting and—

04-00:17:25
Bancroft: Yes, too much reporting, too much paperwork for small companies who can't afford the overhead.

04-00:17:36
Hughes: Do you think Sarbanes-Oxley has contributed, maybe only in a small way, to the recession that we seem to be now coming out of?

04-00:17:45
Bancroft: Yes, I think anything that promotes government interference you have to look at pretty carefully. Obviously, we need some regulation because there are always bad guys that go too far in any direction. But you don't want to throw the baby out with the bathwater, and there's too much regulation and too much proposed regulation that may be throwing *all* the babies out with the bathwater.

04-00:18:25
Hughes: Is Pete Bancroft veering towards the libertarians?

04-00:18:28
Bancroft: Oh, I'm pretty libertarian. [laughter]

04-00:18:29
Hughes: You mentioned Route 128. You are a prime candidate for comparing East and West, having been born and educated largely on the East Coast. Is there any more you care to say?

04-00:18:59
Bancroft: We had a number of investments at Bessemer along Route 128. Of the boards I was on, at least a third were up that way. So, yes, we were quite active up there, and it's a fine community. I don't think it has had the same verve and enthusiasm that you get out here in Silicon Valley. But they did a very nice job because Harvard and MIT kicked in, much as Stanford and Cal did here for technology backgrounds for entrepreneurs there.

04-00:19:39
Hughes: MIT these days is very entrepreneurial, is it not?

04-00:19:44
Bancroft: Very. And you'll find with Charlie Lea and some of the people that are having histories made by the NVCA back East, you'll get a different feel from 128 because they've really focused on it. Bill Burgin, who worked for me, is back up in Boston now.

04-00:20:59
Hughes: Does he talk about the difference?

04-00:21:02
Bancroft: Well, I haven't talked to him much about it recently.

04-00:21:07
Hughes: This area that we live close to is, as you say, not risk averse—you failed in this company, well, pick yourself up and try another.

04-00:21:43
Bancroft: Well, I think the key is leaving your settled community to dare greatly, and it takes a certain kind of personality to do that. There's a lot of it going on in the Boston area, but I think people are more conservative there than they are here, and, you know, who's to say that's bad.

04-00:22:03
Hughes: Do you want to say anything about your philanthropy?

04-00:22:15
Bancroft: Well, if you'd like. I've set up—about eleven years ago—a family foundation in which I had all seven of Monica's and my kids, of whom only six are still alive, involved as directors and involved in the foundation. I have always felt, to use that wonderful expression that you didn't know when I mentioned it last time, that you ought to be investing in things where you have some skin in the game. So I have encouraged all my kids to give some of their time to organizations to whom we are granting money, to give to local charities who are small enough that our grant will make a significant impact on the

organizations and to take some time to work with them. I think the working with them is quite important, both for my kids' benefit and for the grantee. And that's worked very well over ten years, eleven years now.

I also feel that when my time comes, I want to be sure my family is well taken care of. But any excess beyond that point I am going to have added to the foundation so it will continue to grow over time, and by then they will have had many years of experience in operating it. We have foundation meetings twice a year, and it's a wonderful opportunity, because I start them all out initially by having each person take five to ten minutes to bring everybody in the family up to date on what they're doing, thinking, aspirations, hopes, problems. It's a great way to stay in touch because they are all over the country, and so it's just wonderful when we get them together. That way Monica and I can learn what's going on! They seem to enjoy it, because they keep coming back for more.

One of my sons has become the president of the foundation, so he is more and more taking charge of what it's doing. But the nice thing I like, having had eleven years where the founder is still around, is we've been through most all of the problems you can go through: marriages and bringing spouses onto the board, divorces and getting rid of spouses, that kind of thing. The only thing they haven't had yet is the loss of the founder, and I hope that's still a few years off.

04-00:25:01
Hughes: Well, we all do.

04-00:25:04
Bancroft: But I'm very pleased with it. Again, it's operating in a microcosm; it's still quite small. Monica and I do a number of things for some of the local charities or the opera and the symphony and that kind of thing. I know that Reid Dennis and Pitch Johnson and others have been very active in running that. And I think that's terrific. But what I really wanted to do was have the foundation start as being down and dirty where people would be contributing their time as well as the money we had to give.

04-00:25:41
Hughes: And all six really do?

04-00:25:43
Bancroft: Yes. Oh, it goes in different stages. They'll get interested in a project locally and work with it until it works its way through. Then if they get busy with family or work they still come to meetings but they drop away as sponsors. Which is fine. And we've got the grandchildren now involved increasingly. And you know, I don't care whether each of the kids wishes to sponsor something or not—it's available. I have found that they all have, at one point or another, come in and picked up on a project and worked with it for a while. And then they move and times change.

04-00:26:28
Hughes: Well, is there anything you would like to add in conclusion?

04-00:26:37
Bancroft: [Added by Mr. Bancroft during the editing process.]

I do want to say a little about the Bancroft Library at UC Berkeley. It is a special purpose library, much like the Beinecke at Yale. My great grandfather first came to California as a bookseller with a consignment of books when he was nineteen years old. He was quickly bitten, not by the gold bug, but by the realization that well over 100,000 people had poured into this sleepy state, which had contained only 7,000 non-Indians in 1847. In just a few years, all [immigrants] looked to get rich, and because of the gold were able to buy clothes, food, and all life's requirements—in short, to immediately establish a flourishing market economy and fast growing cities in San Francisco and elsewhere.

He became intrigued with this. He came to realize that he was witnessing the last march of western civilization, growing from nothing to become a major part of the country in just a few short years. He began collecting everything he could find written about first California, then the whole western part of America. Eventually, he and a group of helpers wrote 39 volumes of history, and he completed his major efforts by selling his library to the University of California in 1905. The library has continued to flourish until this day. W

When we moved out here for good at the beginning of this century, my wife, Monica, suggested that in our personal charitable interests we had given a great deal to Yale over my lifetime and that it would be an excellent time for me to return to my roots and begin seriously contributing to the Bancroft Library and to its future. Her timing was perfect, for the Library was just then launching a campaign to finance the retrofitting and expansion of its facility. I took her advice and, with the enthusiastic support of Charles Faulhaber, the wonderful director of the Bancroft, participated in the renewal of the Library and have been delighted to have such close ties with it these past seven years.

I think that covers everything I can think of to say at this time.

04-00:26:46
Hughes: Well, I certainly thank you. I should add in closing that the only reason I'm having the privilege of talking with you is because you were the one who had the idea and supplied the backing for this series on venture capital. I am very grateful to you.

04-00:27:12
Bancroft: And I in turn am very grateful to you for taking charge of running it. No, I think it's been a good thing to have, and I think it will be a fine repository over time for research for people who want to learn about the early years of the venturing business, because it really started out here in the early 1960s.

04-00:27:33
Hughes: Yes, and you were a big part of that.

04-00:27:35
Bancroft: Anyway, it's been fun working on it and fun doing.

04-00:27:39
Hughes: Well, I'm glad, and I thank you for all of it.

[End of Interview #2]