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WILLIAM H. DRAPER, III

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

Interviews conducted by
Sally Smith Hughes, PhD
in 2008

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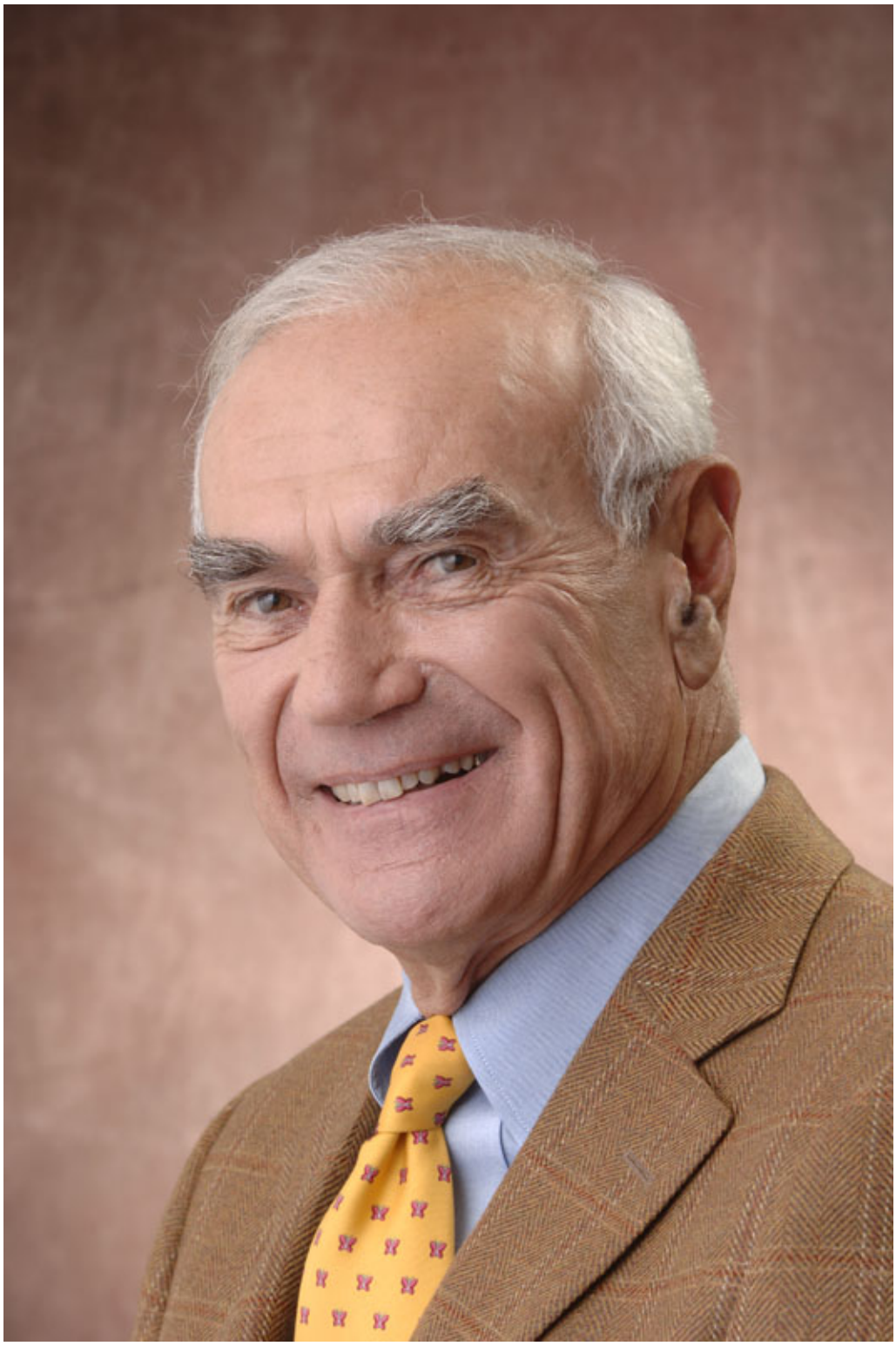

William H. Draper, III

William H. Draper, III

With over forty years of experience, William H. Draper, III is one of America's first venture capitalists. Since 1996 he has been Managing Director of Draper Richards L.P., a venture capital fund focusing on early-stage technology companies in the U.S., and Draper International, a venture capital fund investing in private companies in the U.S. and India from 1994 to 1995.

Mr. Draper has played an international leadership role in expanding the world economy. In 1986, he became the head of the world's largest source of multilateral development grant assistance, the United Nations Development Program. He also served from 1981 to 1986 as President and Chairman of the Export-Import Bank of the United States. He was appointed to that position by President Reagan. In that post Mr. Draper assumed a leadership role in U.S. efforts to sustain world trade in the face of major liquidity problems among the developing countries.

Before joining Ex-Im Bank, Mr. Draper was founder of Sutter Hill Ventures in Palo Alto, California. During his twenty years as the senior partner of Sutter Hill, a leading venture capital firm in the U.S., Mr. Draper helped to organize and finance several hundred high technology manufacturing companies.

As a civic leader, Mr. Draper has been involved in many community service programs. He is currently on the boards of the Atlantic Council, Draper Richards Foundation, Hoover Institution, Institute of International Studies at Stanford University, World Affairs Council of Northern California and the United Nations Association-USA. Mr. Draper formerly served as the Chairman of the World Affairs Council of Northern California, Chairman of the Institute of International Education, as a Trustee of Yale University and as Chairman of the Board of the American Conservatory Theatre in San Francisco; he was a former Board member of Population Action International, George Bush Library Foundation, the Advisory Council of the Stanford Graduate School of Business, and the World Rehabilitation Fund in New York. He is a member of the Council on Foreign Relations and the President's Council on International Activities at Yale University. Mr. Draper is also a directory of several technology companies. In 1992 he was awarded the Ellis Island Medal of Honor. In 1996 he received the Citizen Diplomacy Award from the International Diplomacy Council, and in 2002 he received the Woodrow Wilson Award for Public Service from the Woodrow Wilson International Center for Scholars. In 2005, he received the Vision Award from SD Forum and was inducted into the Dow Jones Venture Capital Hall of Fame. In 2006, he received the Silicon Valley Fast 50 Lifetime Achievement Award, and the Distinguished Service Award from the Institute of International Education. In addition, he has received honorary decorations from Bolivia, Morocco, and Samoa.

Mr. Draper received a Bachelor of Arts degree from Yale University in 1950, and a Master of Business degree, with distinction, from the Harvard Graduate School of Business in 1954. He received an honorary degree, Doctor of Laws, from Southeastern University in 1985, and an honorary M.A. from Yale University in 1991.

Discursive Table of Contents—William H. Draper, III

Interview #1: April 7, 2008
Begin Audio File 1 04-07-2008.mp3

01-00:01:31
Hughes: Let's begin with your grandfather. Can we call him a venture capitalist?

01-00:01:40
Draper: No, that was my father. We are three generations of venture capitalists: my father, William H. Draper, Jr., myself, and my son, Tim Draper, who founded Draper, Fisher, and Gurvetson.

Here's the history. My great grandfather came over from Canada to Michigan. He was a farmer and a preacher—minister. He was James Draper, and William Draper was his son, who left Michigan and went, in the late 1800s, to New York and started as a dentist. I don't think they went to school then. They just bought a book or some papers on how to pull teeth. He moved to Harlem and he met my grandmother. She signed on as his bookkeeper and administrative assistant—not a nurse.

I've temporarily lost them, but I have two letters, one from him saying, "I looked in the mirror this morning, and I was the happiest man on earth. You just told me yesterday that you would marry me." It was addressed to Miss Carey. It went on and on about how they were going to have such a wonderful life together, and it was an *amazing* letter. It was signed Dr. Draper. Her letter to him, very perfunctory, "Dear Dr. Draper, I'm so pleased with my own decision to marry you, and I know we'll have a wonderful life together." [laughter] Those two letters are such a match up for that age. They had three children, and my father was the oldest. He started in a commercial bank in New York, the First National Bank. Then he went to Dillon, Read investment banking firm in New York

01-00:04:59
Hughes: Was his background in business?

01-00:05:01
Draper: He was an NYU graduate. Young man. Business schools weren't the thing at that time. We're talking about 1917 or something like that. He got interested in more than economics, though. He was part of the Ford Peace Ship but then came back and was an officer in the World War I, just at the tail end of World War I. Young man—and then every summer, he kept his commission alive by going to Plattsburgh Camp up in New York State. At one time during the thirties, I can remember he drove our car up, and they put "Tank" on it, and they had wooden guns. That was the state of our army training in the thirties.

But he was very ahead of the curve on figuring out that war was coming. So he signed up, went to Washington in 1939, I think. He signed on with General [Lewis Blaine] Hershey. General Hershey was in charge of the draft. I guess this was 1940 and he moved to Washington. I was in high school at the time—

not quite in high school, I guess, in 1940. He, at that time I think, was a colonel. He got very involved in Washington. He was sent to the Pacific to train a division, but they never got sent into action. He was in Hawaii.

Then he came back from the war. Right after the war, he was then a one-star general, and he went to Germany, to Berlin, as the economic advisor, because he'd had a lot of investment banking, all through the thirties. Tough time in the investment banking world, by the way.

01-00:08:58
Hughes: Yes, I can imagine.

01-00:08:58
Draper: Part of his job was to close up two or three offices of Dillon, Read that were out of New York City. But he was economic advisor to General [Lucius D.] Clay for about three or four years, starting as soon as the war was over. Forty-five till 1948, when Truman asked him to be the undersecretary of war. There was no defense department, so there was just secretary of the navy and secretary of war which had the air force; it was called the army air corps. He was undersecretary of war in 1948.

One of the connections I had at that time, and one of the thrilling things in my history, was that he asked me to come join him in Washington. They were going to fly a mission to Europe to look at the economic and the military situation in Europe at that time. This is post-war, June of 1948. So on the way over—he had some blue-ribbon people onboard, civilians as well as military generals. I was the aide to the group, because I had been in the army before that briefly, eighteen months, and had been a paratrooper with the 82nd Airborne. He said when he called, "Well, would you like to come back in the army?" And I was up at Yale then again. The army split my Yale time. "Oh! No way!" [laughs] "No way I'm going to go back in the army. I've had enough of that." He said, "No, just for a month, temporary duty, TDY they call it, to just come over and be the aide to this mission." So I said sure. It was summer, you know.

I got on the plane with all these big shots, and we landed in London. They learned that a few hours earlier the Russians had cut off Berlin, meaning they wouldn't allow any ground traffic to go in. So my dad got on the phone with the White House and General Clay at the same time, and they cooked up the airlift, the Berlin Airlift at that very moment. And so in London, we piled on some symbolic coal, clothes, and food and flew into Tempelhof Airfield in Germany. General Clay came out to meet him, and then they announced the airlift, right then and there. So that was touching history, very big time.

01-00:13:50
Hughes: But not enough to get you back interested in the military, I gather.

01-00:13:54
Draper: No. But we spent two weeks there in Berlin, and I was able to sit in on a lot of the staff meetings that General Clay ran. It was a very interesting, exciting time in Berlin. Then we went down to Greece, where my dad was talking with General [James A.] Van Fleet, who was then fighting the Communists in Greece, leading the Greek Army; we didn't want the Communists to take over Greece. Then we went up the Adriatic to Trieste, where he met with [Josip Broz] Tito, who had just broken with the Russians, and then we went to Paris. I don't know what they did, but I was assigned to get perfume. The only real thing I did on the whole trip was to get perfume for all these big shots for their wives. I had a girlfriend in Paris and went around and got all these fancy perfumes—Joy and Guerlain and—what's the—Nº Five?

01-00:15:23
Hughes: Oh, Chanel.

01-00:15:23
Draper: Chanel Nº Five. I brought them all back to the airplane. The only thing any of them had heard of was Chanel Nº Five, so they thought, gosh, I don't know if my wife's going to think this Guerlain is so great— [Hughes chuckles] They didn't know *any* of those names. I was feeling a little bad about the one big time assignment I had. See, I was only a second lieutenant.

So that was my touching history with my dad. Then he came back to New York, and almost as soon as he got back there, he was asked to take over the trusteeship of the Long Island Railroad by Governor [Thomas E.] Dewey, because they had, just at that time, had two bad accidents, killing a lot of people, and the fear of going on that railroad was great. So my dad loved the challenges. He was a great guy for taking over a challenge, and he said, without hesitation, he would do it.

Now, he and my stepmother had bought—this is the kind of guy he was—they had bought a house in Tarrytown, near where the Rockefeller estate is. Tarrytown, New York. When he took this job, he put the house on the market and moved into a hotel in Garden City, Long Island, in order to travel on the Long Island Railroad. He always traveled in either the front car or the rear car, in order to dissuade others from fearing them, and immediately put some programs in place to improve the safety systems that they had. He felt he needed to inspire people that the railroad really was safe.

01-00:17:54
Hughes: Why did people think of asking him to be in that position?

01-00:18:04
Draper: Why did *people* think? This was Governor Dewey who makes the appointment of the trustee of the railroad.

01-00:18:10
Hughes: Well, why—

01-00:18:11
Draper: The railroad was basically broke. It wasn't making any money. Why did they think of him? Because he had great creativity in financial matters. He had a good name as somebody who could solve problems. He was a leader; he had been a general. So I think that's the reason. That's a good question.

01-00:18:51
Hughes: How was he as a father?

01-00:18:54
Draper: He was superb as a father. He was a great inspiration. He had a wonderful quality of making you respect him and love him at the same time, and he had a cute sense of humor. But he set an example of ethics that was about as good as anybody could've had. An example of that is—I was about five years old, but it's a good story in the family. We went up to Canada, to Quebec, and we went fishing. But the key thing was that my mother had seen this green ashtray with the name of the hotel on it, and she thought that would be a nice souvenir of the trip, and packed it. It was in the hotel room. She told my father about it, about 150 miles down the road, after we had left the hotel. And he said, "You what?" [laughs] And he turned right around and drove the car back to return the ashtray to the hotel. They had a fight every so often, I guess, but I've never known my mother to be so mad, and him to be so firm. And he was firm a lot of times, but he was never so sure of what he was doing. Here we were, the two sisters and me in the back seat, and he was setting a wonderful example right there. He was that kind of guy.

01-00:21:20
Hughes: Where are you in age among the siblings?

01-00:21:26
Draper: Youngest. My sisters are living—one in South Carolina, one in North Carolina. One married a professor who taught law, and the other one was married to a vice president of US Steel.

01-00:21:42
Hughes: With a father that accomplished, a young person could feel a little intimidated.

01-00:21:54
Draper: True. It didn't happen to me. He was an inspiration and somebody I loved to spend time with. But you see, all through the thirties, he was working hard as hell to hold onto a job. He had taken a mortgage on a house in Scarsdale, New York. Instead of paying the mortgage off when he got a $10,000 bonus in 1929, he put the money into a coffee maker that was a new invention. [laughs] He was kind of practicing a little venture capital there.

01-00:22:40
Hughes: So he was a risk taker.

01-00:22:43
Draper: And it didn't work. No, he wasn't a very big risk taker, but in that one decision he was up. But from that point forward, he was very conservative about everything. His stocks were mostly conservative utilities. He worked really hard to hold onto his job when people were being fired right and left in the investment banking world. He wasn't around a lot, but he was never intimidating.

01-00:23:19
Hughes: Yes, I can imagine.

01-00:23:21
Draper: So not being around, he wasn't overwhelming as a father. He worked, I would say, six days a week. I don't know that he was ever home on Saturday. And he often worked late in the night. So I didn't see much of him in those times, and I got used to that. It was not a problem for me, it was just the situation.

01-00:23:48
Hughes: Yes, but that must've meant that your mother had much more family responsibility.

01-00:23:56
Draper: Yes.

01-00:23:56
Hughes: Did she have help?

01-00:24:01
Draper: Yes, we had a maid up until my mother died. We had a maid in the house, that lived up on the third floor with me. She was in the room next to me. There were three floors in the house. That was Bessie. Then my mother got sick with cancer when I was twelve, and we went down to Washington and lived there for a year. She went to Walter Reed Hospital. Then we came back up and she died right away. I'm age thirteen, fourteen. So my sister really managed the house, my oldest sister, with just the two of us. His mother, my dad's mother, was in the house for a while, but I don't know that it was—I think mostly it was the two of us. So that would've been my sophomore, junior year, and then in my senior year, my younger sister and I moved to an apartment. Dad sold the house for $10,000. That was it. [chuckling] My dad needed the money.

01-00:25:36
Hughes: It was the Depression still, wasn't it?

01-00:25:40
Draper: Yes, it was the aftermath of the Depression. So all this time is war time, the forties, and we didn't see him, except when he came back from active duty. When my mother died, he came back, and got reassigned to Washington, and so we were a lot closer at that point. But he left me in school, which was the right thing to do, at Scarsdale High School, That was one of the three best schools in the country.

01-00:26:19
Hughes: Is that a public school?

01-00:26:21
Draper: Yes, a very good one.Dad went there originally because they put a lot of money into their school. Scarsdale was a young community, and so they focused on making it a good school system. That was a really good move that he made. He couldn't have afforded to send us to private school, and to be in a New York City public school wouldn't have been so good.

01-00:27:03
Hughes: What were you getting interested in as a student?

01-00:27:11
Draper: I was interested in sports. I was always good at math. I was kind of the star student in math. Mr. Ross, I can remember, one of the few teachers, he was very good with me, and they had a good math department. Then they had a very good English department, and I was not the star in English, by any means. So I was mostly interested in sports and my friends.

People say, "Oh, too bad you didn't have any parents around at the time of your high school." Truthfully, that's a time when I didn't feel at all bad about that. I could hang out with friends, and no problems at home. One fight my sister and I got into—I don't know what it was over—I stormed out of the house, and she was afraid I was going to run off and go into the war or something, sign up for the army, and I was just going up to my friend's house. So she's a sweet lady. This is my older sister. She just wouldn't hurt a flea, but she was pretty good in just keeping things in balance, but she gave me pretty much carte blanche, because there wasn't much she could to control me. She was working in New York, commuting in to the city.

01-00:29:10
Hughes: She was a number of years older than you?

01-00:29:15
Draper: She was seven years older.

01-00:29:17
Hughes: Yes, because you were still in high school at that point.

01-00:29:20
Draper: That's right. She was out of college. She went to DePauw University, DePauw College, in Indiana.

01-00:29:28
Hughes: So it sounds, the way you're telling it, that losing a mother at a young age didn't stop your life.

01-00:29:39
Draper: Not at all. It was terribly sad when it happened.

01-00:29:45
Hughes: Were you close to her?

01-00:29:46
Draper: Yes, yes, very. Yes.

01-00:29:48
Hughes: What was she like?

01-00:29:51
Draper: She was elected most popular girl in her class at high school. She was in Yonkers, New York. She was fun. She had a sister, who was my aunt, who was a real character, and the first person to come to San Francisco in the family. To us, our mother seemed pretty common, compared to our aunt. She was in the fashion business. She worked for Lord and Taylor, and then later went to Texas, to Neiman Marcus, and then as a buyer of better dresses—and then she came here, worked for Cyril Magnin at I. Magnin's. But she was [imitating his aunt], "Dahling, well, what did you wear, dahling, [laughter] to the pahty?" She was that kind of gal—a real star. She didn't marry until late in life; she didn't have any children. But we were her children.

01-00:31:22
Hughes: So you felt close to her, as well?

01-00:31:24
Draper: Very much, yes, yes. Then I really got close to my mother when it was just the two of us who went down to Washington, when I was in eighth grade. I was new in that class, so I didn't have a lot of good friends in the class, so she was my buddy. We discovered the city together—Washington, D.C. is a fabulous place to go look at the sites. We went to the FBI and they said—[clicks tongue] I still remember—Big, bad Bill is going to—it now will have to be Sweet William. I had just been fingerprinted by the FBI, [laughter] at age thirteen.

But yes, I remember a lot of good things about our relationship. We were discovering Washington together, and that was the closest I was to her. I don't remember a lot of when I was younger, but she was a wonderful mother. We had a great family relationship, and that spirit continues today in our whole family. Overall, the families in the Draper line have all been pretty close.

01-00:33:11
Hughes: Well, tell me how you ended up at Yale.

01-00:33:22
Draper: The honest truth is, I went to Yale because one of my very closest friends in high school—I had four or five that were really close. One, Quentin Smith, was probably the brightest. I said, "Well, where are you going to go?" And he said, "Well, my father went to Yale; I'm going to go to Yale." In those days, [laughs] you just applied to one school. So I said, "Well, I'll apply to Yale. That sounds good." My father had said, "You ought to apply to one of the big

three." We didn't even *know* about Stanford. It didn't come up, it wasn't a thought. The West was New Jersey.

01-00:34:30
Hughes: The West was New Jersey. [laughs]

01-00:34:30
Draper: So he said, "You ought to go to one of the three." I had the impression that Princeton was too social, and Harvard was too intellectual, and Yale would be just about right. So I only applied to the one school. I had gotten a flier from Bucknell, which I liked. I thought that it looked like a good place. It was funny. I remember I ran for student body president. At that time, the applications went out, so I told this school advisor—he was the assistant principal, basically. You didn't have all the specialties at that time. He was trying to help me sort it out. I said, "I'll apply to Yale if I get elected; I'll apply to Bucknell if I get defeated." I got elected, so I applied to Yale.

01-00:35:48
Hughes: Very simple.

01-00:35:50
Draper: It was simple in those days. I got an envelope back and I didn't know whether it was going to say yes or no, but I didn't worry about it, somehow. Things took care of themselves. You could open it and you think, well, if it's no, then I'll apply somewhere else and probably they'll let me in— *Amazing*. Today, ooh! You sweat, your parents sweat, your grandparents sweat, your sisters and brothers sweat for you, and everybody's worried, and you send out fifteen applications and keep your fingers crossed.

01-00:36:33
Draper: They had some kind of a test. I don't know if they—

01-00:36:41
Hughes: Not the SAT?

01-00:36:42
Draper: Yes, I think it was the SAT. It wasn't that unusual in New York at that time to take tests that were set up by somebody else. Now it's a big deal that there are these national tests. But there, it was the New York Regents Test, taken before the SAT. The teachers wanted us to do well, and I'm sure they guided us in certain ways. So we were used to that. Then we took the SAT. At that time, they had one general test, and then you could take one of three different special tests. There was a general that carried mostly English and math, and then you had another test that you took. What the choices were, I'm not sure. But perhaps one was language, and one was history and—I don't know, I'm not sure. That's how I got to Yale.

My dad was in the army, and came up with me on the train from Scarsdale to New Haven, to take me up to Yale to have my interview. They do no

interviews today. That was the first time I'd seen Yale. I had already applied. He and I went up to look it over and meet somebody there. I got a good recommendation from my principal, who had worked with me as president of the student body. I remember years later, seeing his recommendation in the Yale file. I later was on the board of Yale trustees, and I don't know if it was in that context or what. But I think it was when I was still a kid. Somehow I saw my own recommendation, and it was very nice. "Billy bore the burden of leadership." So that was great.

01-00:39:50
Hughes: At some stage, you took a course from Georges Doriot. Do you remember that course, and was it formative in any way?

01-00:40:12
Draper: Very well, very well. At Harvard Business School. Yes. Georges Doriot was unique. He gave a course called Manufacturing. Manufacturing had nothing to do with manufacturing, but it was his philosophy of life. In those days, you went right from college into Harvard. You didn't have to work for two years. A lot of the students were pretty young and inexperienced, and business was quite a new thing. So his philosophy was exciting to us. He had a French background, and he had been in the U.S. Army, in charge of the quartermaster corps, I think, at one time. Doriot was a very popular professor. He was a very opinionated guy, who knew exactly what he wanted to tell us. He wanted us to hear what it's like in *real business*. So things like, "Don't stay in Boston. When you graduate, you've got to go out and get where men are men, and live in Chicago or Cincinnati or Pittsburgh. Do real things and build big—build something and make a difference. Boston: it's all too easy." Then another point he made: "Keep your antenna up. Always keep your antenna up."

01-00:42:27
Hughes: For new deals, you mean?

01-00:42:29
Draper: Well, not deals. It depends. Whatever business you're in. You might be in the advertising business or—yes, for new customers or new ideas or—.

01-00:42:38
Hughes: I see. New anything.

01-00:42:39
Draper: Yes, and he was big on ideas. Well, the first thing he did was unique at Harvard. He grouped four or five people. He just said, "Break up and form teams and form a group of four or five people." Then you worked together with that group all year. That was a good idea for business, because that's what it's all about, working with other people. So he said, "You've got to turn in an idea a week." By the way, the group also had a main goal of writing a thesis, as a group. We picked metalworking, different aspects of metalworking; others might've picked other things. So you had to turn in an idea a week, other than this thesis, other than taking your tests, and other than

listening to him, because he lectured big time. Oh, by the way, Harvard uses the case system, and it's not a lecture system. But *he* lectured. He never went to the case system.

One idea I presented, [laughs] which I still think is a good idea; instead of buttons, I thought we could save a lot of time if you just have a snap which looks like a button, or whatever you want as an ornament, but just have a little snap. And you just go *choo-choo-choo* [imitating sound of snaps being fastened].

Everything was timed, too. We all were under the gun to get everything done fast. So we're thinking, how do we do things faster? Another thing he kept saying was, "If you wake up in the middle of the night and you think of a great idea, write it down!" One idea only is selected in the class.

01-00:44:54
Hughes: Of all the ideas.

01-00:44:56
Draper: Yes, of all of them.

01-00:44:58
Hughes: And how big would a class be?

01-00:45:05
Draper: I would say fifty. So one idea came from our group that got selected. My idea didn't get selected. [laughs] That's just one thing I remember. There were other ideas we had; I suppose I had some. But one of them that one of my friends had was to put a light on pens, so that in the middle of the night, [laughter] the light would be there! Another one was a chemical engineer and he had the idea—Birds Eye Food was brand new then, frozen food. You never had frozen food until the fifties. And so he had an idea of putting a spot on the—some kind of chemical thing he knew would show when a frozen food melted. And so if it melted, it meant it wouldn't be good. So if it melted, this spot would turn red from green or something like that.

Anyway, he got us all thinking about a lot of things. The people that didn't take his course, regret it today, because they've heard so much about him. He was a fabulous guy. I never did do the scrapbook that he said we should all do. But I got a distinction anyway because he didn't ask for the scrapbooks to be turned in. He always said, "Your wives—," some of us were married, but not too many. Maybe a third of us were. "Those of you with wives, or your girlfriend, they should be helpful to you. They should read *Business Week*, and underline or tear out the articles that are important for you to read. They have to be total partners with you in making you successful." His whole idea was you're going to rise to the top if you keep your antenna up, and you keep diligent, and you get your wife working on your side. My wife had a job but

she didn't have a career at that time, of course. That was not what was done. There was no career path for women.

01-00:47:25
Hughes: How did your wife feel about that?

01-00:47:29
Draper: She laughed. Just like you're laughing! [laughter]

01-00:47:36
Hughes: Well, I should've asked you, before we got into Harvard Business School, had you decided at Yale that business was where you were headed?

01-00:47:56
Draper: I don't know, it was just a natural, I think. I was shaped a lot by my father, and he was a businessman prior to government service and the military, and he too knew that Harvard Business School was a good thing to do. At that time, it was not old. I don't know how old it was, but it probably was more than twenty years old at that time. So he encouraged it, and having gone in the army, I had my whole way paid by the GI Bill.

01-00:48:39
Hughes: Because your father was still kind of marginal, in terms of income?

01-00:48:47
Draper: Yes. He made some money, but money was never important to him. Public service was his driving force.

01-00:49:00
Hughes: Now, did you, when you entered Harvard Business School, have an idea of what line of business you might go into?

01-00:49:09
Draper: No. Well, after taking Doriot's course, I thought I'd better go into heavy industry. One summer I worked in a steel mill, so that when I got an offer from Inland Steel, I went to work for them. I didn't apply to a lot of places, General Electric wasn't hiring. When I graduated, was kind of a recession time, '54. So I was glad to get a job, because I had a wife and I had a baby at that point.

01-00:49:50
Hughes: Whom did you marry?

01-00:49:56
Draper: I married a great gal. I was really lucky there. It's a good story. I met her on a boat going over to Europe. Her name was Phyllis Culbertson, a senior at Smith College travelling with her sister on an American Express tour. I had been in Korea; I fought in Korea as an infantry officer. I came back and went over to see my dad for the first time in a year, because I'd been in Korea and he had been in Paris in another job which Truman asked him to do. A big

job—manage the Marshall Plan from Paris. [W. Averell] Harriman managed it from Washington. So Harriman was the overall director, but my father was the guy on the ground.

01-00:50:58
Hughes: He was the deputy, maybe?

01-00:50:59
Draper: Yes. He was the executive officer, he was roving ambassador. His title was Special Representative of the President, in charge of the Marshall Plan. He was the first ambassador to NATO, and he was in charge of Mutual Security [Agency], MSA. He had all three jobs at once.

01-00:51:25
Hughes: My heavens!

01-00:51:24
Draper: And that leads to venture capital, and the first venture capital company here in the west, because he met [General] Fred [L.] Anderson, who had run the VIII Bomber Command. Harriman suggested Anderson, who had been head of the VIII Bomber Command in London. There was a movie written about him called *Twelve O'Clock High*, I think. It was a very critical time during the war, bombing Berlin and weakening their willpower, and bombing Dresden and all those places. So he was sending boys to their death, knowing it; but a lot of them came back and it was a great success.

Anyway, Fred Anderson was my dad's deputy in Paris. They didn't know each other, but Averell Harriman said they'd make a good team. Because my dad, he had a very good mind, and he was very good at strategy and making things work, creative on solving problems. Anderson was a risk taker and a dynamo.

The two of them were a great team. So they cooked up the idea to start a venture capital company in California, because Harriman had been here, out in the air base out here, Travis Air Force Base. He came back to California after they'd served together for a number of years in Paris. My dad went to be chairman of the Mexican Light and Power Company in Mexico City, married his assistant he met in Paris, who was a WAC, army WAC. Not a wacko, a WAC. [laughter] They lived in Mexico for five years, she loved it and he loved it. But Anderson and my dad lined up the idea of starting a venture capital [firm]. My dad had *always* thought about venture capital as being better and more fun for me, more interesting, than investment banking, which he had done.

01-00:54:47
Hughes: But there wasn't even that term then, was there?

01-00:54:52
Draper: Yes, there was. In New York City. I had heard the term before. I'll tell you who there was there. Are we running a little late?

01-00:55:05
Hughes: Yes.

01-00:55:05
Draper: See, when you're asked to talk about yourself, it's dangerous. [chuckling] So Anderson was a terrific guy. That's a whole other story. But venture capital was— I'm trying to think. There's two. There was American Research and Development in Boston, started by our friend Georges Doriot. There's a book called *The First Venture Capitalist* about him. So there's that. But that wasn't the first. I think J.H. Whitney was the first. But that was more family money. The first professional one was in Boston, and then Draper, Gaither & Anderson was the first one in the West.

[End Audio File 1]

Begin Audio File 2 1 04-07-2008.mp3

02-00:00:31
Hughes: So we're talking about the late fifties, aren't we?

02-00:00:39
Draper: Right.

02-00:00:40
Hughes: Because I have notes here that Draper, Gaither & Anderson was founded in 1958.

02-00:00:50
Draper: '59, I think, it was. There's an article in *Business Week*. It's about January or so of 1960. It's got a picture of all of us who were there in the startup of Draper, Gaither & Anderson. It's got General Anderson, it's got [H.] Rowan Gaither, [Jr.], and my dad, and me and [A.] Crawford Cooley, and Don[ald] L. Lucas and the whole group. Pete Bancroft didn't come until later. He came after I left. That's a different story.

But anyway, you asked about the term venture capital. That was not well known, but it was known in New York circles. Doriot had started his American Research and Development in Boston in the mid-fifties, I guess. His was maybe the first professional one with a bunch of unrelated people as investors. I think J.H. Whitney was mostly family money. And the Rockefellers—there was no Venrock. Now it's called Venrock. But Rockefeller Brothers did some venture capital. They started Minute Maid and Eastern Airlines. Those were venture capital.

But Queen Isabella really started venture capital, if you go way back, because she gave Columbus the money and the wherewithal to take a ship out and bring back treasure. And that's the beginning. Not even the beginning; there's probably something way before that. So the concept was there, but the terminology, you're right, was not known. So my wife would describe to her friends what I did, and she would describe it as private banking. Silicon Valley, of course, was not named Silicon Valley, and we were in a very different time then. It was a small community. Really, San Francisco is pretty small. It was 750,000. Hasn't grown much. But around it, it was nothing like the eight million people living here today. It was orchards out in Sunnyvale and that was a very different sort of a time.

02-00:04:30
Hughes: Was Draper, Gaither & Anderson the reason you came west?

02-00:04:38
Draper: Yes. I was working at Inland Steel, and did that for five years, and met [Franklin] Pitch Johnson there.

02-00:04:50
Hughes: What were you and he doing?

02-00:04:54
Draper: Well, he was in the mill, foreman in the open hearth. I was, in the first year, in a training program called Randall's Rangers. Clarence Randall was the chairman of the board at the time. Young guys who had promise were in the group, like five or six of us.

02-00:05:24
Hughes: You mean being trained for executive positions?

02-00:05:26
Draper: We were being trained for executive positions. So we worked in the mill the first year, but went out to different— went up on an ore boat up in Lake Michigan, crawled in a seventeen-inch mine (seventeen inches is the height of the coal mine) down in Kentucky that Inland owned. We'd go crawl in and do all the ugly things; but we'd also go to the purchasing department, the sales department, and meet with the chairman of the board. So it was a neat year. Then I picked the sales department to go work for. There were only nine salesmen. Fascinating. Nine salesmen for— it was the sixth largest steel company in the country, and the best managed. But they had the tightest sales department. It was very close. So they didn't have many levels between the customer and the president, because they wanted— they had very good relations with their customers. Anyway, I ran South Chicago steel district.

02-00:06:43
Hughes: And was your MBA helping you with this?

02-00:06:49
Draper: Yes, it did, it did. But you know the biggest help? [laughs] HBS taught me how to draw up a budget. My budget was $400 a month. That was my salary, and that was really tight for me. I had to live within the budget, and so my wife and I, we got our first couches—a couch and chair and some other furniture from the Goodwill. I still give the Goodwill checks, because that was very helpful to me! [laughs] We worked on the budget. Oh she's a Smith graduate and an English major, and when it's dollars and cents and numbers, she fades. Her eyes glaze over. But she paid a lot of attention to this budget that I had learned how to do at Harvard Business School. So I had this yellow foolscap paper and lines of numbers. We had entertainment: $5. [laughs] We literally went out to dinner about once every three months or two months. We didn't do that much. Cathie Johnson, Pitch's wife, will tell you that when she'd come to dinner she'd say, "Phyllis, it must be the end of the month." [laughs] Because we had noodles or something like that for dinner! [laughter] But it was a very tight budget. We really lived within it. Harvard helped me with that budget. You have to line it out and you have to parse it out and decide what's important. But yes, of course, it helped me in general, because it was an overview of how business works. I really knew nothing about business when I went to Harvard.

02-00:08:58
Hughes: It sounds as though one of the things Doriot was trying to teach you people was what it would be like in the real world of business. Does that imply that other business courses were more theoretical?

02-00:09:21
Draper: Harvard Business School is built on the case system, and has been ever since it [was] founded. The case system is very clearly a story about a company and a problem. You read the story and you have a problem at the end: what should Sarah do? Then you write the answer to this real case. They were the first, and lots of other business schools use their cases. That's a big source of their income. So other professors would have something—like I took production; how to read a blueprint; how to manage the foreman who has a problem with his crew and he's brought it up to you, and you're the superintendent, and he said he's leaving or Sam is leaving. A lot of personnel kinds of problems. In production, it was a lot of how to produce something, the cost of the product, and how labor is added to the cost. Then you have accounting, too, which is tough to teach by case method, but they did it. Then they had marketing, and again, by case method they'd show you that you could package this advertising pitch and—do you cut your advertising budget? Or do you recognize that half the budget is wasted, but you don't know which half? [laughs] So therefore, it's very hard to cut. Another, sales management. Another one was business practices, business policy or something like that. If you had a disgruntled employee walk into your office and you wanted to calm everything down and you wanted to get him talking, or her talking, the first thing you want to do is offer them a cigarette. [laughter]

02-00:12:29
Hughes: Well, was Doriot pulling this all together?

02-00:12:41
Draper: No. Not at all. Doriot was set in his ways, and he was not going to teach by the case method, he was going to teach by lecture, to tell you how to read the *New York Times* in ten minutes. Start with the obituaries, because you'll see who has really made something out of their life. You don't want to be one of those me too people down here on a long list. You want to be somebody that ends up with an obituary. [laughs]

02-00:13:14
Hughes: So he was always pushing?

02-00:13:17
Draper: Yes! Oh, he was pushing, and telling you to hit your potential and keep your antenna up and drive forward and always think of your employees. They're all there to help you. You want to help them and give them the support they need. He had a lot of good advice, but most of his philosophy is a little bit archaic today.

02-00:13:48
Hughes: Well, but you're talking about the fifties, aren't you?

02-00:13:53
Draper: There were no women in our school. Except those that read and graded the student papers submitted by nine o'clock every Saturday night. We had to turn in a paper, the whole class did, on a given case. Of course, it destroyed our dates, because you work right up to the end. Before we were married in my first year, Phyllis, when she was at Smith—came up, and brought a friend who could type. I couldn't type. So I had my paper ready by six o'clock, and the friend had to type for about an hour, and then we could go out to dinner or do something with the friend and a blind date I had arranged. But no women professors that I know of, and no women students. No women in the administration, at any high level.

02-00:15:18
Hughes: And Harvard wasn't exactly fast at getting women undergraduates, either. Seems to me it was well into the sixties, was it not, before it became co-ed?

02-00:15:31
Draper: Sixties or seventies, yes. You asked me one question which I didn't really get a full answer on. Essentially, how I met my wife.

02-00:15:50
Hughes: Oh right.

02-00:15:52
Draper: I had been in the trenches in Korea during the war. I came back and my old girlfriend had written me a Dear John letter, [laughs] that she'd met another

guy, who I knew very well. He was a Yalie, he was a friend. So I was looking around, but not aggressive. I was just mostly interested in getting on a boat and going over to see my father in Paris. So I signed up with the Holland American Line. You didn't just fly over to Europe. You go by boat, because it's the cheapest way. Holland American Line was the cheapest way, too.

I had been dating a gal in Wellesley earlier. Her friend said, "Look up the Culbertson sisters." So when I got on the boat, I stood behind these tall girls. They were in a line, which I thought was for food. But turned out it was for deck chairs. I said, "Are you by chance the Culbertson sisters?" Phyllis describes it as they just about dropped, because they thought they didn't know a single soul on that boat. They were mostly foreigners. So we, of course, sat together, because it was deck chairs, for day after day. So I invited her to marry me the third day after we were out there. [Hughes laughs]

The thing that I didn't tell you is that she had a ring on at that time, bigger than the one she's wearing today, [laughter] from the president of his fraternity, from Amherst, and all this. She didn't say yes, but she didn't say no. She was a curly headed, dark-haired gal—I'll show you a picture—and she was—big smile and very easy to talk to. Well, she thought I should be aiming at her sister, who didn't have anybody interested—but I wasn't interested in her sister, I was interested in her. They were on a trip to go around Europe, on the American Express tour of Europe.

So when I got to Paris, I said to my dad, "I met this gal. I think I really want to marry her, and so instead of spending the summer here in Paris with you—." [laughs] I ended up spending two days there and then I went and met them in Brussels or Bruges, followed them to Italy and through Switzerland. It was mostly women on the trip, so they were happy to have me, and never charged me a dime for going on the whole trip. Then we came back to France, Paris. On Phyllis's twenty-first birthday, I took her to a place that my stepmother suggested, which had all kinds of violins. When one of them, in the john, met me, he said, "Your girl's birthday? And it's my birthday. We'll play for you!" So they come over and play *Happy Birthday* to her. It was a lovely evening. The only thing is, they kept having glasses of champagne, and the bill was much higher than I expected, so I couldn't cover it alone. And so I emptied her wallet. She and I just had enough to cover, with about a one-franc tip. We had gotten all different kinds of money around Europe. All the people that had greeted us on the way in with a sweep of the hand greeted us on the way out the same way but the open hand waited for a tip, or so I thought. [laughter] So we gave them a Swiss franc and an Italian lira and a this and a that, but we had nothing for the taxi driver. Her sister was in the hotel somewhere, where I wasn't staying; I was staying with my dad. So we went in the taxi, went up and got her sister to pay the taxi.

It was too late for me to get the last subway home, and it didn't go again until six the next morning. My father calls about three in the morning saying,

"Phyllis—" [laughs] We're just the three of us, sitting around talking. "Phyllis, is Bill there?" And she, "Oh, yes, he is." [laughs] And then, [whispers] "It's your father!" And he said, "You've got to get on the boat going back home." We were all going home the next day. "But I can't get home, because the subway doesn't open until six o'clock." "Well, you're going to get—." So anyway, I did make the boat and went back home with my sister, who had been over there in Paris all summer. The four of us got along very well, and her sister, five of us.

About October, Phyllis hadn't made up her mind yet and was still wearing the ring. [laughs] And I go down and have a date with her. So I finally said, "Hey, listen." She remembers this to this day, because the term I used was exactly what caught her. I said, "Hey, listen, make up your mind. There are a lot of fish in the sea." She remembers "There are a lot of fish in the sea." [laughs] So she returned her engagement ring pretty soon after, married me a week after graduating from Smith and we've been married for fifty-five years.

02-00:22:48
Hughes: That's quite a story.

02-00:22:51
Draper: Yes. Three kids. Happy family.

02-00:22:55
Hughes: We started on Draper, Gaither & Anderson. Why don't we finish that episode. You talked about Anderson, but who is Gaither?

02-00:23:39
Draper: He was very special. A real super star. The lynchpin of the firm. He was the youngest of the three. There were three senior partners, and then there were five young men like myself, who were going to learn the trade, I guess. Well, we were all learning it in a way. Gaither had been head of the Ford Foundation; chairman of the board of the Rand Corporation; a lawyer who was the managing partner of Cooley Crowley Gaither, here in San Francisco, best law firm, did our law work; and wrote the Gaither Report for Kennedy, which was about the missiles, and the fact there were no missiles. He was a wonderful guy. He did all those things, started Draper, Gaither & Anderson, came down with cancer, died at the age of fifty, after doing all those things. His son is now a partner of Sutter Hill. Full circle—helped do some of the legal work for Sutter Hill, had graduated from Princeton and then Stanford Law School, became chairman of the board of Stanford. He lived on to do some of the things that his dad didn't. Well, it's just a great story.

So here were three powerhouse guys starting Draper, Gaither & Anderson. They needed five young guys. Anderson having done a few private investments—let's see, we called them—special situations. That's what it was called, special situations. He would make some investments in special

situations with a guy named Larry Duerig, who had gotten an investment banking background here in San Francisco with a small firm.

02-00:26:28
Hughes: Oh, so this was on the West Coast.

02-00:26:30
Draper: Yes, this is all West Coast now. Yes, it started right here. Palo Alto. So the three senior partners, and then Larry Duerig was kind of an in-between. He knew a lot about the investment business and so on. And then these five young guys—Don Lucas was twenty-nine years old and had been in the investment business in New York. Crawford Cooley—it was Cooley Crowley Gaither. So he was the son of the lawyer named Cooley. Crawford had been working with an inventor who was in on the original color television. But he wasn't a scientist himself—Crawford was just Crawford. [chuckles] And then three other guys. We started in a small place in Palo Alto, and then built something on the Stanford campus, with a ninety-nine year lease.

02-00:28:43
Hughes: Was there Stanford Industrial Park at that point?

02-00:28:49
Draper: Well, in a way there was, because Hewlett-Packard was on it and Varian was on it. Yes, so in a way there was Stanford Park. But the idea of the ninety-nine year lease was pretty new, and we signed one of the early ones. That was brilliant business management of Stanford since the Leland Stanford gift disallowed any sale of Stanford land which was truly brilliant..

02-00:29:21
Hughes: Why that area as opposed, for example, to San Francisco?

02-00:29:29
Draper: Because of Stanford.

02-00:29:32
Hughes: Yes, and spawning little companies.

02-00:29:37
Draper: Yes. So Dave Packard and Bill Hewlett were brought together by Stanford, and the Varian brothers, and it was spreading a little more and so—

02-00:29:57
Hughes: So was the firm looking at high-tech investment?

02-00:30:06
Draper: The firm was looking at high tech only, yes. Matter of fact, I'll give you a little story on that. I went off to Hawaii, because a guy named Chinn Ho wanted to build an apartment called a condominium. It was a brand new term. Only one other condominium in the world was down in Arizona somewhere. You had to get your head around the fact that somebody would buy some

space. They didn't get the ground, they owned a space. They were small apartments, 500 square feet, in something called the Ilikai on Waikiki Beach. So I, as a young guy, was happy to go and look at this and thought it was darn good. Lowell [S.] Dillingham was a big name. He and I sat and had mai tais one evening on the beach, and I was feeling no pain. But I literally fell in love with this project of Chinn Ho's—went up to see the architect up in Seattle, who built the [Space] Needle, the famous Needle. Same architect for the Ilikai, which is in three parts. It was like a Y. I just saw it on paper and a little model that Chinn Ho, the promoter, was putting together. Anyway, I came back, thought this is the greatest thing, we've got to do this deal. The Rockefellers were one of the three key limited partners, and the limited partnership was set up just like they are today. It was really the first of its kind where it was a general partnership with limited partners, where the general partners got 20 percent of the carry and got a fee to manage, like 1.5 percent for the management costs.

02-00:32:35
Hughes: Well, now, was that a new arrangement then?

02-00:32:36
Draper: Yes. That was new.

02-00:32:38
Hughes: Did Draper—

02-00:32:40
Draper: I think it was the first one. Cooley Crowley Gaither, the law firm, created that. So they're all the same now. You can do the same, almost identical.

02-00:32:54
Hughes: And do you think that Cooley, et cetera, invented that way of managing a venture?

02-00:33:04
Draper: Of the legal agreement. No, I can't answer that. I think there were general partners and limited partners in other parts of the country. But certainly, it was new out here, and it was obviously a very good way for general partners to get part of the action and still get taxed by capital gains, and not ordinary income. Not being paid a salary. Or not even a bonus. You had a stake in the success of the enterprise.

But just to complete the story. So I get a call to go see the Rockefellers in New York, the senior partner of the Rockefellers. He was an impressive guy, also a Yalie, so I thought, we'll get along fine. He was mad as hell. I'm sitting there, a young associate. And I'm just saying what a great deal the Ilikai is. And he said, "*We* can do real estate deals. You're there to do technology! Why in hell are you looking at building a condominium?" I didn't know at that time—he probably did know—they hadn't yet done the Mauna Kea. Have you ever been to Hawaii, the Mauna Kea?

02-00:34:35
Hughes: Yes.

02-00:34:38
Draper: They did that very early on, and several brothers were going to have a big stake in Hawaii later on. So I said, "I don't know, I just think this is a very good deal. But if you guys don't like it—." Limited partners can't touch the money once they've signed up for a general partnership. So technically, we had every right to do anything, because there were no restrictions saying we had to do technology deals. DGA was to go into the venture capital business. Venture capital could be investing in a condominium on Waikiki Beach.

02-00:35:21
Hughes: So there was no specialization, as there tends to be today.

02-00:35:25
Draper: No, it was very general. So just looking for special situations, that was what it was called. So I said, "Well, whatever." Nobody wanted to touch the deal if the Rockefellers, one of the three big partners, limited partners—two million came from them, two million came from Lazard Frères, and two million from one of General Anderson's friends in New York. I think it's probably mentioned in *Business[Week]* article. I'd say it's in January or February of 1960.

02-00:36:08
Hughes: Around this time, Henry J. Kaiser is seeing the development potential of Waikiki, right?

02-00:36:31
Draper: Yes. I went over on one of the first jets. So the jet airplane is what brought Hawaii together. They hadn't yet developed the outer islands; it was all on Oahu.

02-00:36:45
Hughes: When is this condominium deal?

02-00:36:48
Draper: 1960. Or '59. Probably '59.

02-00:36:55
Hughes: Well, the firm, by my notes, was founded in 1958. Yes.

02-00:36:59
Draper: I think we moved out here in '59. I was there before my father by a few weeks.

02-00:37:11
Hughes: So you were there as an associate at the very beginning.

02-00:37:16
Draper: I think it was September of '59, yes.

02-00:37:19
Hughes: It was your father that was the attractant, wasn't it? You were still a relatively young man—

02-00:37:27
Draper: Oh, yes. Oh, I knew nothing about anything.

02-00:37:30
Hughes: Was the whole Hawaiian tourism business an obvious thing? Or were you early in the game in recognizing the potential there?

02-00:37:51
Draper: Oh, no, I think Chinn Ho heard there was money coming together in Palo Alto. We got good publicity on this brand new venture capital company. I think he looked us up through a friend or something. I was just doing the—due diligence is the common word today. We didn't have that word then, but that was what I was doing. I was doing the due diligence.

02-00:38:23
Hughes: So maybe it was Chinn that was the visionary.

02-00:38:27
Draper: Oh, yes, I think he was. He was a real estate developer. But it was happening. Lowell Dillingham knew that it was happening. They built a shopping center, the first one in Hawaii, which they took me out to see. No, there was no one person that envisioned what was going to happen in Hawaii. The jet airplane! But they all knew. People who lived there knew this was big and that things were going to develop. It was owned by five families, basically.

02-00:39:07
Hughes: Should we stop here?

02-00:39:12
Draper: Yes.

02-00:39:30
Hughes: Well, I thank you. And we'll continue this very interesting story.

02-00:39:35
Draper: Yes, yes!

[End of Interview]

Interview #2: April 14, 2008
Begin Audio File 3 04-14-2008.mp3

03-00:01:24
Hughes: In this second session, we're up to the next step in your very long career, which is the Draper and Johnson Investment Company. Last time you told me that Pitch Johnson was a Yale classmate.

03-00:01:56
Draper: No. He was Harvard Business School. And not a classmate. We started together, but then I got called back into the Korean War. I started in the class of 1952 and finished in the class of 1954. And he was in the class of '52. We're the same age. He came out of Stanford University, and then went straight to Harvard, and I did, too, from Yale.

03-00:02:38
Hughes: How did the re-association with Pitch Johnson occur?

03-00:02:50
Draper: Well, I didn't know him at Harvard.

03-00:02:52
Hughes: Oh, I didn't realize that.

03-00:02:53
Draper: There were 800 people in the class, and I didn't meet him. I met him for the first time at Inland Steel, in East Chicago, Indiana, where he was working in the mill, and I was in Clarence Randall's Ranger Program, they called it, a training program for about five or six of us, to go around to all the different parts of the steel company. I ended up a year later, after the training program, I went into sales.

But we started out in the mill, and that's how I met him. His wife and my wife became best friends, and he and I became best friends. Our kids grew up together. We came to Inland with one baby girl, and he didn't have any children at the time. He had his first baby there, and we had our second child there.

East Chicago is a mill town on Lake Michigan, near Chicago, but it's in Indiana. Inland Steel was the sixth largest steel company in the country but probably the best managed. It was very good. The Block family really owned a large share of the stock. It was publicly traded stock. And so Pitch and I met that way.

So then when I came out west to join my father five years later, I was going to his hometown. Pitch was born in Palo Alto, California, and our offices, Draper, Gaither & Anderson, was setting up in Palo Alto, and eventually ended up on the Stanford campus, in a lease there, a ninety-nine year lease. I think it was the first ninety-nine year lease that Stanford gave.

And so when I decided to start my own company, left three years after being with Draper, Gaither & Anderson, it wasn't too hard a decision to call Pitch and ask if he wanted to be a partner, because he was an engineer, I wasn't. I was an economics and history and political science kind of a major at Yale. Divisional major, they called it. So he was going to be a great partner, and I was delighted to give him the call. He took like a minute and a half to decide that he wanted to come back to Palo Alto and join me. If you live through those Chicago winters and in a steel mill—Palo Alto sounded pretty good to him, I think. The idea of venture capital sounded good. I went out to Chicago to meet with him, and then later we designed the plan for the company on my dining room table, or kitchen table, I think, in my house in Palo Alto.

03-00:06:18
Hughes: How would he have known of venture capital?

03-00:06:22
Draper: He didn't. I told him what it was about, and so he learned it with me. I wouldn't have known [laughs] anything about it either, except for those three years at Draper, Gaither & Anderson.

03-00:06:36
Hughes: Why did you leave Draper, Gaither & Anderson?

03-00:06:40
Draper: I left because I really wanted to do my own thing.

03-00:06:47
Hughes: How did your father feel about that?

03-00:06:49
Draper: Great. He was delighted. He was worried, of course, and thinking it's a risky business. But he loaned me $50,000, and Pitch's father-in-law, who was president of Standard Oil of New Jersey, loaned him $50,000. We each had $25,000, and so we put $75,000 each into the business, so there was $150,000.

We started a small business investment company, so called, SBIC. The government gave us license number twelve. We were the twelfth one to start. I had learned about the program from a friend of mine at Inland Steel, as a matter of fact, who sent me the description of this new SBIC program under Eisenhower. It was Eisenhower's idea, I think, for government to help small businesses get going with more venture capital. It leveraged our money. We put in the $150,000. They agreed to lend us $300,000. The loan was a ten-year loan, at 5 percent interest. So that seemed like a good deal, and it helped us get going.

We made, I don't know, maybe ten or fifteen investments, and then after three years we merged with a real estate company named Sutter Hill. It was a real estate development company for developing shopping centers, but it was a

small company, too, and they got an SBIC license also and were just starting to go into venture capital. We'd had about three years' experience.

They hired a guy named Paul [M.] Wythes, who was a classmate of the president of Sutter Hill land company, called Sutter Hill, Limited, I think. So then Paul became vice president of the SBIC, and I became president. We were a little early in venture capital, to be honest with you. Pitch had an offer to become a consultant or some operating job in Air Products, over in Oakland, I think it was, and so he went and did that.

We built up Sutter Hill, Paul and I. Then a few years later, we paid back the government and we started a new limited partnership called Sutter Hill Ventures; the other was Sutter Hill Capital Company. Sutter Hill Ventures was in the tradition of—well, it was the same format as the Draper, Gaither & Anderson, a limited partnership, where we got one company, Genstar, a big Canadian company with a lot of assets in Canada, and they were the only limited partner. We were the general partners, Paul and I, and then we added two more, shortly after making the deal with Genstar.

03-00:11:23
Hughes: You said that you were a bit early in venture capital. What were you thinking—

03-00:11:31
Draper: Yes, Pitch thought he would go back to the operating world, and that he would go into more of an operating role. I think that was what was going on in his mind. So we made a couple of good investments. One was Electroglas, [Inc.] that made a diffusion furnace. And we got a fellow who operated a boat company, a fellow named Chuck [Charles W.] Gravelle. Chuck had been in Minnesota, and he had been hired by this fellow who owned a boat company. Chuck was brought on to do his marketing. He had a budget of $25,000 for the year, and he blew it all on one ad in the *Life* magazine. It was a brilliant move because the ad said, "If you want to become a dealer for this boat company," and it had a picture of the boat, "send in enough to buy one boat." Well, they were overwhelmed by the orders, and so he became rich, in Minnesota terms, in this small town in Minnesota. So he and his wife felt a little uncomfortable. In a small town, it's difficult to be too wealthy, or you have too much focus. So they wanted to get out and they came to California. So we said, "Well, why don't you run this company, Electroglas? Because the guy we've got is Arthur Lash. I think he came out of Fairchild, which made semiconductors. He was an engineer and not a CEO. So you always need to have somebody that's running the company, and you need somebody with the technology, and we had the two of them together. It worked out. Chuck Gravelle didn't know anything about technology, but he was a darn good marketing, sales, organized person, and the company was very successful.

03-00:13:53
Hughes: Had you perceived that?

03-00:13:55
Draper: Well, I knew in my experience at Draper, Gaither & Anderson that having the right management team is essential.

03-00:14:07
Hughes: Right. But you looked at this guy and you saw that he had potential in that regard?

03-00:14:10
Draper: Yes. Sure.

03-00:14:12
Hughes: Sutter Hill, I read, is called the first venture capital company on the West Coast.

03-00:14:21
Draper: No, Draper, Gaither & Anderson is. It went Draper, Gaither & Anderson; Draper and Johnson; Sutter Hill. And as I say, Sutter Hill had just gotten an SBIC in about 1965, ’64 or something. So they were just starting, and they hired Paul Wythes to do that and maybe made an investment or two. But the real sequence was Draper, Gaither & Anderson; Draper and Johnson; Sutter Hill.

03-00:15:13
Hughes: And the connection between Draper and Johnson and Sutter Hill Capital was more the SBIC than the fact that Sutter Hill Capital was a real estate company?

03-00:15:35

Draper: No, the real estate company did not end up succeeding, in the long run. They did okay for five years or something. They ended up getting squeezed when the interest rates ran way up. President Carter was president. It squeezed them and they went out of business. But the venture capital business flourished, and it was one of the most successful in the early days, as it is today. Then several others started in the valley. Kleiner Perkins. In Tom Perkins’s book, autobiography, called the *Valley Boy[:The Education of Tom Perkins]*—

03-00:16:19
Hughes: Yes, I’ve read it.

03-00:16:21
Draper: —he gives me credit for bringing him the first good deal they had. They had a couple of bad deals in Kleiner Perkins, but I brought him a company called Qume that we invested in, and they came in too, and that was a whole other story. That was a great story about a Chinese American that I can tell you.

03-00:16:46
Hughes: Well, we can go into that later.

03-00:16:47
Draper: Whenever you want.

03-00:16:48
Hughes: But I'm interested in this very early stage, when venture capital wasn't even a term. According to what I've read, the term was not coined till 1971.

03-00:17:02
Draper: I think you told me that once before. But that's not true, because I knew the term venture capital when I was at Inland Steel in the fifties. You see, it started in New York, with J.H. Whitney, probably in the late forties, the concept of venture capital, and the term was beginning to get coined. When, exactly, I don't know, but I know clearly that it was a pretty well-known term on the East Coast. And then General Doriot is credited with starting the first venture capital company in Boston, and that started well before Draper, Gaither & Anderson. Draper, Gaither & Anderson in 1958 or '59. I think American Research and Development, which was Doriot's, was maybe mid-fifties, something like that.

03-00:18:32
Hughes: Yes, and I read a short interview with Benno [C.] Schmidt, [Sr.] who of course, was working with Jock Whitney, and he claims that he started the term. And I believe that was the late fifties, or maybe even the forties. So you're absolutely right.

03-00:18:52
Draper: So when we got out here, the term wasn't known. You're right. It wasn't known in the West at all. The term wasn't used and my wife was describing what I did as private banking.

03-00:19:08
Hughes: [chuckling] Did Draper, Gaither & Anderson use that term?

03-00:19:12
Draper: Oh, sure.

03-00:19:13
Hughes: They thought of themselves as venture capitalists.

03-00:19:16
Draper: *Definitely*. We knew at the time we were the first venture capital company in the West. But we were maybe the third in the country. The Rockefellers was really family money. I would say they were doing venture capital with family money, but it wasn't what has become a traditional venture capital company, with professionals. Doriot really had that and Jock Whitney and Benno. Benno's father is the one that was the partner, also named Benno. Benno [C. Schmidt, Jr.] became president of Yale, and as a matter of fact, I went on the board of trustees at the time he was president of Yale.

03-00:20:07
Hughes: In my mind, a venture capitalist is associated with high technology. But was it perhaps any business that had potential? Or were you thinking high tech?

03-00:20:34
Draper: High tech. Yes, but it wasn't called high tech, it was technology. It was people with a new idea. It was often called special situations. General Anderson, when he talked about our investments, he'd talk about special situations. Venture capital became more and more the common term as we progressed. Did you get that *Business Week* article?

03-00:21:13
Hughes: Yes.

03-00:21:14
Draper: I think it'll say venture capital in that right there.

03-00:21:18
Hughes: Yes, it does.

03-00:21:19
Draper: So we were totally focused on technology. In fact, I went over— Chinn Ho had approached Anderson, and he sent me over to Hawaii to look at a condominium. Didn't I tell you that story?

03-00:21:46
Hughes: Yes.

03-00:21:47
Draper: So I got called on the carpet by the Rockefellers. "Hey, you're there to back technology companies, not real estate."

03-00:21:59
Hughes: So you had your hand slapped.

03-00:22:02
Hughes: Tell me a little bit more about the SBIC. I read that one reason that Genstar was brought into the picture was because the SBIC had a financial limit; that you could only have a fund of a certain size.

03-00:22:25
Draper: Yes.

03-00:22:26
Hughes: You just simply wanted more money to work with?

03-00:22:31
Draper: Yes. We wanted more money to work with. We had a big name and we had a small pocket book. [laughs] That's the essence of it. And so because we were the only ones in the valley to go to—these young companies couldn't go to the

bank to borrow the money, so we were the new kid on the block, new institution on the block, to do venture capital.

So skipping ahead to Sutter Hill, we went to Genstar to get significant capital. Significant in those days was $10 million. We got $10 million from Genstar. It was a big company that managed cement and housing and tugboats on both coasts. It was a big Canadian company. But this was kind of an out-of-the-ordinary thing, to invest in venture capital. But the young president of it liked the idea. I had heard about it from a classmate of mine, Charlie Mayer, who had worked at Société Générale de Belgique which owned Genstar.

And so I met with the chairman of the board of Société and said, "We need more money, and Charlie had suggested you might be interested in investing in technology." Because Charlie had come out to stay with me and my wife, just on a personal visit, and he said, "If you ever need more money, we're in the market to get into more technology."

03-00:24:44
Hughes: Was that a very forward-looking idea for a big corporation at that time?

03-00:24:50
Draper: Yes. Well, I'll explain. It made a big difference in their situation, because they had this kind of earnings—very choppy and kind of flat, but growing. Not flat, but it was very cyclical, and not the kind of growth that technology companies can provide— and I will say that with quotes, because technology services and products can be worthless, too, if not properly commercialized.

So I was told by the chairman of Société Générale de Belgique that they do all their North American investments through Genstar, so talk to the president of Genstar. So I went up to Montreal and met with the young president there, Angus [A.] MacNaughton—who, by the way, lives in the Bay Area, if you ever want to interview him. Angus came out to visit us and look at our various investments, and they invested $10 million. We never used more than $6 million of it. The investment, on the day it was announced, made the front page of the *Wall Street Journal*. So a $10 million investment was a *big deal* in those days—something on the order of 1969, I guess, something like that. Maybe earlier than that. No, I think it was 1969.

Except for the first three years, which were flat—there was kind of a recession that occurred in the early seventies, and we were all flat in our evaluations. But Genstar, with their $6 million investment, according to Angus MacNaughton—you can check the exact figure, but I think he said that they made three-quarters of a billion dollars out of it. Three-quarters of a billion dollars on a $6 million investment.

03-00:27:23
Hughes: That's amazing.

03-00:27:23
Draper: The reason it was great for that company is it received these "bluebirds," call them. The good investments that we would pass out as we got them, would fill in their earnings, so they looked like a growth company. Yet they were only really a cement company and a housing company. And then they got taken over by, I think, British Tobacco. They did a leveraged buyout or some kind of a buyout of that company. The new investor in Genstar didn't want venture capital; they just wanted the basic industry. So they made a big mistake. And so MIT, Yale, Princeton, and [short pause] Stanford—I guess it was Stanford. Yale, Princeton, MIT, at least those three took over. I don't know when Stanford came in, maybe a little later. But they took the whole position. And it's one of the best investments. Sutter Hill is still in Yale's portfolio. Yale has the best record of all the universities in the country for endowment.

03-00:29:00
Hughes: Right, I've read that.

03-00:29:01
Draper: And part of that is because of venture capital; part of it is because they pay attention and Sutter Hill continues to have something like a 35 to 40 percent IRR.

03-00:29:14
Hughes: Impressive.

03-00:29:15
Draper: Meaning return on investment.

03-00:29:20
Hughes: What control did Genstar put on Sutter Hill?

03-00:29:30
Draper: Good question. We were right down here, across the street over here at the Alcoa Building. It used to be called the Alcoa Building. And we were at Cooley Crowley Gaither's office, [with] our lawyer. Angus MacNaughton was out here to sign the $10 million check and the agreement. We had the agreement all done, but he said, "I think we need some form of check on your investment. Call it like a veto opportunity." So we said, "Well, let us caucus." So he went out of the room. And I talked to this wonderful old guy, Ed Huddleson, who was a wonderful senior partner at Cooley. He did all the Draper, Gaither & Anderson legal work, and he did mine in Sutter Hill. And he said, "I think you ought to tell him—" And he talked this way. [imitating Huddleson] "I think, Bill, you ought to just tell him that maybe he's not ready for venture capital." So we called Angus back in. Angus was a year or two younger than I am. Still is. [laughter]

03-00:31:07
Hughes: It usually works that way!

03-00:31:09
Draper: Yes. Usually does. So Angus came in and I said, "Angus, maybe you're just not ready for venture capital." "Oh, no, no, no." [laughs] So all of a sudden, the cards turned and he signed it. Although when he signed the agreement, his signature—his name is MacNaughton; you'd think you'd see some Ms and Cs. All you see is this big circular thing. It's just a bunch of zeroes inside it. And so I said, "Wait a minute, is that your signature?" And it is, to this day, the same signature.

Anyway, I walked away with a $10 million check in my hands [laughs] out here. It was one of the most exciting days of my life. With Paul Wythes—the two of us walked over to the bank and had—[laughs] $10 million. That was in the *Wall Street Journal* the next day. So that was the start of really significant investments and money. We hired two young guys, Len [G. Leonard] Baker, Jr. and Dave [David L.] Anderson. One MIT, Dave, and—

03-00:32:22
Hughes: Right away you did this?

03-00:32:23
Draper: Well, within six months.

03-00:32:26
Hughes: Yes—because you had some money now.

03-00:32:29
Draper: Within six months or a year. Yes, we needed to strengthen our staff, as well as adding to the money.

03-00:32:38
Hughes: Were you thinking of any particular sector for investment?

03-00:32:47
Draper: Not really. But the semiconductor set off a whole chain of new products—and transistor before that. And so then things came along. So when I was at Draper, Gaither & Anderson, I put money in something called Corbin-Farnsworth. A guy named Elliott Farnsworth started the first defibrillator company in the world. The first. And it's still in business. They were sold to Medtronic.

But things were beginning to happen here in Silicon Valley. We ended up backing LSI Logic, which became a big semiconductor company. I made a speech down in Los Angeles to some convention that was interested in venture capital. And at the end of it, a guy named Wilf [Wilfred J.] Corrigan came up to me and said, "I want to start a new company." And so we backed him, but it was more money than Sutter Hill wanted to put in. So Kleiner Perkins was in business at that point, and so was Mayfield [Fund]. And I'm not sure whether Mayfield invested, I think Kleiner did. I know they did.

03-00:34:56
Hughes: Was that a new idea?

03-00:34:58
Draper: The semiconductor? Well, he had worked at Fairchild, and he was starting out— Oh, you mean sharing the—

03-00:35:06
Hughes: I mean the syndicating, yes.

03-00:35:07
Draper: I think that was pretty new. And we were beginning to form like a little club, where we trusted each other. Another startup company we all backed together was Hybritech, which probably saved my life.

03-00:35:31
Hughes: What do you mean by that?

03-00:35:31
Draper: It was a big financial win. But more important, it came up with the test for prostate cancer, the PSA test. And that was also backed by Kleiner and by others. That was down in San Diego. So we worked together a good bit. Today, the venture capital industry is a little less friendly. It's more competitive, because the funds have gotten so big they want to put a lot of money out. In our case, we were small and we needed to shore it up in order to get the wherewithal to give Wilf Corrigan enough to start up LSI Logic or Bill Poduska enough for Apollo Computer, etc.

03-00:36:24
Hughes: Well, does Draper Richards tend to syndicate?

03-00:36:28
Draper: We do, yes. We tend to, because we're even smaller. I don't have any outside limited partners, so all the money is mine and Robin Richards's. And so we've got about forty companies, but we couldn't finance all those ourselves, so yes. But we do the startup phase and we do some follow-on. We put in maybe a million dollars in the first round and end up with two million in the company or something. In those cases, we would have about the same numbers, as a matter of fact. But of course, times were different, and it bought—

03-00:37:16
Hughes: Went much further.

03-00:37:17
Draper: Went much further.

03-00:37:18
Hughes: When you were syndicating through Sutter Hill, did you usually insist on being the lead investor?

03-00:37:34
Draper: Oh, yes, I would say. But we didn't talk too much about lead investor. Yes, we would round up the money. We'd call Kleiner and Mayfield, "Do you want to come in and share the deal and look at it?" And yes, we'll all go in. So we didn't talk about our being a lead and you do it my way. And in fact, it wasn't much of a term sheet. The term sheet often was just a [laughs] hand-written thing. We would often just have the terms laid out on a piece of yellow paper, and then call Cooley and say draw up the agreement.

03-00:38:23
Hughes: Well, tell me what would be on that piece of yellow paper.

03-00:38:26
Draper: Oh, the amount of money that we were going to put in, the price per share that we'd pay, the number of extra options that would be available to new management and options available to the current management. Sometimes we'd make a loan and an equity investment together. Or sometimes it would be a convertible loan for the whole thing. I don't think we used preferred stock as much as we do today.

Well, each one was a little different. I'll give you an example. Three people came into my office and wanted to start up a company called Activision, which was a game company.

03-00:39:22
Hughes: Now, this is Sutter Hill?

03-00:39:23
Draper: Yes. I got a fourth to manage it, because the three of them, all they wanted to do was design games. I asked one of them, "Well, what do you want to do in the long term in your life?" "All I want to do the rest of my life is to make games!" And he meant it. [Hughes laughs] And for all I know, he's still doing it. There was a company called Atari.

03-00:39:56
Hughes: Oh, I remember.

03-00:39:58
Draper: And Atari had the control sticks on a television set, and they had the game called Pong. And you'd go *bing-bing-bing-bing*, back and forth. So we used the Atari setup and made games for them. Not for them, but for anybody that owned an Atari. Basically, it was like an early computer, in a way. Control mechanisms. And so I got one guy—Jim Levy—I think he'd been with Time Warner. Anyway, he came out and wanted a job to run a company. And so I said, "Why don't you meet with these guys?" I said, "Well, how much are *you* able to put in?" Well, of course, they were able to put in, let's call it $10,000 each. Or nothing. Or something. Well, I said, "Look, why don't we do it this way? You put in $30,000, $10,[000] each." And Jim Levy was going to put in a little more, because he could. So you ended up with $50,000. "We'll put up

$50,000 as stock, and we'll go fifty-fifty on the company. We'll each own a 50 percent ownership." But the company needs, call it $500,000, so we'll put in the other $450,000 on a long-term note. And that's the kind of thing. Or the note might be convertible to another 10 percent of the company or something.

03-00:42:00
Hughes: Now, was that new, that idea?

03-00:42:03
Draper: I used that a little more than it's used today, and it was relatively new but nothing is new under the sun. Remember Queen Isabella was the first venture capitalist.

03-00:42:19
Hughes: Yes. There's always a precedent.

03-00:42:21
Draper: But yes, I would say it was a good way to put everybody on the same terms. They've got a little skin in the game, a little of their own money, and they own a little more of the company than they could if we put all the money in. They knew that, and it kind of leveraged their position. So in those days, there weren't many of us, and there were more opportunities in relation to today, where today there is a lot of money and not that many good new ideas. Although there's still a lot.

So I tend to agree that more money creates more ideas. But the proportion has changed, so that an entrepreneur that came in today would say, "We want to give up only 30 percent of the company for the $500,[000]. " Except now it'd be for $5 million. So there's a little bit of difference there. The entrepreneur is in a stronger bargaining position than he was. However, in those days, he made a lot of money, we made a lot of money. We were more on the same side than they are today, I think. I just had a good feeling about those days.

03-00:43:54
Hughes: Well, I think this is a critical juncture that we're talking about, beginning with Draper, Gaither & Anderson and going on through Sutter Hill. But it makes me wonder. An entrepreneur with a good idea, before there was Draper, Gaither or any of these other early companies, what did he do? Where did his capital come from?

03-00:44:19
Draper: Sometimes it would be family money. There was a family that owned—and I think it was called Sequoia Wire [and Cable Company]. A guy named Paul [M.] Cook worked for them, and that money came from a family. Then Paul Cook left and started Raychem, which General Anderson had financed. But Raychem was really a big hit here. It was shrinkable tubing on wire, so that you could put a loose plastic around wire and then warm it, heat it. [imitating sound of plastic shrinking] *Sh-sh-sh-sh*, and it shrinks up, grabs that cable tight. It was a great idea, and it's a big company still today.

03-00:45:16
Hughes: And that's an insulation device?

03-00:45:18
Draper: Yes. So my point in saying that is, I think that original—not Raychem, because that was started because the venture capital came from Anderson. But Sequoia Wine, the original company, I think, was family money. So if you didn't have some family that just said, "Well, here, take a chance." My dad, in 1929, before the crash, had the opportunity. He got a bonus from Dillon, Read, his investment banking firm that he worked [for], was a partner in—got a nice bonus at Christmastime. Things were all good in 1929, everything was sailing high.

So he got an opportunity to put this bonus to work as either paying off the mortgage that he had on our house in Scarsdale, New York, or to invest in a coffee machine that came out of Germany, I think. He invested in the coffee machine, which of course went bankrupt, and had to work like hell all through the Depression. He just barely held on, in order to pay our mortgage. So that was a way that people got money. An entrepreneur would go to others, let's say investment bankers, or a commercial banker, or some rich individual, and try to get support. So I think that was the way it went. Very informally, very ad hoc.

03-00:47:08
Hughes: Were the East Coast sources, such as the Whitneys and the other rich families, were they—

03-00:47:15
Draper: They were available, but they were very small.

03-00:47:17
Hughes: They were investing in the West?

03-00:47:19
Draper: No, not that I know of. No.

03-00:47:22
Hughes: So what does this mean for innovation in what we call Silicon Valley, having now what is, for the West anyway, a pretty new source of money for young companies with bright ideas? It seems to me a big change.

03-00:47:44
Draper: That's right. But are you saying what does it mean now?

03-00:47:51
Hughes: No, I mean what did it mean *then*.

03-00:47:55
Draper: I think it meant *eureka*! [Hughes laughs] It meant my God! There's an engine for the growth, for the potential, for the innovation. Varian brothers was

coming out with the first MRI, magnetic resonance. Nobody knew what the potential was, but of course, it turned into something everybody has to have when your knees begin to creak. I saw the first laser here. As I told you, we started up the first defibrillator company. And of course, now, where one form of technology talks to another, the acceleration is *enormous*. So the next ten years, twenty, thirty years, you're going to see *dramatic* growth in *all kinds* of scientific breakthroughs. A lot around health, and you know about that, and a lot around public transportation, probably in communications.

03-00:49:34
Hughes: If I'm catching you right, you're saying that it's more than just the fact that there's a big pool of money. It's the fact that one technology, one business plays upon another.

03-00:49:45
Draper: That's exactly right.

03-00:49:48
Hughes: And builds in an exponential way?

03-00:49:49
Draper: Yes, that's right. That's exactly right.

03-00:49:51
Hughes: Is that a well known idea?

03-00:49:55
Draper: I don't know. I'm sure it's not original, but it's true. It's clear, as you can see. The computer itself made things possible that just were not possible before. And so that computer is able to do mathematical computations so rapidly that the human brain couldn't keep up. It would have taken an army to do it longhand. Then when that started to happen, then it could be applied to certain technical problems that gave other breakthroughs. You know what? The time machine—seems a little crazy, that you can go backwards and forwards in time. But when you grasp a very simple thought that if we can make a machine that can go faster than light, and then we can make a door and climb into that machine, we can go with it, faster than light, and we can go forward and backward into time.

03-00:51:24
Hughes: Is there anybody working on that?

03-00:51:29
Draper: Stephen Hawking is the guy—

03-00:51:30
Hughes: Oh! [laughs]

03-00:51:30
Draper: —that gave me that thought. He gave a lecture that Intel produced out here, and he gave a lecture with his two fingers. The most captivating lecture I've ever attended, and that was one of the parts of it.

03-00:51:46
Hughes: Really? Well, we diverted from Sutter Hill. You mentioned Paul Wythes—were you meeting him for the first time in Sutter Hill? Why Paul Wythes?

03-00:52:07
Draper: He was a very close friend of Greg [Gregor C.] Peterson's. Greg Peterson and his brother-in-law started Sutter Hill real estate company. Greg was in the same class as Paul. I'm not actually sure what Paul did straight out of business school.

03-00:52:34
Hughes: Paul went to Princeton, didn't he?

03-00:52:36
Draper: Yes, went to Princeton and Stanford Business School, and they were classmates at Stanford Business School. Greg hired Paul before I knew him, and then Pitch and I talked to Frank Lodato. I knew Frank better than Greg, but I knew them both. Their company was very small. They had a secretary; we didn't [laughs] have a secretary. They had a Xerox machine and we didn't.

03-00:53:18
Hughes: [laughs] It got down to that level?

03-00:53:20
Draper: Yes, almost like that. So we put our two companies together. Oh, but the important thing was, they wanted to go into venture capital, beside the real estate. So Greg found out about the SBIC program and got a license, and he hired Paul to help him with the SBIC. They made one or two deals before we came together with them, but they were pretty inexperienced. I had had three years of venture capital.

03-00:54:03
Hughes: So you knew a little more.

03-00:54:05
Draper: And three more years with Pitch. So yes, I knew a lot more. We had done probably a dozen deals in Draper and Johnson. So I became president. Paul's a little younger, five years younger. I became president, he was vice president of the SBIC, and that's how it all fit. And then he and I conceived of Sutter Hill Ventures, to make it a partnership, raise more money—paid off the SBIC, paid off the government, sold the SBIC to Genstar in the package, in the transaction, so that Genstar bought it for fair value. They got a good deal there, too. So they, in a sense, closed up the SBIC, and we just had the partnership money.

03-00:54:53
Hughes: Yes. But it seems to me from what you've been saying that the SBIC, even though it had its limitations—and there may have been others, other than the financial limit that we talked about—got people thinking in this way.

03-00:55:10
Draper: It got us into business. Well, Pitch wouldn't have come into it, because he wouldn't have known about it; he was in the steel business. But it got me, with $25,000 to my name, into the business, because we got $300,000 together.

[End Audio File 3]

Begin Audio File 4 04-14-2008.mp3

04-00:00:00
Hughes: I believe you were going to make a comment about the place of the SBIC in the history of venture capital.

04-00:00:09
Draper: Yes. Eisenhower had the administration that came up with the idea of a small business investment company. And I think it was the [Small Business Investment Company] Act of 1958.

04-00:00:26
Hughes: You're right.

04-00:00:27
Draper: It was a bonanza for me, in that I never would've gotten into venture capital. Pitch Johnson wouldn't have either, because I brought him into it. There are other people who never used the SBIC program. But for me, it made the difference between not being able to do it, not having the money. Because it was a risky kind of a business, I didn't want to go out and ask friends to [laughs] put money into this crazy business. Most people didn't know the terminology.

So I give a lot of credit to the fact that the SBA gave me a loan of ten years, and $2 for every dollar that I put in, at 5 percent interest. That made the difference for me to be able to commit my little $25,000 to going into giving entrepreneurs a chance to show what they could do. So they did a great job. Unfortunately, what happened to the SBIC program, they changed it slightly. It used to be straight loan and low interest. As the dollars got bigger—several billions of dollars went through the SBIC program—as that happened, and they started thousands of these SBICs, and the bubble began to build up in venture capital in the technology world, they had a different system, which was a partnership system. Some people invested in it and took a few winners out of the company and left the high-risk things in there. And it left the SBA holding the bag. And it wasn't properly done. This was during that period of the late nineties. The SBA lost most of the $2 billion that they put in there.

Now, how many companies and how much money was generated because of the money that that SBIC program was responsible for, I don't know. But probably vastly more than the $2 billion that was lost. So I'm a big enthusiastic supporter of that program.

And then later, when Robin Richards and I started Draper International—I came back from public service, from the Export-Import Bank, and from working at the UN—having worked in the government, I knew about the Overseas Private Investment [Corporation] company—very similar to the SBIC program. Except the concept there was that it was designed to enhance the incentive for people to invest in developing countries.

So I, having worked, as I say, at the UN and at the Export-Import Bank, I wanted to do something international. We can talk about this later. But it does connect, in that when we started that up—as, again, something of an experiment, to go to India with a venture capital program—I knew about the OPIC program. And having been successful with the SBIC program, I said, "Let's go talk to OPIC about helping us invest in India." 1994. We were the first venture capital company to go to India. Bar none. Of course now, there are many, many, many of them. So that was really exciting, and they leveraged our—. And our returns were something like sixteen times [snaps fingers] the limited partners' money. They got sixteen times their money back, in six years. That was just a lot of lucky timing, a lot of lucky deals. But it was also the leverage that was supplied by the US government, the OPIC.

So I have great respect for programs that will leverage, free of a lot of red tape, government programs that will leverage investments, the decisions being made by other people. But they can't do it the way they changed the program, where they allow it as a partnership. They didn't have a debt anymore and they couldn't collect on the debt. They were a partner in a program where the operators were able to take money out and leave the government holding the bag. That wasn't good. In this program, the whole concept is that we pay back the government before we make any money. We owe a debt, and that debt's got to be paid before we make money. That's the way it *should* work.

04-00:06:55
Hughes: Well, let's pick up on this leveraging theme as we talk about your later activities, because I have a feeling it's going to enter in the Export-Import Bank. But I still haven't finished with Sutter Hill. [laughs]

04-00:07:10
Draper: Right, go ahead.

04-00:07:12
Hughes: Well, you mentioned Paul Wythes and how you met him. I'm wondering about personalities and whether that came into the equation at all. The little that I know is that the two of you are fairly different in personality, and hence—and this is a guess on my part—in how you go about investing.

04-00:07:42
Draper: I don't think so. Paul is more cautious, and I'm more of a risk taker, that's true. But we both knew the importance of quality people—and that's basic in venture. You've got to have people you trust. But more than that, people that you feel have the brainpower, the vision, the energy, the commitment to make something big. And all of those elements are really important, and I think Paul sees that just like I do. We didn't have much difference of opinion on quality people. That's where you might fall apart and have problems in deciding whether to do one thing or do another.

But you're right. I'm more likely to take a risk and not worry if it fails, because one hit, like an LSI Logic or a Corbin-Farnsworth—or in more recent terms, when I backed Skype. That paid for the entire portfolio, and it was a small investment, but it returned a thousand times as much money. And so you don't worry. My attitude is you really cut to the chase, and you take risks if the potential is big. But if you don't see a ten-for-one return, potentially, you probably shouldn't even do it. You probably ought to just hold on to your money.

04-00:09:57
Hughes: So maybe that was what you were going on, because it seems to me that when you were first starting out, you didn't have that kind of experience yet.

04-00:10:04
Draper: No, I was more cautious. When I started with Pitch, we were cautious. We backed a guy who had a check-weighing machine that tossed packages out that were underweight, at high speed. It was an automation kind of a thing. A guy named Joe Guili was the president of it, and Pitch and I bought 25 percent of the company for $60,000—and the company, I think, was doing a couple million dollars in sales—maybe not, but—it was a pretty good sized company! But things were different in those days. Valuations were lower. We would always value the thing on the upside, one time sales. Now some can pay ten times sales and not be worried. I'm worried, but value is in the eye of the beholder. I'd say I was much more cautious in those days, because we could not afford to lose our money. You're right. And yet we were taking risks on new businesses. But if you back the right person, he'll get you out of a bum business, a bum product idea, a bum service idea, and move you into a better one. If you back the wrong person with a great idea, you never get anywhere, because he just bumbles and fumbles.

04-00:11:39
Hughes: So the people come first.

04-00:11:41
Draper: So people come first, in my eyes, and I've always been very much that way. I think Paul felt much the same way. He has a mechanical engineering background, but he wasn't a driven engineer or he wouldn't have been a

venture capitalist, he'd be designing chips or something. So we got along very well.

04-00:12:12
Hughes: How much did you know that in advance? How much of a risk were you actually taking in going to Sutter Hill?

04-00:12:34
Draper: But you know, you're young, and you're thirty-two years old, and you can't go wrong. You know you're not going to fail. You just *know* it. [Hughes laughs] So that's important. Age has a lot to do with it. A good education. So I knew quality people. I owe a lot to Yale and Harvard, because I met quality people along the way. Scarsdale High School was high quality. So all the way, I'd been mixing it up with quality people. When a jerk came in, I knew it pretty fast.

04-00:13:11
Hughes: You have the reputation of having a strong intuition about people.

04-00:13:16
Draper: Yes, that's true. I think that does come through. I know I hear that, too. I have a good feel for people. And matching people up. That's important. Like these three guys that started Activision. They needed that fourth guy, who didn't want to make games [laughs] the rest of his life. And he needed *them*. You needed a combination of people that would fit together, because sometimes they're just like oil and water and you can't make them mix.

04-00:13:52
Hughes: There are a lot of things underlying all this, but it seems, also, that to be a successful venture capitalist, you have to be a people person. Because it's not only assessing people, it's making things happen by drawing other people into your concept.

04-00:14:20
Draper: I would say you're right, if I didn't know better. [laughter] In other words, I don't know many people who would describe Arthur Rock as a people person. Arthur Rock is a very intelligent guy who is a *very* successful venture capitalist, but he's not warm and fuzzy. He's married to a warm and fuzzy gal. He's smart enough to do that, and he also has a good feel for people, too, I think. A feel for it—but you don't have to be warm and fuzzy. I would say Don Valentine is not warm and fuzzy. He's hardnosed, and very strict, tough, cut it off and—yet he knows marketing. See, Don knows marketing. He came out of Intel marketing and knew the technology and the marketing, and that combination is very good in this field. Tom Perkins, I don't think most people think of him as warm and fuzzy.

04-00:15:47
Hughes: Yes. I wasn't necessarily meaning warm and fuzzy. I guess I was more meaning making things happen between people.

04-00:16:00
Draper: I think all of those people can do that, and are good at that. No, you're right. They know where to put the pressure on and where to ease up, yes.

04-00:16:12
Hughes: In the end—and this is looking at it very crassly—money speaks. If you're coming to a venture capitalist and you need the money to get your business going, you're probably going to have to have a very good reason not to agree—there's the money, there's the experience.

04-00:16:33
Draper: That's true. Well, a big part of a venture capitalist's job is to coach the entrepreneur. It's lonely at the top, as they say. The entrepreneur really wants some coaching, very often, if it's his first shot at running a company. He doesn't want an over-hanging, overwhelming kind of a personality pushing him, but he wants to know if he's going in the right direction, where he should put his energy, wants to play off ideas. He has personnel problems among his own staff—he has nobody to talk to in the staff. And so the venture capitalist can perform a big service there, to being the coach or listening board for the CEO.

04-00:17:41
Hughes: You can maybe lump that together under the term governance?

04-00:17:47
Draper: Yes.

04-00:17:48
Hughes: Stepping in and managing, or helping to manage companies. Was that something that went back to Draper, Gaither & Anderson?

04-00:18:01
Draper: Yes. Of course, I had good training at Inland Steel about how a big successful company works. So I saw it—from a very low level, sales and sales manager. You kind of get it along the way as you go. I'm sure Joe Guili of Illumitronics, our first investment, had a few laughs. Pitch Johnson and I, were aged thirty, and he was probably forty-five—he thought, well, these guys are [laughs] a little bit young to give me advice. But we would put the pressure on when we'd look at the numbers that did not meet expectations. It's a kind of a relationship that builds as you begin to be tested and find that you've got good judgment or that they have faith in your ideas. But if I go on a board now, and it's a young guy, he's typically, as you say, very willing to listen. And I've, by the way, got to be careful of that.

Somebody like Bill Bowes is *really good* at listening. He's very taciturn, doesn't speak up aggressively or anything. He waits to be asked his advice, and then he just nails the subject perfectly. In other words, he's a guy that I would go to for advice. He's very intelligent, and he's very cautious about jumping in when he doesn't have all the facts. Lots of people in board

meetings demonstrate their egos. You come across all kinds. I've been on thousands of boards, hundreds, anyway. You find people who want to talk just to listen to themselves talk. That gets to be a problem, a management problem for the CEO. Try to get that person off the board, is his thought [chuckling]. Or at least not have him dominate a board meeting. We pay a lot of attention to the board management.

04-00:20:53
Hughes: Was this a new way of looking at investment? That it wasn't just a matter of putting money into a company, it was also a matter of building a company. Was that new?

04-00:21:25
Draper: I think that was not new to Doriot. Doriot felt building a company was what it was all about. Might've been new to some of the investment bankers in New York, when they thought about a quick transaction. Investment bankers often don't make very good venture capitalists, because they think of the transaction. They want to make it into a transaction. Turn it, flip it. They call it flipping the company now. You buy in and you sell it quickly. But the guys who make the most money are builders. Arthur Rock, in Intel, was instrumental in his advice to the management team there, as they came out of Fairchild and were starting up on their own. He was an investment banker. So I shouldn't generalize. But some investment bankers just want to do the deal and move on. How do we flip this? And how do cash out, before they worry about building the company.

04-00:22:47
Hughes: But that was never the idea for any of those early partnerships that you were associated with? There was always the idea that we're in this for the long term, to build a company.

04-00:22:57
Draper: Oh, yes. We knew they were long-term investments. It was never that we were going to sell it out next year. You just don't do well if you have that attitude. You're not really creating anything significant. It doesn't give you any pleasure, either, if you're just trying to flip it fast.

04-00:23:31
Hughes: All through these two conversations we've had so far, I've noticed how often you're using what could be called social networks, your connections with people. Maybe it's growing as you move from Draper, Gaither & Anderson through Draper Johnson, and finally to Sutter Hill Ventures—that if one is going to advise a new company in a full sense, it means knowing a *lot* about who is out there to help. I mean in terms of banking, employment—all the things that go into building a company.

04-00:24:46
Draper: Exactly.

04-00:24:47
Hughes: How did you make those connections—or did you—in those early days?

04-00:24:55
Draper: We had a big Rolodex, and we literally had this Rolodex machine with the cards, and we'd just flip through, pre-computer. So you just use the Rolodex, and you'd look up—what was that guy's name? And so accountants and lawyers and advisers of marketing, public relations people—you begin to build them as you go. So the first investment you make, with Joe Guili and Illumitronics, he's not likely to get a hell of a lot from us, because we're early in the game. We know a few people in the steel business, but that doesn't help him much [chuckling]. I had had three years of gathering some connections, and so on, at Draper, Gaither & Anderson, but it wasn't like it would be today, or when I was right in the center of the Sutter Hill days, when we had just all kinds of people that wanted to know us. The head of Goldman Sachs came into our office at Sutter Hill. We were new. Venture capital was new. But Goldman Sachs knew something was going on out here, and so he came out. That was kind of an eye opener, [laughs] because we thought, my God! We didn't have offices any bigger than this one.

04-00:26:38
Hughes: So it's happening in many ways. You're going out and finding the people you need, but as you become known, people are coming to you.

04-00:26:46
Draper: Yes, then they come to us, that's true. It works both ways. That's a good observation.

04-00:26:54
Hughes: How did people think about Sutter Hill Ventures in those days?

04-00:27:21
Draper: You can ask other people what they thought and think today. Not very different from what it is today, except I think it was more on the forefront than it is. There're so many more competitors now. But it was thought to be very high quality, friendly people who were very professional and straightforward. What we used to do, every entrepreneur that came in, gave them a list with the telephone numbers of everybody we had invested in, so that they could call any of them. And we didn't call to say, "You tell them this or that." Because we were very proud of our reputation, because it was always oriented toward trying to support the entrepreneur and be a friend, and be honest and straightforward with them, as well as help them get farther down the line. Now, that doesn't mean we didn't have arguments and disagreements at different times with different management teams, but there was a quality look to us.

We had hired Len Baker. I think he graduated second in his class at Stanford Business School. He was a Yale mathematics major. We hired Dave Anderson, who was an MIT graduate, and a very soft, sweet, friendly

personality. The four of us ran it for the length of time until I went to Washington. When I left, a couple of people came on. But it was really a good firm. It would have been ranked—anybody that named the top three firms would've named Sutter Hill. I would say every third person would've named it as the best. So I would say the others were Kleiner—and Mayfield was well thought of early on and has lost a little of its luster, but *God*, it's such a big field now.

04-00:30:14
Hughes: Would Sutter Hill be up there today?

04-00:30:19
Draper: Yes. It would, for the investors that know it, like you talk to Yale, you talk to MIT, Stanford. Well, I'll give you a specific. My partner Howard Hartenbaum talked to the guy that runs the Princeton endowment. Howard said, "Who were the best companies that you invested in, in the venture world?" He said, "There are only two that have the very best records." He said, "Sutter Hill and Sequoia." And they're in tons of them, Kleiner and many others. NEA and all the others. So they still have a very superb reput[ation]. But they don't do any PR. And it's very "come to me" kind of thing. It's not reaching out to try and be in the news or getting Colin Powell to be your limited partner. That kind of thing. They don't do that—a*nd* the general partners own more than half the firm now. The limited partners, it's just a money machine. [laughs] They do it right, they do it carefully, they do it very slowly. They're not risk takers, in the sense that I am by myself, in other words. I think it would be a bigger firm today, probably, if I were still there, but it wouldn't be a better firm. I think it's great. I'm a limited partner of it, in a small way. But they're really neat people. Every one of them. A guy who was Tim's classmate is running it. My son's classmate from Harvard Business School is Tench Coxe. Bill Younger and Tench run the firm. They have a great team. It's a wonderful group of people.

04-00:33:15
Hughes: You mentioned last time that Sutter Hill was an early investor in Hybritech?

04-00:33:35
Draper: Yes.

04-00:33:37
Hughes: I *believe* Hybritech was the first monoclonal antibody company.

04-00:33:44
Draper: Yes. PSA test. We sold the company to [Eli] Lilly, and Lilly continued to grow. I held onto that stock, and it was a really good one.

04-00:33:54
Hughes: Do you remember that deal in any specifics? Because that was a *radically* new technology.

04-00:34:02
Draper: I know it was, and it was not because of anything that I knew about that technology. I wasn't the point guy on that.

04-00:34:21
Hughes: It was Byers, wasn't it?

04-00:34:26
Draper: Yes. Brook Byers. He was with—

04-00:34:31
Hughes: Kleiner Perkins.

04-00:34:32
Draper: At Sutter Hill, maybe it was Dave Anderson. I'm not sure.

04-00:34:41
Hughes: Was Kleiner the lead investor?

04-00:34:45
Draper: Well, I told you we didn't have that. We all went in with about the same amount of money, typically.

04-00:34:54
Hughes: Nowadays, when you say lead investor, does that usually imply that more money was put in by that firm?

04-00:35:01
Draper: Yes. Or it was done first. Or I put the deal together. Let's say I put in $2 million, and I wanted two others to each put in $2 million. I might be the lead investor because I negotiated the deal, I set up the board, but I asked you guys to come on, so I might be given that title today, I suppose, I don't know.

04-00:35:32
Hughes: I think we should stop after Sutter Hill, but I want to give you a chance to say anything more about Sutter Hill that we may have missed.

04-00:35:43
Draper: Sutter Hill was a great experience. I was at Sutter Hill for twenty years. I felt that it was a real contribution to the area, to the industry, and I think it was a big part of my legacy. The other thing about Sutter Hill is I would be willing to bet that the return on investment is higher than any other venture capital company in the country.

04-00:36:24
Hughes: Do you think?

04-00:36:26
Draper: Don't know the statistics, but I'm pretty sure of that. Princeton seems to have—Yale will tell you *definitely* it's the best. But as I said, I was a trustee of Yale, and I was on the advisory committee for Dave [David F.] Swensen,

who's brilliant in his management of the endowment. You can see I am biased.

04-00:36:51
Hughes: Well, I think we should stop there for today, because we're now ready to move into different territory.

04-00:36:57
Draper: Good. Okay.

[End of Interview]

Interview #3: April 22, 2008
Begin Audio File 5 04-22-2008.mp3

05-00:00:01
Hughes: Last time—unless you have more thoughts on the subject—we concluded with Sutter Hill. I believe that the next step in your life was the run for Congress?

05-00:00:21
Draper: Oh, well, that was in the middle of Sutter Hill [laughs]. I took a very short time, because as it turned out, I didn't win it. Shirley Temple [Black] didn't win, either. We split the more conservative vote, and [Paul Norton] Pete McCloskey, [Jr.] won a plurality. It's a very good thing for me that he did, because I don't think it would've been a good time for me. I still hadn't made a big enough splash in venture capital, and I still was looking at the future. It might have changed my—who knows what would have happened? But anyway, the point is, it was a special election. I think the congressman died somewhere in the summer. Anyway, the election was taking place in November, a special election. It was about a three-month race or something like that. Quite unlike [Barack] Obama and [Hillary] Clinton today. God, that goes on and on! Those poor people! But I loved the experience of running.

05-00:01:49
Hughes: Why was that?

05-00:01:49
Draper: Oh! It was spectacular! It's a very humbling experience for anyone who plunges into the public issues and knows as little as I did. There were about ten in the race, but the three of us that came up on top all knew each other—one from Hillsborough, one from Atherton, and one from Woodside, I think. The three of us were all thirty-nine years old. We were in *Time* magazine because of Shirley Temple. It was watched nationally, just because of her. By the way, I just saw she's just about to turn eighty, and there's an article in the Sunday *New York Times* about her. There's a new DVD that's come out—about her later life, maybe, I don't know. She became an ambassador to the Czech Republic. We had a lot of fun, all three of us.

But the problem was, Vietnam was *the* hot issue. The *only* issue. And so we would go to a school auditorium and there'd be ten of us in a row there, all with a minute and a half to tell, [laughs] in brief, what we felt should be done about Vietnam. Should we finish the job? Pete McCloskey, I think with the majority of the electorate, said, "Pull the plug, go home, get out of Vietnam." Shirley and I were saying, well, let's finish the job and not pull out. I went to Vietnam during the election. [laughs] Probably not a very brilliant political move, because it was a period that was pretty critical getting around, and I took about a week. It's amazing how important one week is in a short race. When I saw that it was the big issue I thought I'd better go find out on my own—at least be sure of my ground and at least know the ground.

So I felt sure and I got to know the ground, but it was an arguable issue, and I was in the minority, I think, along with Shirley. Shirley was more conservative than I was. I was kind of in the middle. Which would be a good place to be, ordinarily, but Pete did a very good job of just analyzing. He's a good lawyer, and he analyzed the strategy of just pulling out. Because he was alone, we divided the vote.

But going into people's homes and talking about their issues and the importance of a congressman to them—it's about a quarter of a million people that you represent, at that time, anyway. It is probably three- or four-hundred-thousand, maybe 500,000 now. But the experience for me was terrific. It opened my eyes to a lot of problems and interesting facts about our county. I ran in San Mateo County.

05-00:05:54
Hughes: And did it have repercussions in keeping you engaged, at least at the personal level, in local politics?

05-00:06:04
Draper: Well, it was an indication that I was interested in getting beyond venture capital and doing something that might be outside of our own community. I'm sure it was an indication—my running right there. I was asked by a couple of good friends, Stu Leeb and Bill [William C.] Edwards, at a breakfast at Rickey's [Restaurant], to run. The reason for that was because I was, at that time, president of the Republican Alliance, which is a little like the Lincoln Club today—professional businessmen, lawyers, and other professionals that were Republicans, but almost to a man, moderate Republicans. I say to a man, because I don't know that there were any women in it those days. [laughs] Today, it would be a very different story.

We'd meet and have guest speakers. Governor Reagan came up when he was thinking of running for president and talked with us, or we'd have a senator that was running. It was very interesting. California was a smaller environment at that time. People knew each other more—or it seemed to me that way. Maybe it's not true. But it was a very friendly, open environment,

and I had a good time in that. So that's why they thought of me for running when this fellow named Congressman [Arthur] Younger died.

05-00:08:06
Hughes: Did the decision to run have any bearing on your feelings about venture capital as a career?

05-00:08:19
Draper: No, I knew venture capital at that point—hadn't made much money on it. It was still very new at that time. We had made the Measurex deal. That was a company I may have told you about. Dave [David A.] Bossen was coming out here. On a vacation in Chicago, I went to call on a friend of mine who was in the investment business, and he said, "If you're in the venture capital business, you might want to meet up with Dave Bossen, who's just come out to the West Coast. And so when I came back, I looked him up and helped him find some technology people, because he wanted to do a similar thing to what he had done for his other company, measuring the thickness and moisture content of paper in a paper mill, online, in real time.

He didn't have any technology, he just had the management experience, but he was at cross purposes with the CEO. He was more or less a general—like a COO. And so he broke away. He wanted to come to California and do it, and went into competition with this other company. He did *very*, very well, and we went on the New York Stock Exchange and eventually sold it to Honeywell. But I bring that up because I got that deal put together and raised some other venture money, together with ours, and we had a really good experience. He's a top flight executive, and if you have that kind of person in command, it's much easier being a board member and you enjoy the board meetings.

In fact, we got to the point where we could go to various parts of the world, wherever they had trees, because his business involved paper and paper requires trees. The essence of the business was to measure—paper is basically made out of pulp and water. You look through a piece of yellow foolscap paper, and you'll see blotches. That means there's more pulp in those places where you see [it's] thicker. So the thinner you make it, the more water you sell in the paper, the cheaper it is [chuckles]. But you want the consistency. So not necessarily very cheap paper, but whatever it is, it should be consistent and that'll save costs, big costs, eventually. So these were big, quarter of a million dollar machines that were doing this. And it was a lot of fun. Pete Bancroft came in to Measurex. I called him and asked him if he didn't want to join.

05-00:11:44
Hughes: How had you known Pete Bancroft?

05-00:11:46
Draper: He came to take my place when I left Draper, Gaither & Anderson, and to join Pitch Johnson.

05-00:12:00
Hughes: I see. Well, you talk with great animation about the Measurex deal. It seems to me that if you had been successful politically, it would have meant giving up venture capital, at least for a period.

05-00:12:19
Draper: Oh, I would've given it up for good.

05-00:12:21
Hughes: Would you?

05-00:12:21
Draper: Oh, sure. That would've been a whole new career. You can't go into Congress and then leave in two years. People who had put—

05-00:12:34
Hughes: Well, you can if you're not reelected. [laughs]

05-00:12:34
Draper: —faith in you—you just wouldn't do that. You can be thrown out.

05-00:12:39
Hughes: That's what I was trying to get at, whether you were contemplating a career redirection.

05-00:12:44
Draper: Absolutely. So yes, I have always had a pull toward public service, I think. It started with my father, as I told you. But then that [race] indicated it more. Of course, it didn't happen. And as I say, I'm glad it didn't, because I really was able to establish a financial base for me and my family, which I didn't have. I didn't have that much money at that point.

05-00:13:11
Hughes: It seems to me because you had that financial base, you could do some public service, just in a different way.

05-00:13:19
Draper: Sure. And so when I was asked by George Bush to join him and Ronald Reagan, it was a no-brainer. I wanted to do that, to run the Export-Import Bank. And that was easy, because I had made all the money, much more money than I ever dreamed I would. And so I could be comfortable.

05-00:13:47
Hughes: Was it Measurex that gave you the financial boost?

05-00:13:52
Draper: Oh, it was a whole series of companies. In fact, that was one, but it wasn't anywhere near the biggest.

05-00:14:03
Hughes: Why *did* you leave Draper Gaither & Anderson?

05-00:14:06
Draper: I left Draper Gaither & Anderson because I wanted to do something on my own. I really did. My father was one of the three main characters, of course, as I told you, and I learned the business after three years. I brought them three very good deals. I think Pete would tell you that the best deals were mine, which he took over.

05-00:14:43
Hughes: Which are the three?

05-00:14:52
Draper: I told you about the Corbin-Farnsworth. Another is Western Rubber, which I think I also may have briefly mentioned. For schoolyards, under jungle gyms, a rubber foam flooring, basically, that interlocked. Not a very high-tech thing, but it turned out to be a good investment. And let's see, there was a third one that I was involved in, and I can't right now recall.

05-00:15:28
Hughes: In my mind, and certainly in some of the literature, venture capital is almost married to the concept of high technology. And yet you've mentioned several deals which really weren't high technology; they were good companies that needed a jump start through venture capital. Is it misleading to pair venture capital and high tech?

05-00:15:59
Draper: Well, high tech today is a little different than high tech back in 1965. This measuring the thickness of moisture in paper was *very* high tech. And high speed. The Corbin Farnsworth was *clearly* high tech. That was the first defibrillator.

05-00:16:27
Hughes: I was thinking of the flooring.

05-00:16:28
Draper: The flooring was not. No, you're right. That was just an opportunistic investment that was very high quality; it was well-run, and so on.

05-00:16:41
Hughes: So it tells me, anyway, that you were looking for opportunity more or less wherever you encountered it. Would you say that's accurate?

05-00:16:55
Draper: When Pitch and I were in business, we each leased a car. First time I knew you could do that. You leased the car for the company, and then we both needed a car to go around, because we only each had one car, which our wives took over. So we would look for something that said electronics on the name or sounded technical. We would also respond very quickly to technology things, but it is true that we would be happy to go into some "special situation," which I mentioned General Anderson used to call the whole business. Some of them were high tech and some were growth companies that

were doing well, but might not have been very special technically. But the bulk of them were technical. In order to get fast growth, you didn't go into a grocery store hoping it would be a chain. But there are those that become very fast growing, and you find the Wal-Marts of the world. But they come along very seldom, and they would not be a very good investment for venture capital.

05-00:18:23
Hughes: Is the next stage the Export-Import Bank, where you started in 1981?

05-00:18:32
Draper: Yes. Started in 1981, knew nothing about it [chuckles], except that I knew numbers pretty well. I'm pretty good at that. I ended up just walking into the first government job I had ever had. There was a friend of mine from Yale, Ray [Raymond J.] Albright. I went to see him to just ask, well, what's this place like, because he was a vice president there. He explained a little about it. I knew generally the mission, which was to promote American exports and lend money to foreign countries or to foreign customers, private companies, that would buy American products. The loans were on very favorable terms.

05-00:19:42
Hughes: Is it in New York?

05-00:19:44
Draper: No, no, it's in Washington. It's a government agency. It's totally owned by the US government, and it's an independent agency, so we had two Republicans and two Democrats on the board. Whoever is chairman, whatever party he's with, becomes the fifth board member. Yes, I think that's it. It could be that there needs to be an independent on there. But anyway, we had the mission of trying to promote American exports, and so I met with the president[s] of General Electric and Boeing, and all the big exporters were very interested in this financial facility to help their customers buy their products.

I got in there, and there were a couple of experiences that were quite interesting. Freddie [Sir Frederick Alfred] Laker, [who] started Laker Airlines—it was a cheap airline across the ocean, between London and New York. He had five airplanes, and he borrowed from the Export-Import Bank before I got there. I first met him, and [him] being financially astute, I asked him, "Well, how will this work, if you are selling your tickets for the London passengers coming here, in pounds, and you're paying us interest in dollars, you're paying your depreciation on the airplanes in dollars, and you're paying the gasoline for fuel in dollars—and if the pound moves, you're going to have a difficult time paying." He said, "Bill, you don't understand the business. The whole business is about filling the seats with more bloody arses." [laughter]

He had flown over to see me in my office, and then I went off to see him, particularly after I learned—we'll call it six, eight months later—that just

what I had said happened, and he got into trouble, to the point where he was going into bankruptcy quick. So *we* ended up with five airplanes, and they were taken immediately to the desert, down near Tucson. I think they call it a graveyard for planes. But it's very dry air so they don't depreciate very quickly. They keep a lot of airplanes there that are out of service, and so all five of them were down there. So I got a lot of talk from my staff, "You've got to get rid of those airplanes because we're not meant to be holding assets." I said, "Well, I really don't think the market's there. Nobody's interested in buying airplanes."

Right after Reagan took over, remember, the interest rates were jacked way up by [Chairman of the Federal Reserve, Paul A.] Volcker, which was the right thing to do at that time, and it stalled the economy and there was a problem. So anyway, nobody was buying airplanes. So I just sat on them for a year or so, and the market turned rather quickly. So SAS [Scandinavian Airlines] came to us and bought three airplanes at our cost. I had not wanted to break the price, see. I wanted to get our full value out of it, the full market price that we had paid for the airplanes—Freddie Laker had paid, with our money. So I asked SAS if they would take five. They wouldn't. They just wanted three. But it wasn't long before United learned about the sale, and they said, "Well, we'd like to buy the other two airplanes." I said, "Oh, the price has gone up." [chuckles] And so we got our interest back off those other two, but we still didn't get the interest on the other three.

So then it happened that I kept getting visits from the president of British Airways. He came over, and he said he wanted us to sign a release, because he wanted to get this whole thing cleaned up and there was some question about whether Laker had been put out of business by British Airways. I said, "Well, we'd be happy to do that." But he said something about—it just slipped out that they were paying Freddie Laker $8 million. I said, "You're paying Freddie Laker $8 million?" He had common stock, and we, of course, had a loan in there which was not fully paid, in the sense that we never got the interest back. So I said, "As soon as we get our full interest back, we'd be happy to sign off, but you're not going to pay off Freddie Laker," which they were doing. They were essentially paying him off so he wouldn't sue them for putting him out of business—which I don't think would be a legitimate suit, but it was a threat.

I learned later that the reason they were so anxious to get this done was they were trying to take British Airways private. It was then owned by the government, but they wanted to go private. So I said no. So he went back, and he kept wanting me to make a deal of something less than getting the full amount. I've never had more fun with a negotiation, because I realized he *really* wanted to make this deal! And he, of course, had the very fast plane that came over the—

05-00:27:54
Hughes: Oh, Concorde.

05-00:17:54
Draper: The Concorde. So he'd appear in my office about every *week*. [Hughes laughs] I thought—things are going pretty well, so I just was very polite to him when we had lunch or whatever, but I never budged on the price. The next thing I know, [Prime Minister] Maggie Thatcher is over at the White House, and I'm getting a call from the State Department. "You've got to make a deal! Because this has become a matter of state politics!" I said, "Fine. All they have to do is pay us our full amount, and I'm happy to make a deal." Which I knew could be done. So after a couple more trips back and forth, he signed off.

Later, a friend of mine said that there was a guy over at the State Department [who] said, "That Draper at the Export-Import Bank, he treats that money like it's his own money!" [laughter] That was the best compliment I got in Washington! But it worked. So we got it. And of course, everything worked fine, and British Airways went private, and we got all of our money back out of those airplanes. So that was a little vignette about business in Washington.

There was a case where Egypt wanted a nuclear power plant, and they wanted us to lend money from the Export-Import Bank. We have economists there, and they were pointing out that Egypt gets their money from tourism and from the Suez Canal, and I think some oil. But they were not going to have enough to pay back the big loans that it took to build a nuclear power plant. So we turned this down, we as the board of the Export-Import Bank. Well, then I got a call from the White House and they said, "Hey, this isn't so good. We really ought to go along with it." Then the next thing I knew, I got called over to the White House, and two people over there—one was the national security advisor and the other was Ed Meese—they sat me down and they said, "Hey Draper," the security advisor said, "This is a case of war or peace." I didn't go any further into it. I said, "Hey, if this is a case of war or peace—." I didn't try to dig or say, hey, you're crazy.

05-00:31:47
Hughes: So you got out of it?

05-00:31:48
Draper: No, so we agreed to sign off. We agreed to make the loan to Egypt, because the US government wanted to help Egypt move this forward. But in the agreement—oh, the problem was that their oil in the country was not at market prices. They were selling their own oil at a very subsidized rate. So I got them to agree to raise the price of oil 15 percent every year, in order to get in better position when the big payments for the nuclear power plant came along. In the end, they never did build a nuclear power plant [chuckles]. We made the agreement, but they never built it. President Mubarak found it to be politically incorrect at that time.

05-00:32:52
Hughes: And what about the loan? You never made it?

05-00:32:56
Draper: No, the loan was an agreement to make the loan to buy the nuclear power plant, but they never ended up executing it. By the way, while at the Ex-Im Bank, I authorized the first loan to China. Deng Chou Ping told me of his plan for the Three Gorges and much more about his plans to "open up" 14 provinces to "let them become rich." Of course he was successful. Today, they're lending us a lot more money than we ever loaned them [chuckles].

There was another interesting situation. I won't get too technical, but I went over to the OECD meetings, and then there was a group of other countries that had export-import banks, promoting their own exports. Japan would come. It was mostly Japan and France, Germany and England. We had long negotiations, because interest rates had gone high, but we were still charging 7½ percent for our loans and interest rates were up around 12 percent, a subsidy of almost five percentage points. If you extrapolate that over twenty years, you buy the plane for Singapore Airlines, who can afford to buy the plane anyway. The American taxpayer's buying them the airplane. So I came back frustrated from these meetings in Paris because they wouldn't budge. These Europeans and the Japanese were very slow to raise their rates to near market rates. They love subsidy. So I came back to Washington and I just unilaterally raised our rates.

05-00:34:48
Hughes: You could do that?

05-00:34:51
Draper: Yes.

05-00:34:53
Hughes: You must've had board approval, right?

05-00:34:54
Draper: Yes. But the board usually supports the chairman.

05-00:34:59
Hughes: They're a rubber stamp?

05-00:35:00
Draper: No, they're not a rubber stamp, but we are cooperative, and I was the leader of the group. They understood why I wanted to do this, because it was costing the taxpayers so damn much money, the difference in margins. But of course, there were the people that didn't want to see this happen, the president of Boeing, for example. So I debated T.A. [Thornton Arnold] Wilson, who was then the president of Boeing on the Lehrer news hour [the *MacNeil/Lehrer Report*] and *Nightline* with—what's his name?

05-00:35:46
Hughes: Is that [Walter] Cronkite?

05-00:35:46
Draper: No. Ted Koppel at *Nightline*. (I'll tell you a story about Cronkite.) [I] debated Wilson on these various programs. I was interviewed by this other—it was a hot subject, because it was a conflict of interest. They wanted to be able to give cheap financing for their airplanes, but every time the Europeans were selling their airplanes against ours, we were always winning anyway, regardless of the financing. And it's true, it went on because we had better products. But these debates got pretty animated—and I was pointing out that the American taxpayer is losing this much on every airplane, and Wilson would say, "We're going to lose these jobs in Seattle!," and all this. And so it got to be kind of exciting.

05-00:37:02
Hughes: [chuckling] You liked that?

05-00:37:03
Draper: Yes. Charlie Rose interviewed me. He's a wonderful guy.

05-00:37:07
Hughes: What are we talking about, early eighties, was this going on?

05-00:37:10
Draper: Yes.

05-00:37:10
Hughes: Now, step back a minute. Why did Reagan appoint you? How did he know about you?

05-00:37:17
Draper: Because of George [H.W.] Bush. See, I was asked by George Bush to be his financial chairman for Northern California, when he was running against Reagan for president—then it became finance chairman for California, and then it became co-finance chairman for the whole country, together with his brother, Jonathan Bush. Robert [A.] Mosbacher, [Jr.] was the finance chairman, and the two of us were co-chairmen nationally. So I got very much into that. I raised a lot of money for George Bush.

05-00:38:09
Hughes: But all this started because of your reputation in making good deals in venture capital?

05-00:38:16
Draper: Yes. There was a friend of mine and George Bush, a man named George Pfau, who suggested that I would do well at this because I had raised money for Yale. I was chairman of the major gifts for Yale for the fourteen western states during a Yale campaign. So George suggested to Bush that I do this.

05-00:38:51
Hughes: I see. It was clear you were good with money.

05-00:38:55
Draper: Yes, right. So that ended up being a very good move for me, because it changed my life. I loved George Bush, and he being a Yalie to boot.

05-00:39:13
Hughes: Yes, the network.

05-00:39:14
Draper: We had a community of interest there.

05-00:39:17
Hughes: Well, how did it change your life?

05-00:39:21
Draper: I ended up going to Washington, and I ended up going to the UN. I wouldn't have done any of those things. I would've stayed—unless I had some other opportunity—which I did have once. When Nixon was elected, the man who was the lieutenant governor of California, Bob [Robert H.] Finch, was asked to be the head of HEW [Health, Education, and Welfare], because he wanted to be, I think, chief of staff for Nixon, but didn't get that job. He asked me, because I had been helpful to him, to come back to Washington. But then I was just a young squirt that didn't have any money, and I said, "No, I better stay with my venture capital here."

But this time I was ready to go, and that's how I got there, working *against* Reagan. [chuckles] But I got to love the guy. I think he was a marvelous president, because he understood the job so well. He understood it's a big—it's the image, and not jumping in and being the first one to draw the line in the sand, but being, "well, maybe we can think about that." He was so gentle, and yet he had some core beliefs that were tough—very small government and big defense and low taxes. I think that was the heart of his—and he didn't vary much from that. I met with him a number of times in the White House, in the cabinet room, with a group that included the independent agencies, of which I represented one. Like the SEC is an independent agency. Anyway, it was a great experience back there. That was all about the Export-Import Bank. But then the other fun part of it was getting to know other people in Washington and cooperating with them on certain things. The learning curve was very steep for me.

05-00:41:46
Hughes: I can imagine, yes.

05-00:41:47
Draper: When I went back, Jim [James A.] Baker, [III] asked me to be the number two in presidential personnel, until they got that better organized. This was right after Reagan was elected, and even though I wouldn't go join the Export-Import Bank until, say, August of that year, he wanted me back to help

organize and put some computers back into the personnel office. [laughs] Being out here, they thought I had some technology background, but also they just wanted somebody they trusted. Baker was back there because of Bush. And so Baker and Bush and I were good friends, and the other one was the secretary of commerce, Mac Baldridge, who was also a Bush person. The rest of them were pretty much Reagan people. I mean they were on his team all the way through.

So I did that. I was in the White House for about six months and that was *really* something. It was like drinking out of a fire hose, because the day began at seven o'clock in the morning and you didn't get back [home] until midnight. When I first went there, there were 25,000 résumés in the back room, just locked in a closet, people had sent them in unsolicited. Someone just packed them up and left them there. No organization to it. It was really a quite interesting experience. So I met with Baker and Meese and Deaver. Mike [Michael K.] Deaver was his PR guy, Reagan's public relations person. Ed Meese became the attorney general later, but he was in the White House. So it was a triumvirate, those three, with Baker being the chief of staff. They each had a title, but they acted in unison pretty much. We met every day at five o'clock in the afternoon, on personnel matters, for six months. I learned a lot in that time. I would say it was a real high in my life. There was a lot of excitement.

05-00:44:43
Hughes: When you say you learned a lot, are you thinking in a very broad way—your horizons were expanding? Or are you thinking about picking up specific kinds of information that you hadn't encountered before?

05-00:45:03
Draper: My horizons were expanding at a rapid rate, yes. Both things are true, you're picking up—I didn't have a course where I say, this will help me in being a better venture capitalist, if that's what you're driving at. I just wanted to have a full life and do as much as I could in the way of helping other people; and by so doing, I helped myself. I have a great belief that the more you help other people, the more you help yourself. I was just helping George Bush when he was running for president, to become president, not because I thought that was going to get me back to Washington or anything; I just thought, he's a good man. I'd like to help him, whatever he wants me to do, and that's been a pretty good philosophy over my life, is to try and do as many things for other people as I can and see where it leads me. But I don't have a goal to get to a certain point, a certain business position, a certain political position, a certain dollar net worth or anything. I'm just having a good time. [laughter] And I was back then!

Phyllis loved going back to Washington, too because she got a job as the—Loret [Miller] Ruppe was another Bush appointee, and she ran the Peace Corps. So my wife went to work for the Peace Corps for five years, and that

was a great experience for her. I married her straight out of college, age twenty-one, and she never worked. So she was very excited by a real career, a real job that was very challenging. She was Loret Ruppe's direct assistant. That made it fun. And socially, it was good because the Export-Import Bank had to keep up with lots of other countries that had embassies there in Washington, so we had a very active social life, from her point of view, and I had an active life professionally, in just keeping track of a variety of international aspects of the job.

I started to tell you about Walter Cronkite—during that sensitive period where I was at odds with the Boeing people and really, GE, too, by the way. Jack [John Francis] Welch, [Jr.] didn't like what I'd done too, but he wasn't quite as active on it. But this is a different experience. I was invited over to *60 Minutes* to be interviewed on *60 Minutes*. Not over there; they came to my office. I had one of the biggest offices in Washington. It was as big as the Oval Office, because it was built years ago, during the Depression, when the guy who came from Texas, built it; he wanted to look down on the young man in the White House. He was a big cheese because he was also in charge of, I guess, one of the big programs that helped—the WPA or something like that. Who's the guy at *60 Minutes* that's so interesting and active? Do you ever watch *60 Minutes*?

05-00:49:40
Hughes: I haven't watched it for a while.

05-00:49:43
Draper: I asked Walter Cronkite out here—he was a member of the same camp of the Bohemian Grove that I'm in—and we're both there stark naked in the shower, and I ask, "Well, what would it be like to be interviewed by *60 Minutes*?" At that time, they had this reputation for cutting and pasting—and he said, "I'll tell you what you should do." He was a part of CBS at the time. He said, "You ought to tell him that you're going to tape the program." So that if they cut or took things out of context, you would have a case that they had really misrepresented you.

The reason they wanted to talk to me was my predecessor had made a bad loan to the Congo, to Zaire. Mobutu was the president of Zaire. The idea was to build a big power plant, a power line across the Congo, across Zaire. So the first thing I was asked was—and I was brand new on the job—"What do you think of these World Bank reports?" And I said, "Oh, I think very highly of them." [He] said, "Would it surprise you to know that the World Bank report on this issue of this loan to Zaire said it's a disaster and it was a miserable decision, and that the Export-Import Bank never should've made this loan?" [laughs] Well, I was kind of caught, you know. All of a sudden the cameraman said something had gone wrong with the camera. So I was asked to do it again. So he said, "What do you think of the World Bank reports?"

And I said, “Oh, I don’t know. Some are good and some are bad.” [laughter] And he cracked up, just the way you are!

And there was another fun thing about that interview. He had been sitting talking to me, and he was sitting on my desk, and I could see that his coat had been bought in Toronto. It just happened to stick in my mind. So he said, at the end of all this, “Well, I guess you do pretty good things for the Export-Import Bank. The Export-Import Bank does good things for the country in exports, but the big problem in this country is the *imports* keep increasing. It’s not so much that the exports aren’t growing, but they’re not growing as fast as all the imports.” I said, “You know, that’s really true. For example, it would’ve been great if you had bought that suit in this country.” [laughter] He said, “What do you mean? What do you mean?” He never did admit it. I’m so sorry I can’t come up with his name. That was a fun interview, as it turned out. I walked around the block thinking, God, they’re going to really make mincemeat of me, probably, on Sunday night when this comes out.

05-00:54:13
Hughes: And did they?

05-00:54:14
Draper: No. As it turned out, they made a little report that— Oh, by the way, he told me, “Would it surprise you to know that Mobutu has three houses in Belgium, chateaus?” And I said no. He said, “All that cash that you loaned him probably ended up there.” I said, “Well, one thing I do know, and that is that we never give cash to any country. We just pay the exporter, and the exporter ships the product. You can’t put a Caterpillar tractor in a Swiss bank account.” [laughter] And I thought, ooh, I’ve won. Then the more I thought about it, walking around the block waiting, that Sunday night, for the program, I thought, oh, I was a little too smart, and so I worried.

But it turned out they didn’t show any of it. They just reported something about the Export-Import Bank had made a bad loan in Zaire. See, if I hadn’t gone to be interviewed, they would’ve had an empty chair there and said, the Export-Import Bank chairman would not meet with us, and here is this report. So I had to do it. But I didn’t know much about the bank, or much about politics, or much about interviewing. But I felt that was an interview that came off pretty darn well.

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06-00:00:21
Hughes: All right. You were finding opportunities. And I imagine one of the opportunities that cropped up was the UN Development Program. How did that evolve?

06-00:00:35
Draper: Well, I decided I wanted to go back to California, after five years running the Export-Import Bank, and having a lot of fun, liking the job, but feeling my learning curve had flattened out, that my contribution, which was to push more private sector thinking into the bank, but also trying to reduce the subsidy, which I did significantly—I think I saved $10 billion for the American taxpayer. That's peanuts today, but in those days it was not an insignificant number.

06-00:01:22
Hughes: Just making sure that they were—

06-00:01:26
Draper: Well, just that subsidy on the interest rates that I did. Oh, I didn't tell you the final on that. I jumped the interest rate, but about three weeks later, the Europeans came in and followed me. Well, after that was over, then of course, Boeing felt better and everybody felt better. I knew they would. I just knew somebody had to show leadership and do it, and then the others would follow. But there are a lot of bureaucrats who don't want to make a move and think you're tricking them and so on.

06-00:02:04
Hughes: When you made a move like that, taking a leadership position, did you spend any sleepless nights?

06-00:02:13
Draper: None. [laughs] Because I knew I was right. I was representing the Reagan administration that didn't like subsidies, that wanted to reduce— Reagan would have us meet every so often and show how we've reduced our budget by 10 percent for the year.

06-00:02:40
Hughes: Really?

06-00:02:40
Draper: Oh, yes. He was definitely strict on wanting the size of government to come down, and so we all worked hard on trying to do that. He knocked out lots of—the regulations used to be like this [gestures] under the Democrats, and [only] about a third were in when he left. So I had all that to carry over to this independent agency, because I did want to do things that would be representative of what I considered to be good management: reducing the cost structures and yet getting the job done of promoting American exports.

06-00:03:45
Hughes: Well, it sounds as though Reagan policy and your personal views were pretty much in line.

06-00:03:58
Draper: Yes. They were.

06-00:04:00
Hughes: Were there ever cases where they weren't?

06-00:04:03
Draper: No. Well, I went into the White House to argue for a certain expansion of one part of the bank, so I needed extra budget. I negotiated with Dean [means David A.] Stockman, the budget director in the White House, because I couldn't get it just talking to Ed Meese, who would meet with us to kind of figure out what— So he said, "Well, do you want to meet with the president on it?" "Yes, I do." And so Stockman and I, at loggerheads, argued. One, Stockman trying to hold stiff to keep the budget down and don't give any expansion here. Despite my understanding his position, I felt this was a really good argument to stretch our mission and so on.

So I had a debate with him in front of Reagan and George Bush. [laughs] And that was quite an experience for me, because Stockman had an agile mind and was a very good debater. In the final analysis, then, Reagan kind of closed the meeting saying, "Well, I think it would be better to sell the Chinese automobiles instead of bicycles." [laughs] That was the way he summarized! He was sympathizing with our trying to push bigger products, and bigger loans to make those products in essence. But he didn't make any decision on the issue, he just left the room.

Ultimately, I think there was a slight compromise, but I didn't get everything I wanted. It was a great experience. Everybody that gets any opportunity to go to work for a local government or a state government, or to go to Washington, or an international operation—which we can talk about—should do it because it's just such an eye opener to—so many issues that you never think of when you're just focused on your business, your social life, and your town.

06-00:06:41
Hughes: Okay. The UN Development Program.

06-00:06:46
Draper: Yes, so I got called by the White House, saying that there was going to be a change in the American that was running the United Nations Development Program. Well, I didn't know what that was, [laughs] like most Americans. But they pointed out, and I learned pretty quickly, that it was a massive program. It's a very interesting, big operation. And so I expressed interest in it, called about five people for advice. One was George Bush, Senior, and George [P.] Shultz, another was Tom [Alden Winship] Clausen, who was then president of the World Bank, and a couple others. They all thought that it was a really interesting job, and they were absolutely right. I don't think any of them knew how interesting it was.

So I decided to take that job, and I went up to New York, had never been in the UN building. I met a wonderful man there, my first visit, who had been president of the Jamaican airlines. He was Jamaican, and he was my deputy.

He later became head of the Jamaican central bank. [G.] Arthur Brown was his name, probably one of the most intelligent people I've ever worked with, or perhaps *the* most [intelligent] and with good judgment, as well. You can have a lot of bright people, but you've got to have that judgment. So he helped me get my feet on the ground and understand the job.

Javier [Pérez de] Cuellar was the secretary general at the time. He's from Colombia [means Peru], later ran for president—didn't win—of Colombia [means Peru]. But he was the secretary general. My job, as it turned out— I didn't realize this when I went, but it turns out I was the second ranking person in the UN, because it was a coordinating—I had this 8,000-person operation to run. But I also had responsibility for coordinating the other aid organizations of the UN. So UNICEF and the UN Environment Program, the—

06-00:10:13
Hughes: All the other agencies.

06-00:10:14
Draper: Yes, but of course, I was an undersecretary general, but there were probably fifteen others who were undersecretary generals. But I got $50 more per year than the others, because of this added responsibility [chuckles]. There was no deputy secretary general at that time. Now there is. But at that time, I, in a way, was that. So that was a big-time job, and a fascinating job, had 8,000 people, as I say, and they were spread, about 80 percent of them, outside of the country, in developing countries, because our mission was to help developing countries with aid programs—not the power plants, building schools or bridges; it was more the soft training programs—irrigation plans, economic advice.

I got Paul Volcker to go to China for only $10,000. He had just been head of our Fed, and he agreed to go over and talk to the Chinese government about—[laughs] I think they're benefiting today from his advice—about strengthening their economic moves.

We helped every developing country—communist, socialist, capitalist. We never could argue about their politics. The amount of money that we spent in each country depended on the poverty level of the country and the population, as a formula. China and India would've taken most of the money, so they were truncated; but all the other countries were under that formula. They were less than that. Even though China and India were the two biggest programs we had, they didn't scoop up all the money.

But we didn't give cash to any of the countries—like the Export-Import Bank. We bought projects and programs by hiring specialists to do various projects that were agreed to between our resident representative. We tried to have a resident representative in every country, and then he would have a staff that

would then come up with some programs that would be good for the government. The government would say, well, we don't like this one because—like my good friend Fidel Castro would not like to have a democracy program in Cuba. But on the other hand, he might suggest having some education project that his brother-in-law was running, and we wouldn't like that.

So there's a negotiation going on at the local level. Then the resident representative proposes some projects up to the central management in New York. We had 20 percent of our people in New York; 80 percent were in developing countries, unlike the World Bank. The World Bank has it just the other way. Eighty percent of their people are in Washington, D.C. So we felt it was a well-dispersed organization, but quite a management challenge.

06-00:14:06
Hughes: I can imagine!

06-00:14:07
Draper: Yes, because we had over a hundred different nationalities working in our organization.

06-00:14:14
Hughes: Right, and then you were supposed to be organizing, administering the agencies within the UN. It seems an impossibly large job.

06-00:14:23
Draper: Not organizing—but overseeing. That was more of a coordination and co[operation job]. Yes, it was a big job. [laughs] It was a *good* job.

06-00:14:37
Hughes: But you found it doable?

06-00:14:40
Draper: Yes. It worked. The UNDP had a great reputation for honesty and straightforward management, good management. It was not the diplomatic side of the UN, which of course is the most important part of the UN, I suppose I'd have to say that. So nothing to do with the General Assembly or the Security Council. Except [laughs] when politics came in—which it did once in a while—to our projects. But mostly, we were a workaday kind of a—trying to get good solid aid programs from an international source, which was very important. Lots of countries didn't want to do business with USAID. By the way, then the Russians and the Americans were at loggerheads, but it was softening. As I got there longer and longer, I went there in 1986 and you know the [Berlin] wall came down in 1990, I think, or 1989. So it was a very exciting time, because there was a lot to do with Russia. I was the highest-ranking American, of course, in the UN. So therefore, when I went, I would be welcomed on two levels: one, as an American who had the ear of President Bush, and also as the head of this large UN organization. So it was a very

exhilarating job. There were lots of stories I could tell you about it, but I don't want to bore you.

06-00:16:39
Hughes: Was there any kind of reporting arrangement that you had with the secretary general?

06-00:16:47
Draper: Yes, I reported to the secretary general. He was a very mild mannered man. Then he was replaced, while I was there, by Boutros Boutros-Ghali, who was [laughs] exactly the opposite. He had been, for twenty-five years, the minister of state for Egypt, and so he was a sophisticated, but a tough, rather arrogant, rather megalomaniac personality.

06-00:17:26
Hughes: Was he interfering with what you were doing?

06-00:17:29
Draper: No. Once in a while he had a different opinion or he'd have an opinion on something that my people on the ground felt that wasn't going to work. Yes, I had a few altercations with him, but not much. I got along pretty much with both of them, in different ways. But they were totally different personalities.

06-00:17:55
Hughes: Why did you leave the UNDP?

06-00:18:06
Draper: Well, I was there for seven years, and I got reelected. You see, you're proposed by your government, like the US government proposed me. But I was nominated by the Secretary General and elected by the General Assembly. It sounds complicated, but the truth is at that time, it was always an American that had that job, because it involved a good bit of money raising. I went around with a tin cup to the capitals of the rich countries and raise money. It didn't come out of the UN budget. It was zero budgeting. You start from ground zero on the first day of the year, and you've got to raise the money that you spend. So I raised about a billion and a half dollars, and that was a lot of money in those days.

06-00:19:19
Hughes: And was it for specific programs?

06-00:19:22
Draper: Yes, well, we designed those programs. But each year—it was a rolling thing. So we already had commitments out there. We had funds to keep those healthy, but every year we had to raise new funding to be sure that we could go out the sixth year. Usually it's a five year—well, a lot of them vary, but five-year programs were not unusual. Yes, so that was a fun part too, because I'd go to meet with some of the really neat people in Norway, meet with the president of Sweden. He had a meeting with me, and he said, "You know, this morning I was walking around the park, and I was trying to think of your

title," which was administrator, at that time—minister and CEO, but administrator was the same thing they use for the USAID today. Administrator rather than president, because you're administrating an aid program. So he said, "I was trying to think, and the only thing I could think of was executioner." [laughter] He was a great—but they welcomed you. As I said, I went sort of in two ways. So when I got to these capitals, I was really very warmly welcomed.

The UN was in a much stronger position, from a public relations standpoint, in those days. The goodwill for the UN was much greater, because things were going on between Russia and ourselves that were warming and the UN was being used for some of those connections and information trading and all that. And [Thomas R.] Pickering was a *great* ambassador to the UN. He was the US ambassador to the UN at that time. He was a great guy. So everything was great. I just felt good about the UN, I felt great about the job, I had a good relationship with—I could go into the Oval Office and talk with George Bush, which I did a number of times.

06-00:22:23
Draper: I raised more money than anybody had ever raised for the program. We had very interesting programs. I had a private sector point of view, which I tried to impress on the whole organization, to try and encourage our money to be used to leverage a private activity or private enterprise or include the private enterprise sector, the entrepreneurial efforts and so on. I took a friend of mine, Pitch Johnson, over to Romania and Poland and Hungary or something—a few countries, Bulgaria, maybe—to be the expert to help train classes on entrepreneurship. A lot of these CIS, they were called, Commonwealth of—[Independent States]—a spin off from Russia, these countries that were all part of the Soviet Union, then they were splitting off. So I opened about eight or twelve offices that ringed around Russia, so I went to places like Azerbaijan, Uzbekistan and Kyrgyzstan and—

06-00:24:04
Hughes: Tajikistan and—

06-00:24:05
Draper: I didn't go there, but I did go to a lot of them. We opened an office in each of those, and many that I didn't go to. It was all happening at that time because the Soviet Union was breaking up, and we had to have people to help. Well, they didn't know anything about private sector. So you wanted somebody to train them on what entrepreneurship, private sector is all about. They had no idea, in many cases. And of course, we worked directly with Russia in some of those things, even though they weren't considered a developing country. So it was a very good time to be there and a very exciting job.

06-00:24:50
Hughes: Sounds that way. I only have about ten minutes more. Should we start on Draper International? That's the next step.

06-00:25:04
Draper: We can, sure.

06-00:25:07
Hughes: So I guess the question is, why did you leave the UN? And why back to venture capital?

06-00:25:19
Draper: Okay. Seven years into it, reelected, after five years. So you have that feeling that they want you, [laughs] which is nice. It didn't happen to my successor. Or my predecessor. Anyway, I felt good about everything there, but I felt we should come back home. Phyllis was there with me in New York all this time, and she was having a whirlwind experience, because we were very active socially, too, when I was there and even when I wasn't there. Sometimes she'd come with me on some of these trips to Africa. She was a great help, in lots of ways. I paid her way; it didn't go on the UN budget. I flew, by the way, business class. That was the tradition. Everybody but the secretary general flies business class, which is a good sign that—.

It was time for us to come back to California. She knew in Washington that she had gotten this damn disease, and so she needed time. It was time to come back. So that's what we did. She has Parkinson's. For me, it was time to come back, too because my learning curve was flattening out, my impact on the organization was probably getting to be less and less important. We started a whole private sector division that emphasized activity, trying to encourage private sector activity in the various developing countries. It was good to leave. I could've stayed through the next term; probably could've stayed for a long time, because they tend to reelect the devil they know, rather than the devil they don't.

So I came back here and watched the grass grow for about a week. [Hughes laughs] But I knew what I wanted to do, that I wanted to start a venture capital fund company focused on an international country. Because of all my international activity, it was a natural for me to get going in the—and most of them did not have any venture capital.

06-00:28:53
Hughes: Well, did you ever consider doing something other than venture capital?

06-00:28:59
Draper: No. It was the only business I knew [chuckles]. I was comfortable with it, and so I never thought of doing anything else. I always loved venture capital. That was not a problem. I never considered moving out of it. But I thought, gee, these countries I'd go to visit, they didn't know anything about it. They didn't know what the term meant. It hadn't hit. This is 1994, and so I told a friend of mine what I wanted to do, Bill [William E.] McGlashan. And he said, "Well, why don't you come over tonight?" (I mentioned that I wanted to look at Peruvian investments with a friend of mine who is Peruvian, not necessarily

venture capital, but some kinds of investing down there in Peru.) [Bill said,] "I met this woman [Robin Richards] who's a second-year student at Stanford Business School, in Czech Republic, and I'd like you to come tonight because she's going to wrap up. This will be the second and last, or third and last report to me." She had said, when I knew her in the summer in Czech Republic, that she would like to study this and get a group of other students that would help her, and could do a report and get credit for it in her second year. So I went to Stanford with him, and the five students gave a report. She didn't really say very much, but I met Robin Richards. I didn't think much more about it, except it was an interesting evening.

Then I had put in a fax machine. If you work for one of these large organizations, big bureaucracies, you don't do anything practical. [laughs] So going off to an OfficeMax, or wherever I went, and buying a fax machine, and even just plugging it in, it was kind of a big deal for me. [Hughes laughs] I got it plugged in, and almost as soon as it was plugged in, her fax comes into me. I must've given her the number or something. It said, "I'd like to talk to you about venture capital." So we met at Il Fornaio that next Saturday morning, and I told her what I wanted to do, this international venture capital. She was Phi Beta Kappa from the University of North Carolina, and from Atlanta. So she said, "I work for the vice president of Coca Cola. [I'd like] to do some venture capital for him. I was overseas. So this is exactly what I'd like to do." So I said, "I think this thing's going to work. [laughs] I just think you might be right for me, and I might be right for you." In other words, I knew venture capital out here, I knew the connections to the [Silicon] valley. She had this youth and energy, and connections of a younger [person]—most of the entrepreneurs that you back were closer to her age than mine, right?

So at the end of three hours at Il Fornaio, that breakfast, we were partners. She knew what percentage of the company she was going to have. We didn't know what country we were going to, but I knew I wanted to go to Asia, and she agreed.

Maybe you need to go now, so why don't we call it off and start up there.

06-00:35:08
Hughes: Yes, well, we got it started anyway, didn't we?

[End of Interview]

Interview #4: May 15, 2008
Begin Audio File 7 05-15-2008.mp3

07-00:00:00
Hughes: You probably need to be reminded of where we stopped last time. We had barely begun to talk about Draper Richards. We didn't yet talk about Draper International, which actually came a little earlier, did it not?

07-00:00:35
Draper: Yes, Draper International came first.

07-00:00:43
Hughes: Well, do you want to start with Draper International then?

07-00:00:46
Draper: Sure, sure, sure.

07-00:00:47
Hughes: You came back from the UN Development Program.

07-00:01:06
Draper: Seven years of a wonderful part of my life. It is one of the great organizations.

07-00:01:10
Hughes: Yes. So you came back to California. And then what?

07-00:01:19
Draper: So then I met Robin, and over breakfast we agreed to start a new venture firm. She was still a second-year student at Stanford Business School; southern gal, from Atlanta, a Phi Beta Kappa from the University of North Carolina. She was perfect because she had the youth and energy and connections. While our plan was to go to Asia, we didn't know which country we'd go to. But she was perfect because she had connections with some of the young people out of Stanford and was able to identify with others of the same age, and young people are what it's typically about. Our program was to be an across-border fund, so that we might start a company in the United States—the headquarters would be in the United States, but all the money would be going into research and so on in India, and then maybe the marketing effort was back in the United States, that kind of thing.

07-00:02:42
Hughes: Was it just India?

07-00:02:46
Draper: I knew I wanted to go to Asia, and she agreed with that. She had lived overseas a bit, had had a little bit of venture capital before going to Stanford, with the vice president of Coca-Cola, who had a personal fund in venture capital.

So I thought, well, we'd better sort it out, and we looked into China, Vietnam, India, Indonesia, even Hong Kong. We decided on India because we wanted a big, complicated country. They spoke English. That was big time, because if you're making an investment in a private company as a minority investor, you want to be darn sure you understand what they're saying. So English was really important, but English also helped them get a jump on the software business. So they were leaders, over China and other countries, in computer software, because the language was helpful in that respect. They had a democracy, rule of law, and that, to me, was very important, having seen some countries, many countries, who were dictatorships, where the law didn't mean anything.

I knew that in China, you might have a five-year contract with somebody, and at the end of three years, they say, "Well, it doesn't work for me anymore," and they just walk away. And that's the way it works. Now, I didn't want to have that kind of a experience. But China was the one that was the most likely, other than India. Although Indonesia seemed like a good place at the time, it had some of those same problems of a lack of democracy, and it just didn't seem to have the technology expertise in the country.

You see, India had five at that time, I think now they've got seven, institutes of technology—Indian Institute of Technology, they call them. They've typically been sponsored by different countries—like Germany sponsored one, and I think the United States sponsored one, Britain sponsored one. Hundreds of thousands of men and women apply, and they select about 1,200 a year for each of the seven, so it's much more selective than Yale, Harvard, Princeton, Stanford, in that they've got such a wave of people, all of whom know how great this education is. So they had a good education system for undergraduate. We have a much better graduate program, so they come over here pretty well trained, technically. So this was a big bonanza for us, to have a country that had a democracy, rule of law, spoke our language, and had the technology training in some very sophisticated stuff.

Now, the question was a mushy, awkward, sluggish democracy, right? It's the largest democracy in the world. Well, it's the largest democracy in the world, but it's one of the youngest—it's 1947 when they became a democracy, and it had been a socialist country for so many years. Now, I happened to know, through my UN connections, a man named Manmohan Singh. Manmohan Singh had been finance minister for two years, before we went there, and so the first call we made was to Manmohan Singh, who was then finance minister. Prior to that, several years before, he had been head of the Central Bank [of India]. But he was making some changes and the country was really beginning to catch hold. In fact, I had met him in Leeds Castle, in Kent, England, which was Anne Boleyn's palace. We had a dinner there. We both belonged to something called the Tidewater Group. It was a group of internationalists who got together every year in a different country, and England was our host that year. It was a very erudite group. It was the head of

UNDP, the head of UNICEF, but also the finance minister of Turkey or Kuwait or China could be [invited]. Singh had been the head of the Central Bank of India, so he was a member for that reason, but he was between jobs.

Everybody in the morning, following the dinner, had talked about making jobs in these developing countries, but I hadn't said anything and he hadn't said anything. In the afternoon, I spoke up and said, "Everybody's talking about jobs and nobody's mentioned the private sector. All they talk about is how the government can do this and the government can do that. My idea is push the private sector and everything else will come together." He came up after that and said, "We in India believe in the mixed economy. The private sector's all right, but also government." What it meant was socialism, and he was a socialist. Still is a socialist. But he also is a *very* bright man, who saw what was happening in the rest of the world, where capitalism was really taking root. So in his two years as finance minister, after this meeting, he made a lot of changes. He opened up the economy.

Starting with Gandhi, it was, let's keep India for the Indians and keep everybody else out. Let's grow our own wool, cotton for own clothes, and do it all ourselves—so keep everybody else out. That really, for forty years—the family of [Jawaharlal] Nehru, who came later, and then Indira Gandhi, who's no relation to Mahatma Gandhi—but for forty years, that family kept India a socialist country, and we in the United States backed Pakistan. So India, in a knee jerk way, went to the Soviet Union.

So anyway, things were changing in India. I knew that it was changing a little bit, although it was early days, two years into it, with Manmohan Singh at the finance helm. I took Robin in to meet this delightful, warm, very brilliant, but very soft-appearing man, in his blue turban. I shook hands with him and congratulated him on being finance minister and doing so well, "Well, as a matter of fact, congratulations on taking all of the advice that I gave you in Leeds Castle." He laughed, because I had told him, "Mixed economy's fine, having some government and some private sector, but get the government to be a few percent and the rest of it the private sector."

07-00:12:34
Hughes: And was that what he was moving towards?

07-00:12:35
Draper: He was moving toward open doors, no tariffs, open economy, and encouraging the private sector and tamping down the power and the control system and all the certificates. Every businessman in Bangalore had to go to Delhi to get a permit to go into business, if he wanted to start a new business. And then everybody has their hand out, so there's a lot of corruption, and still is, around Delhi. But anyway, that was our only touch with the government. Our ambassador gave us a nice party and we announced, "We're starting Draper International in Bombay and Bangalore."

We hired two young people, Indians, to be the feet on the street and tee up some deals for Robin and me to see them, and then Robin and I went about four times a year to India. We would spend a couple of weeks there and we'd go through all the deals that they had been able to uncover. And we being the first, the *very* first foreign venture capital company to come into India—at least the first American one—there might have been a British one, but they never knew what it really meant, it was a commonwealth fund, I think. So our name was pretty well known very fast, because here was some exciting stuff—venture capital, which was hardly known what it meant. But it was coming to India, and we had a very good reception there.

07-00:14:31
Hughes: Was the finance minister a key to all of this?

07-00:14:38
Draper: He was. Today Manmohan Singh is prime minister of India and doing very well without my advice.

07-00:14:39
Hughes: I've been very aware of how you use a social network over the years. You have connections here, connections there. I'm imagining that that was less true in India.

07-00:14:56
Draper: Oh, it didn't help us in our deal making. We made twenty-five investments in India, or as I say, cross border, and we did not need government help. In fact, we avoided Delhi. That was the last time we went, I think, although we visited India over 20 times. We definitely wanted to just focus on the business. But what he was doing was opening up the economy, so that an entrepreneur could start a business without going to pay some bureaucrat to go into business.

07-00:15:41
Hughes: So you didn't have to handle that part of it, because I'm just thinking that there must've been some barriers in a foreign country to trying to operate as you normally operate.

07-00:15:55
Draper: To what?

07-00:15:55
Hughes: You wouldn't have had the infrastructure in India, that you were used to having in this country—

07-00:16:05
Draper: No, that's true.

07-00:16:06
Hughes: —where you'd been operating for decades. And was that a barrier in any way?

07-00:16:10
Draper: Well, no. The biggest barrier was they still had this very bureaucratic way of writing agreements, and lawyers there drew up documents in a confusing way. So when we finally closed the deal, the Indian form is for everybody to have to initial every page, and then you couldn't copy that page; you had to have originals! So I must've signed my initials 2,000 times, before we could even go into business. But he was changing that part of it, so Manmohan Singh was important to us because he was opening up the Indian economy. So our investments did a lot better because of him—but no government involvement. None of our companies had anything to do with the government.

07-00:17:12
Hughes: I see. And all these were Indian companies?

07-00:17:17
Draper: Well, no, some of them were American corporations, but we would hire the team, have offices in Bangalore, and do the technology, sort of offshore technology, and then bring the product back maybe to sell around the world. But no—we had a really wonderful experience. The Indians are very creative. Of course, there are so many of them, that if you're dealing with the brightest and the best—many of these were IIT graduates—you are getting very bright people, and they were just looking for a better life. Venture capital was new to them. It was a big help. They couldn't believe it. They usually thought the family had to have the business. They had to keep it small because of the socialist problem—you can't get too big without going through a lot of payoffs and all that. Singh did away with a lot of that.

Now, our team over there was very good at rounding up and sorting out, and one of them had worked at ICICI, which is a quasi bank. His name was Kiran Nadkarni. Abhay Havalder came from Hewlett-Packard HCL, HP-HCL. ICICI is like a bank, and Kiran knew where a lot of bodies were buried. So we avoided dishonest people, thanks to him. In one of our investments, I think we got ripped off. I had put together, in order to get this started, an investment advisory team for the partnership of Indians in India, one of them being Ratan Tata, who's one of the famous industrialists in the country. He has that small car, that Indian car. He is a brilliant man, and again, one of the first people I took Robin to see, because I knew him through the UN or the Export-Import Bank—or both, actually. I knew him in my international travels earlier. Ratan agreed to become an advisor to us, which didn't hurt in getting our name out—so that kind of thing.

We got other people, not quite in his category, but other people that were helpful to [us], one of whom said to me, "Don't do that deal." We lost about a million dollars on an investment. It was in the movie production field. He said, "Don't do it," and we should've taken his advice, but we didn't, because somebody else that seemed to be very knowledgeable was going in with us. We both lost our money.

But all the rest seemed to do pretty darn well. They didn't all make money, but some— All of them were technology deals except for one, which was going to be like The Gap. We were going to brand our line. We would have pants and shirts made and sell them under brand names, a couple of different brands. That *was* a great idea, because up to that point, everybody in India went to a tailor to have their pants made. They don't wear jackets, particularly in southern India, but basically, they don't. They wear a tie, they wear a shirt, and they wear a pair of pants.

So we went along with this. The company had very good management and was going to make a lot of money, because people were beginning to shift to buying their clothes off the rack. It was just turning; this is 1994. Instead of going to a tailor to make it, they could find something that's already made. They were all very smart, and everybody knows what was going on, so in India, the word traveled fast—and they had been in textiles, of course, all the history of India. The Silk Road runs through parts of China, but still, India is very big in that kind of thing. So everybody else copied us very quickly. We just barely got our money out of that deal. But on balance, we did well. We got sixteen times the limited partners' money back, in six years, which is very good by any measure. It's a very good return for venture capital, or any other business.

07-00:22:39
Hughes: Well, when you started off with kind of a blank slate, how did you find these twenty-five companies?

07-00:23:07
Draper: Well, that's where these two Indian partners came in—that was their mission, to go find opportunities. When the word is out that there's money here, bags of money from these dumb foreigners, there's a line-up [laughter]. So they got a good selection, and we were very lucky.

07-00:23:36
Hughes: Well, it seems to me that you really needed these two guys.

07-00:23:42
Draper: Oh, yes.

07-00:23:43
Hughes: And had they ever had experience in venture capital before?

07-00:23:47
Draper: The one that worked for the quasi bank ICICI, had, in effect, some private banking experience, but I wouldn't call it venture capital like we did. The term wasn't known, any more than it was when I first started in Silicon Valley.

07-00:24:07
Hughes: Well, how did they learn the ropes then?

07-00:24:14
Draper: Well, we coached them. And Kiran Nadkarni had enough financial experience. He was a financial guy, so it didn't take a lot of understanding to saying, hey, we want good quality people. He knew about quality because he'd been a banker, basically. He had a warmth about him, people trusted him, and so that was good; he was able to sort it out. The other one, Abhay Havaldar, was more of a marketing guy, and a hands-on executive. When we'd get into a company, he liked to get into the operations of it and help with their marketing and that kind of thing. He's now a partner of a much bigger fund that came in later, called General Atlantic. They became a limited partner of ours—the only institution we had.

The other partners in our fund, which was not a big fund, but we had some individuals—maybe eight Indians here in Silicon Valley that put some money into the fund, say a quarter of a million or that kind of investment, and then some friends of mine and my former partners at Sutter Hill. We had a nice group of maybe twenty or thirty partners—only one institution, General Atlantic. General Atlantic wanted to get their feet wet. It's a big fund, and this was a little investment, like an asterisk on their balance sheet, but they wanted to get their feet wet in India.

Ultimately, when we decided not to go for a second fund—for personal reasons; Robin was raising babies, and I didn't want to go to India four times a year. So once we had gotten the partners sixteen times their money back, we decided to declare victory and go home. [Hughes laughs] It was a chapter in my life that was very exciting. I've invested myself in a couple of Indian cross-border funds, and I'm friends with lots of good Indians, whom I've gotten to know through that experience. So it was a wonderful educational experience. Robin and I—we would work for five days, and then we'd take two days and go to some remote part of the country that we hadn't been to before. We've actually been to many parts of India that many Indians have not gotten to, so we have a lot of experiences. As you can see around the office, we have pictures that she took. She has a very good Leica camera that she took those pictures with, so we have a lot of wonderful memories about India.

07-00:27:40
Hughes: So Draper International, just to clarify, was really this one fund.

07-00:27:49
Draper: It was one fund, and it was focused only on India. We thought, well, we're not going to try and take on the world; let's do it right in one country—and we did.

07-00:27:58
Hughes: Now, were you the first, or one of the first, to do venture capital long distance like this?

07-00:28:06
Draper: We were the first one to go into India, I know. I imagine there were others that did something long distance, but not too many, and for good reason. Arthur Rock, for example, says, "I don't want to invest in anything I can't drive to and get home at night."

07-00:28:33
Hughes: No, I've heard that too. So this seems a very different way of doing it.

07-00:28:35
Draper: So this was a different thing. Yes, no question of that.

07-00:28:37
Hughes: Now, does helping to building a company, as well as make money, drop out of the picture when you invest at such a distance? Because you can't be there all the time.

07-00:29:00
Draper: I agree. But the partners that were there did the hands on. They acted on the boards when the headquarters was there. If the headquarters was here, we would go on the board. So there were several that we did here that were helping directly.

07-00:29:21
Hughes: Some of the twenty-five companies were here?

07-00:29:25
Draper: Yes. The headquarters was here, but we spent the money there. And we got some leverage with OPIC, Overseas Private Investment Company. If you ask anybody at OPIC, they'll tell you it's the best fund they ever backed. But that is a fund much like the SBIC program in Washington, where they want to encourage Americans to invest in developing countries, and so they will make a loan of two dollars for every dollar you invest. They'll lend *you* two dollars for every dollar you invest in a developing country. We paid them back early. We had to pay them a pre-payment penalty in fact. They today say because they got 4 percent of the profits, they say ours was the best fund they ever had, and I'm sure that's true.

07-00:30:30
Hughes: And why were you paying a penalty?

07-00:30:34
Draper: Well, because if somebody lends you money, they want a certain term.

07-00:30:46
Hughes: You were cutting it short.

07-00:30:47
Draper: We were cutting it short, and that was just written into the agreement. We were happy to pay them off because we were making money faster than we had a right to, really. [laughs] We were lucky, let's face it. We hit a great

country for this kind of thing. Now there are scores of venture firms going to India. It's really amazing.

07-00:31:16
Hughes: Do you think you opened the floodgates?

07-00:31:18
Draper: We did, yes, we did.

07-00:31:19
Hughes: Did you ever have any bad moments, thinking: I'm not there right on the scene; do I really know what's going on in these companies?

07-00:31:28
Draper: Sure. But I was never afraid that my two partners wouldn't tell me everything that they saw. We could always send Kiran in Bangalore to, let's say, Madras, and get him to find out what was going on, if there was a problem. But every deal didn't go well. We lost money on probably half a dozen. We still have one investment over there, and it's a company we started in India. The headquarters is there. We have rupee stock. They went public on the NASDAQ exchange, and we can't sell our stock until they go public on the Bombay exchange, for certain Indian rules. I think if we'd known that, when they decided to go public on the NASDAQ, we would've said, find a way to get us out. But the company's doing well. It's the sort of Yahoo of India. It's a portal, so-called, and doing really very well.

07-00:32:52
Hughes: Was there any pattern in terms of technologies for these twenty-five companies? Was there a sector that you—

07-00:33:01
Draper: It was almost all IT, information technology. So that's India.

Then as far as Draper Richards goes, Robin and I had opportunities to invest in non-Indian situations, but our rules were that we didn't want to take our focus off India, because we had other people's money. Some call it OPM, [chuckles] Other People's Money. We didn't want to take our attention away from that because we felt a fiduciary responsibility. So what we did was to form a small company that just had our own money. We didn't put a lot of money into it. We then started to make investments. Then we put a little more money in, and made more investments that were not in India. We would not go on the board of any of them. In other words, we were more inactive investors and had the approval of the other limited partners in the India fund. Just like you may have a job at Bancroft Library, but Bancroft wouldn't see it as a conflict of interest if you did something for another library.

07-00:34:44
Hughes: And why did you do this?

07-00:34:45
Draper: To make money! And that's the long and the short of it—make money.

07-00:34:51
Hughes: [chuckling] And why not go on the board as well?

07-00:34:58
Draper: Well, because we had these others who had put money behind us to focus on India, and we can just spread ourselves so thin. So we didn't want to take a lot of time in board meetings with a local company.

07-00:35:19
Hughes: I see. Now, all of this is happening under the rubric or the umbrella of Draper Richards?

07-00:35:26
Draper: Well, there're actually two operations. One is Draper Richards and one is Draper International. In Draper Richards, we've now added a partner, Howard Hartenbaum, and so that's a little different. But basically, the ownership is roughly the same.

07-00:35:44
Hughes: So Draper International didn't die with that first fund.

07-00:35:50
Draper: No, it hasn't, because we still have this one last remaining investment, a company called Rediff. Any Indian knows about Rediff, because they can check the cricket scores and what's playing in Bollywood. It's a portal; it's just like Yahoo. You get a lot of action on it. It's a search firm, it's a search business. They have a search engine, like Google does. It's not quite as good as Google, but maybe one day.

07-00:36:24
Hughes: And is it India focused? Or is it international?

07-00:36:30
Draper: It's only in India.

07-00:36:31
Hughes: Okay, should we talk about Skype?

07-00:36:38
Draper: Skype was a great company.

07-00:36:44
Hughes: We haven't really followed an investment through a company. Would Skype be a good one?

07-00:36:54
Draper: Skype would be a good one, sure. The way Skype happened was I hired Howard Hartenbaum. It was pretty crowded here for venture capital. There

was a lot of money, and at the time I set up with him, there were not as many opportunities as there was money chasing those opportunities.

07-00:37:17
Hughes: You mean strictly the Bay Area?

07-00:37:18
Draper: Here in Silicon Valley. So I asked Howard, whom I met because he had helped his brother run a company. I asked him to go over to Europe and look around Europe, because he loved to travel and his kids were young. He married a Japanese gal. He lived in Japan for four years, worked for Hughes, and for one of the automobile companies at one time—MIT background, very bright, very energetic, a workaholic.

And so he set up in Luxembourg, and he invested in four or five small investments for me personally, and then Tim Draper said, "Why don't you go talk to the guys at Kazaa?" And Kazaa was a peer to peer connective system that delivered music, so that you could download music from somebody else. Of course, the music industry hated it, sued Kazaa; Kazaa went out of business. But the two founders of Kazaa, who had set up with some technology talent, went back to Sweden.

Howard, instead of saying to Tim, "Kazaa's gone, kaput," and forgetting about it, Howard had the brains and the energy to go up to Stockholm and look up the two founders of Skype. One was a Swede, thirty-nine years old, and one was a Dane, twenty-nine years old. The Dane was very creative, and the Swede was organized and strong in business management. Howard found these guys writing their business plan for Skype. So he said, "Well, let me help you write the business plan. I've run a company, my brother's company. I'll help you write the business plan." And he did. "I'll put some of Draper's money into this to start it up." So I was in on the first round. I was the first investor in Skype. There were a couple others, Europeans mostly, and then Howard also invested.

07-00:40:47
Hughes: Now, were you investing mainly on Howard's word?

07-00:40:52
Draper: Pretty much, yes. Because he was doing a good job, as far as I could tell, and I didn't have time to go over before we invested, although I did later on. I was looking after things here. So I let him decide. I didn't go over and check out every deal, because I didn't have other people's money that I was concerned about, and I felt confident in this guy to do it right. I had helped him learn the business. So then all of a sudden Skype started to take off, [laughs] and then they needed a bigger block of money. So we took it to Draper Fisher Jurvetson, since Tim had had a part in it. See, each of us had a part. I hired Howard, Howard got direction from Tim and carried out the deal, so all three of us were involved. Anyway, Draper Fisher Jurvetson put the bigger money

in. Mine was a rather modest investment, but I got a thousand times my money back when we sold it to eBay for $2.5 billion. See, it only took, I don't know, something like $2.5 million, so it was a *big hit*.

07-00:42:25
Hughes: None of which you predicted.

07-00:42:30
Draper: No, we couldn't predict, but we knew the idea of peer to peer connection—

to work over the Internet with no wires, and that we didn't have to have a phone, we just needed to have a computer—was a great step forward in communications. So everybody [who] had a computer, wanted to call somebody else who had a computer, and that was the viral part of the thing. See, you live in London and I'm in the US, and I say, "Get on Skype. All you do is sign up, and it's free, and then I can have a free talk with you, and you will benefit." So that's the viral part. In other words, so somebody else joins Skype, and then they want to call somebody besides me, and they say, "Get on Skype. Sign up." So pretty soon, this viral reaction sent the registered users up—absolutely extraordinary growth. So before we knew it, we had 20 million, 80 million. Now it's something like 250 million people that are using it. A lot of Indians and Chinese and others all over the world.

Howard, after we made that investment, wanted to go back to the U.S. His kids were growing up; he wanted them to go to high school here. So I brought Howard back to this office, because Robin had stopped coming in.

07-00:44:31
Hughes: Because of her children.

07-00:44:33
Draper: She had four children in six years. So I said, "Why don't you take her office? And let's work here." We, together, worked the Skype management, because they needed something in the US—some presence, some sales talent, some PR programs. And so we really ended up levering up the power of Skype. All their engineers are in Estonia, so it's a very international deal. Their headquarters is in London; one's from Denmark and one's from Sweden; Estonia is where all the engineering talent is. Now they have outgrown Estonia because they ran out of engineers in Estonia. [laughs] They had about 200 on the staff. It's a wonderful, fast-moving story.

07-00:45:48
Hughes: Well, both the stories that you told today, the Skype and the story about India, I've been struck at your willingness to put considerable trust in other people.

07-00:46:02
Draper: In my partners.

07-00:46:04
Hughes: Yes.

07-00:46:04
Draper: Well, part of my talent is finding, recognizing good talent, both in the entrepreneur and in my own partners—I pulled Pitch Johnson into the business.

07-00:46:25
Hughes: I know you did.

07-00:46:26
Draper: And effectively got Paul Wythes trained in the business, and then got Robin trained in the business. They were all great, talented people—and now Howard. They're all really great people that just need to be given a little bit of room.

07-00:46:56
Hughes: So can you sum up what you're looking for when you're sizing up a person?

07-00:47:04
Draper: Well, for a venture capitalist, I think you want brain power and you want energy and you want personality. You want somebody who is going to attract people, because a good entrepreneur has more than one choice, typically, of where he gets his venture capital. He'll look at it as being his family, in a way. He's not just looking for the money, if he's good and smart. He'll look for, what can you do for me? How can you help? And typically, he also is thinking, do I really want to work with this person on my board? Or am I going to be constantly answering nit-picking questions? Does this guy get the big picture, or this gal get the big picture? Will I be comfortable? Will we have a good time together? Because one of the things we stress whenever we talk to entrepreneurs—we want to have fun! I have that feeling in the office here—there are, I don't know, ten people. We've got our foundation over here, and we all mix it up. A big part of the idea of the office is we want to make money, but we have fun before anything, almost.

So the answer is those characteristics. It goes without saying you want somebody dead honest, and you want somebody that's got really good ethics, and you want somebody who's got a strong sense of pride in getting the job done. And then I didn't mention the analytical side—just looked at a deal this morning with Howard and a couple others. He's got a very good idea, this entrepreneur. He's got a Caltech PhD and an MIT background. But I asked him, "What happened at the company that you were at before, that you also had the creative idea to start? What are they going to say when I call the president of that company, whom you got as a CEO?" He says, "I like to start companies. I've got the creative genes and all that. But at a certain point, I want somebody else to run it." So I said, "Well, what's this CEO going to say." "Well, he'll probably say we had something of a personality conflict." So you've got to dig deep into that, because that's going to be important—a leopard doesn't change its spots.

So the analysis is not so much a paper analysis—although that's important in figuring out what the market is and what your odds are of filling a need and all that, what the size of the market is. All that's important. But the heart of it is talking about the people with their bosses and people who have interacted with them. If you call the boss and he says, "Well, I'd like to tell you all this and this and this—." Then you say, "Well, who else should I talk to about him?" Because that name was given to me, see. And then he says, "Well, talk to Sam." Well, Sam says, "Bob couldn't tell you this, but I will tell you that this guy is *terrible* in this respect." But Bob, their wives are best friends or something. [laughs] Who knows? But the point is, you've got to do your homework on the people. That's my attitude, that's more important than anything. If you get a good person—sharp, talented, and has the leadership skills, he or she is going to get you out of a problem with a bad product or a weak market. You'll have better odds if things don't go well. And in almost every case, there are bumps along the way. I think Skype was an exception, until it merged with EBay. A lot of companies just need shaping. They get a bump in the road and the leader falls apart, then you've got real problems and you've got to solve those problems.

07-00:52:22
Hughes: Yes, and you do try to solve them, rather than dropping out?

07-00:52:25
Draper: Sure. I'd say for the companies that we're in, we do it wrong, almost all of us venture capitalists. We spend two-thirds of our time with companies that are never going to make us much money. We may save the bucks that we've got in it. We may get a double or something. But the one that is just taking off, potentially like a rocket, you kind of want to get out of the way and let them go. On the other hand, there are ways you can help that company, and the leverage to help the really good ones would probably make you more money than the money you save by struggling day after day with problems of a sick company.

07-00:53:12
Hughes: Do you have a rule of thumb, then, about how many deals you're going to be involved in at a time?

07-00:53:20
Draper: Yes, we probably have too many deals for the number of people that we've got. But we've brought in other people. I like to share. I always did. When I started Sutter Hill, I started it with the concept of sharing. Even though we might have enough money to do the whole thing, we wanted to share because each of us could bring different things to the table, contacts, market knowledge or just plain wisdom—another venture capitalist, in other words, that's reputable.

07-00:54:01
Hughes: Oh, another whole partnership.

07-00:54:02
Draper: Yes, so we would bring in others very happily—Sutter Hill and Kleiner Perkins and Mayfield might do the deal together.

07-00:54:08
Hughes: And Sutter Hill started that syndication idea?

07-00:54:12
Draper: Well, yes, I would say we did. I would say we were very early anyway. But it was a natural thing. For example, we had made an investment in Prime Computer, and I went to see that investment in Boston. The vice president of engineering came out to talk to me and he sat in the lobby with me and he said, "Well, confidentially, I want to start a new company." So I said, "Well, why don't you fly out and come to see us?" He flew out, and at lunch we made the deal, because he was a brilliant guy, and we started a company called Apollo, which developed a big workstation computer. Eventually, Hewlett-Packard bought Apollo, and we made a big bundle of money on it. But I had taken it to Rockefellers, because I wanted somebody on the East Coast to share it with us and do some work for them. And so then Rockefellers calls us with another deal and this kind of thing.

07-00:55:24
Hughes: This was a Sutter Hill deal.

07-00:55:29
Draper: This was a Sutter Hill deal, yes.

[End Audio File 7]

[Begin Audio File 8 05-15-2008.mp3]

08-00:00:00
Hughes: We're talking about technology without being too specific. We don't need to get into all the technologies that you've invested in, because I'd be here forever and you'd get bored. But where does your knowledge of the technology of the company you're investing in enter into this whole mix of things that you're considering?

08-00:00:30
Draper: Right. I'm a history major from Yale University, so I'm not a technologist.

08-00:00:36
Hughes: Well, we approve of that! [chuckling]

08-00:00:37
Draper: Number one in the country, by the way. Not me, but Yale. I think you begin to get a feel for the terminology, the concepts, and some part of what is happening in the technology, but I am the first to admit that I don't understand a lot about the technology of the deals that we go into. But I use my—I used to say Rolodex—but I use my friends and contacts extensively. Or if there's

somebody who's a specialist in the field and I learn about it, I call that person. So I do that kind of research. Or I ask the entrepreneur to meet with so-and-so, who might be a specialist in that field, and then they give me feedback. So that's the kind of high-level research that I do. [chuckling] That's just not my strength.

There are people—and in fact, most—who want to get into venture capital—it's a lot easier if you have a double-E degree, because most firms want somebody with a technical background. But a lot of the early days people had financial backgrounds or something like that. Arthur Rock was an investment banker. Tommy Davis of Mayfield was a lawyer. It's an interesting mix. I find that some people, like Howard, Pitch Johnson and Paul Wythes, have engineering backgrounds; but they never were engineers in the sense of filing for patents or that kind of thing, so other aspects of their education came to play. So they use some of that background, very helpfully, to understand what the entrepreneur's talking about. I miss some of that, and Howard is my ears on that one.

08-00:03:22
Hughes: Do you think over the years, there has been a natural division of labor? You obviously are very good at sizing up people and have a very strong intuitive sense, and then maybe some of the other people, like Paul Wythes, had a stronger technical background.

08-00:03:49
Draper: Paul is an example of a guy who's a good sales personality, and I would say he's not as geeky as Howard. Howard is a good salesman, too, but he is brilliant technically. No company works well without a division of labor, as you say. So there are all kinds of ways to do it in the entrepreneurial world and the venture capital world. The answer is, you talk it over, you say, well, wait. What's he doing? What are you doing? What should I be doing so we don't double up?

Let me tell you of one early deal, just to describe how some of it works. Atari developed the game Pong, and a ball went back and forth on your television set, and you could play with those sticks. So these three guys came in and said that they wanted to make games for the computer—actually, for the Atari mechanism, not a computer. So I wasn't so sure. So they said, "Well, take this home with you." I had a computer with tape on it. Not disks, but tape, old-fashioned, really old fashioned, which my wife bought for me from Radio Shack. I got this bridge game, and it was great. The diamonds were red and the clubs were black. I said to myself, God, this is fun. With the computer, I could play bridge; we didn't need four people, I just played by myself, and it would deal me a hand and I'd play the hand. So I thought, this is the neatest thing! So we had to back it.

So we started this company called Activision—got to be a big company. These three guys were all very geeky game guys—GGG, geeky game guys. [Hughes laughs] And I said, "We need somebody to sort of manage the place." So there's a good fellow named Jim Levy who came from, I think, Time Warner. Anyway, he came looking for a job, and so I introduced him and they got along fine, and so that was the team of four. So we launched Activision, and Sutter Hill made a lot of money on it and felt very good about it, and everybody felt good about it. The team grew and a division of labor was essential.

As an aside, I educated myself on Activision. I said, "I could probably do something with this computer beside play games." So we had a Valentine's party at my house, and I said, "I'm going to program this so that they'll come to the party and they will be assigned to their dinner partner, depending on how they answer these three questions." So I was having a lot of fun with this. I got this whole program all set, and the party was, let's say, a couple of days away, and my wife said, "Now, come on, leave your computer." I'd been there all morning, half the afternoon. "Come on, leave your computer and let's go for a walk." So I said, "Perfect, because I'm just at the perfect point." I pushed a button and I erased everything that I had on there. Oh, my God! [laughter]

So I went on the walk, and then I came back and I had to redo it. But I learned something so that's called programming. I really did do a little programming, but I couldn't do it today.

08-00:08:56
Hughes: And you were figuring that out on your own?

08-00:09:01
Draper: Yes, but [laughs] you have an instruction book at that point. Computers were very different. It was a tape thing with reel to reel, the tape would break and you'd have all kinds of problems. But I was trying to learn something about the business that I was in. Basically, it was rudimentary, a research thing. No, I could not do any programming today.

08-00:09:26
Hughes: Once you've invested the money and you're trying to get this company off the ground and working in a way that you think is going to be efficient and profitable, what are you doing to actually build this company? If it's easier to pick a specific company, that's fine, too.

08-00:10:08
Draper: Right. I can give you two examples. One, I was on vacation in Chicago and I called on a friend of mine, and he said, "Look up Dave Bossen when you get back to the West Coast." Dave was a very accomplished management guy out of the Middle West, in a company that made a product that sensed the thickness and moisture content of paper in motion.

08-00:10:44
Hughes: Oh, yes, you talked about it. Measurex.

08-00:10:46
Draper: So he was accomplished manager. And so backing him, what I did for him was to help him find some people at Stanford who had some technology background to build the product. I also remember saying to him in a board meeting, "Hey, you maybe ought to spend more on getting the service portion of the business going, and make that a profit center. Or he was running out of money and you know he's got a great product, a great team, everything's going well, but he just needed more money. So we introduced him to some other people that would put in follow-on money. That's the kind of thing that you do for an accomplished manager who knows what he's doing. He sets it up, you go there, you feel very comfortable. You're sitting in good offices where the things are going right; he takes you down to the plant, you see what he's building; and you meet his team and they're all professionals. That's one kind.

Another is a guy I may have mentioned. Pitch and I started a company called Electroglas, and they made a diffusion furnace for the semiconductor industry. This is a guy who learned how to do that at Fairchild. He came out and he knew how to put that product together, but he didn't know *beans* about running a company. So we matched him up with Chuck Gravelle, a fellow who'd, of all things, run the marketing for a boat company in Minnesota, he had to leave because he made so much money by putting one ad in *Life* magazine that said, "If you want to have a franchise, send us an order for one boat." And all of a sudden this little company in Minnesota blossomed. He blew the entire budget that the president of the company had given him on this one ad. And it worked. So he came out here looking for a job. He didn't know anything about electronics or anything technological. So we pieced them together, and we liked Gravelle. We liked him very much, and the other guy named Arthur Lash, he was fine with it because he really just wanted to do the technical stuff. Chuck was the CEO and a great marketing guy and they built the company together.

But in the beginning, we were running out of money and we got down to about six people in the company. It was a question of whether we kept the stock boy or not and had a board meeting [laughs] to try and decide how deep we're going to cut. Pitch and I were actively sweating over that deal to try and get it to run, because we didn't, in those days, have another way to go to other people to get more money. We had put so much money in and we were unable to do more. Both of us spent a lot of time just moaning through the various problems and questions and getting this little team to start. Then all of a sudden it takes off, and then you spend less time and you go to the board meeting once a month and you're briefed and you really know things are in good hands.

08-00:14:42
Hughes: So the time sinks, as you said before, are the companies that are *not* taking off.

08-00:14:49
Draper: Yes, that's usually it but our time spent on Electroglas paid off. Now, I got a call from another venture capitalist a week ago, two weeks ago. He said, "Can you come to the city, San Francisco, to meet with this team of three who basically are pulling a mutiny on the CEO? And they say it's either him or us." So this is Saturday morning, and I said sure. So the two of us sat with these guys all morning, as they told us all the bad things that the CEO was doing, even though he had had a good record at the place he came from. I won't go into the names of this, but—

08-00:15:50
Hughes: But did you agree that they were right?

08-00:15:52
Draper: So we did. In the final analysis, we wanted to do it quickly, so the next week we fired the CEO. He's still on the board. He's still a friend—I think. But we were faced with this; what do we do? You've got to be able to get the confidence of the people you're working with if you're the leader. So we'll see how that goes. We don't know how that's going to go.

08-00:16:26
Hughes: Yes, but you have to be willing, it sounds to me, to make some very hard decisions every once in a while.

08-00:16:34
Draper: Oh, yes. Sure. The biggest problem, typically, is that you don't move fast enough. You say, "*Geez*, we should've made that change *so* long ago! We knew he wasn't right, but we kept giving him the benefit of the doubt. The money kept drifting out the door and—." Now, they have a phrase—you're burning so much money. I hate that term, because you want them to be investing, not burning the money. "What's your monthly burn rate?" Venture capitalists all over say the same thing. They shouldn't really, because [laughs] it sounds like, well, I'm burning $400,000 this month; I think maybe $300[,000] next month, if we cut way back.

08-00:17:33
Hughes: You don't like it because it sounds like wasted money.

08-00:17:35
Draper: Correct. You want to say how much are you spending. You *are* losing money, so that the point is there's no revenue. But how much are your expenses going to be this month? That's what we used to say in the old days. This burn money is a term that has come in since Wall Street took over Silicon Valley. A lot of Wall Street money has come out here.

There's a lot of wrestling with personnel issues. We spend some time on how many options each should get and that kind of thing, after you've structured

the deal. But then you find out some perform brilliantly; or somebody quits, and you've got to get somebody else in. Then there often is restructuring.

There was another case where there were a group of Indians, and a very fine woman came in as the CEO, Hewlett-Packard background and all. She did a great job of straightening up the look of the place and the organized feel to it. But then they got to the point where they weren't closing sales. Again, I don't want to go into the details of what company, but they weren't closing deals. She wasn't closing, the marketing team, which was pretty good—one marketing [person] was not an Indian, but the others were. You had the feeling, well, there's kind of a cultural thing that she's having problems with.

But eventually, we needed new funding, so we got two new venture firms to come in, and we all together made the decision that she wasn't right. She hadn't gone out to close sales as president and that was needed without having the HP brand. She didn't know the customers. She was good on organization within the inside walls of the company, but not a driving force in the market. So we changed managements there, in that situation. So you have that problem. With a good management in place, they usually use us for contacts. Do you know somebody in Hewlett-Packard, or in Google that we can talk to? Or somebody at Wells Fargo? And we often do. Yes, I know the CEO of Wells Fargo, and Chevron, and the management wants to get in there to get a good appointment for some sales reason. Good management makes good use of venture capitalists and their contacts.

I have this crazy deal called Prolacta [Bioscience], that's kind of trying to do what the Baxter company does. Baxter gets blood from the Red Cross and bottles it in plasma form and sells it to the hospitals. Women used to give milk to milk banks, and it was used for babies that had mothers that didn't have enough milk. It was a big thing fifty years ago, twenty years ago, even. They closed up, most of them, because HIV/AIDS came in, and mothers didn't want any other woman's milk for her baby.

So then we figured out that what we could do is, in a sense, pasteurize or clean up the milk. So we built a factory in Los Angeles, and the idea was to gather the mother's milk from those who were willing to give their milk to help babies in a neonatal situation where they're getting Nestlé's formula. Nestlé's gives the milk away. It's a little bit of a problem, because we're selling ours. But any kind of small baby, pound-and-a-half, needs very delicate feeding. Just intuitively, you can see that mother's milk is a lot better. Doctors agree with this, but there's a big bureaucracy in every hospital and decisions of this kind take forever to make.

Anyway, we backed this company, started it up, called Prolacta. It went through all kinds of problems. The first problem was that I backed this visionary woman who had started a breast pump company and she had the idea of this one, too. Her partner was a guy who I thought was pretty solid, but

he turns out to be a little weak on judgment. He wanted to get a phone into the office and the connection had to go through another office, but the phone people were coming there on a Saturday. So he broke into their office. Well, of course, the police and everything. She is the CEO, so she says, “Well, I fired him.” Well, I thought, oh, my God! He was the business management of this embryo of a company. So I’m flying down there and we have no management.

Then I contacted a guy who I had worked with in another venture and asked him to help. He went down there for weeks at a time. Then one day she says, “Well, I fired him.” And I had faith in him. More problems. We needed more money. It helps, actually, when that happens. We were able to make management changes. And we got a CEO from Baxter, and that’s working well.

Before we got that solved, the woman that had given us great advice about these milk banks that she’d helped organize getting the milk in, well, she and this visionary woman had a cat fight and, “I never want to talk to her again.” Then we found that women were not coming right forward with their extra milk. “Oh, it’s for a company making money. There’s something wrong with that.” Then two women who had the idea of doing this on the Internet, and they call themselves “Two Maids a-Milking,” saved us on the quantity. Now we’ve got a year’s supply of milk. It’s frozen, you can use it for at least 12 months. We have the whole supply system organized over the Internet.

But the next problem was that the hospitals were not really just jumping at it. They want to see tests. They want to make sure it’s safe and better. Meanwhile, we’ve saved lives of a lot of little kids in various incidents and experimental use, where they have no other choice, and the baby’s dying because it’s got some kind of a problem in his stomach and needs mother’s milk. So anyway, there’s this company called Prolacta, down in southern California. I don’t know if they’ll make it or not, but I brought some of my good friends into it. I felt more pain because I had these good friends in and I worried whether we’re going to pull this company out.

Then we got a very fine venture capitalist here in the city to come in, who knows a lot about the general field of selling to hospitals, and so on. I was telling this story and all the background to the [Ewing Marion] Kauffman Foundation which helps get more venture capitalists into the system, because the guy who founded it thought that more venture capital would be good for entrepreneurship. Good idea, Kauffman Foundation. If a venture capital company will hire them, they’ll pay half the salary or something. It’s that kind of thing. Every year they have a class of these young men and women and they all meet.

So I went to talk with them and I gave a little description of Prolacta, all the problems we were having with this thing. Turns out that one of the men in the

audience had joined the venture firm that had just brought $10 million into the company! [laughter] And he said, "Geez, we didn't know there were all those problems with it." I had been saying how bad it was and how lucky they were that we got the problems solved, because the new management is very good. So management's really important. You are hit with surprises quite often in that regard.

The coup that I described earlier—that was a total surprise. We thought everybody was getting along like gangbusters in the company. It seemed to be doing very well, and everything was rosy until we learned what was really going on. But you've got to be empathetic, because these entrepreneurs are the ones that are making the money for you. They're the ones that are doing the work. You've got to be very empathetic to their problems when they tell you that things are going astray—"you've got to do something about this, you've got to help me with this." You think, well, gee, they ought to be solving their own problems. The divorce rate is higher than any other profession that I know, because they're working fifteen hours a day sometimes, and their wife never sees them, and wonders— It's very difficult. There's a lot of tension in starting up a company. There are a lot of personality problems that the entrepreneur has got to adjust to. Some can do that well and others, who are used to working for a big company in a high-tech field, perhaps don't have that human characteristic of flexibility in working with other people. There are lots of reasons that the entrepreneur is under tremendous pressure, so you have to be very sensitive to those needs. When I say *the* entrepreneur, it wouldn't just be the CEO, but I'm [also] talking about the VP of marketing and the rest of the top team—VP of engineering et al.

08-00:30:05
Hughes: Do most entrepreneurs expect management expertise from the venture capitalist, as well as money?

08-00:31:00
Draper: Yes, I think the best entrepreneurs will sort out who the venture capital community is and who the best in it are for their particular situation. So there are a couple of aspects to that. The best entrepreneurs will interview several venture capitalists and make a selection. One example of that is Bill Gates came down to talk to us when he was looking for$1 or $2 million for Microsoft. We wanted to do the deal very much. There was no question about what the price was; he had set that price. He was interviewing, and he interviewed us and he interviewed two other firms.

08-00:32:13
Hughes: Now, was this early in the game?

08-00:32:14
Draper: Oh, yes. Otherwise, he wouldn't worry about $1 or $2 million. This was very early in the game. But there was a man who is now at August Capital, who had worked for us for one summer in Sutter Hill. God! The big mistake was

we didn't offer him the moon to stay with us. Instead, we hardly noticed him. He was putting our computer system together in the summer, and also doing a project for one of our companies, and I didn't see much of him myself. Dave Marquardt is his name. He's now a very good venture capital[ist]. He had roomed with [Steven A.] Ballmer, the partner of Bill Gates. So when Marquardt joined Burt McMurtry's firm they got the inside track. That was a very good hire. Because that's the one they went with, but we made a pitch and we were excited about making the investment. Gates was twenty-nine years old. He's a pretty amazing guy. I have watched his career as he marches on to become the richest man in the world.

08-00:33:48
Hughes: But may I ask a question, though, about? Are you saying, then, that even at twenty-nine, Bill Gates was really savvy and looking you over?

08-00:33:57
Draper: Yes, absolutely. Gates was confirming the quality of Marquardt's firm. We didn't look that much better. It was kind of a check on *them*. That was it. We looked about like them, so we lost a big fish.

Another story of the big fish that got away: I hired a guy named Len Baker, at Sutter Hill. He is still there as a partner. He's a very good venture capitalist. I told you earlier that we had taken Apollo to Rockefeller. They were paying me back, and they called me about Apple Computer—Peter Crisp was the partner. They weren't even called Venrock then, they were called the Rockefellers. He called and said, "We have this deal called Apple Computer." And I said, "Great." "We've got a million dollars which we have not placed." Let's say it's a $4 million deal or something like that. "And we're going to put in two and Art [Arthur] Rock's going to put in one. Do you want to invest?" Wow, that sounds great.

So I made a big mistake. I sent Len Baker, who had just been with us about three months, down to look at it. Len came back and he said, "Well, the guy kept me waiting about a half-hour. Then I met him, and he's *very* arrogant, and it's a $19 million value." The valuation was $19 million. So I said, "Len—" I was trying to train him—what a stupid thing, to train him on a deal that the Rockefellers sent me [chuckling]. I said, "Well, okay, if you don't think it's the right thing to do, we won't do it." Boy, oh boy, what a mistake that was! Of course, that was Steve Jobs, who is so good that he has a lot to be arrogant about. He's the only guy that I know that ran two public companies at once, Pixar and Apple—was fired from Apple at one point and called back in because they were screwing up so badly.

08-00:37:21
Hughes: Well, Mr. Draper, I think you've made up for it. [laughs]

08-00:37:24
Draper: Yes. But I'll tell you, that was a big mistake!

08-00:37:29
Hughes: I'll bet there are not too many people are turning you down these days. [chuckling]

08-00:37:32
Draper: No, but it was fun to look back on that and be able to talk about it.

08-00:37:38
Hughes: We haven't talked about track record and reputation. Surely, that's important in this field.

08-00:37:50
Draper: It's very important, yes. The deals you do come back, because they say, "Well, you did the Measurex deal, this is good. I like that." Or, "You did the LSI Logic and we've got another semiconductor company." We did one company called Priam [Corporation], and then we backed another disk drive company that got to be very, very big, a $2 billion [company].

08-00:38:24
Hughes: And this is all at Sutter Hill?

08-00:38:35
Draper: Yes, Sutter Hill. Well, more recently, I can brag about Skype. The people come in and say, "Gee, well, this is a lot like Skype. You know about that, so you can help." That kind of thing. We backed Athena. Recently, one of our Draper Richards companies has gone public, called Athena Health. Goldman Sachs took it public in December, and we were lucky, because now the public market has dried up. It's doing very well; it's running about a $100-million dollar rate. The way I got into that was through politics. I backed George H.W. Bush and was in New Hampshire knocking on doors for him years ago. I met his nephew, who was seventeen years old, out with signs. He was a *charming* kid.

So when he called me, the boy, Jonathan [S.] Bush, and said, "I'm starting a company,"—he had gone to Harvard Business School at that point—it was pretty easy to make a decision that I wanted to go with him, because I knew his energy level and brains. He had a good idea, which was the back office management of medical clinics, so Athena does everything but medical stuff. In other words, he'll do the insurance, the billing, all this, all over the Internet. It's taken a long time. I think Draper Richards did that deal seven years ago. They just went public in December. But you start up a company from a raw start, and you've just got two guys in the office and some money, and you're trying to make a company out of it, and it takes a long time, typically. So that took seven years. But now, it was a ten to one for us, something like that. Ten times our investment. So that isn't a *great* deal, but it's a good one.

We have another company that went public fairly recently called DivX, that had a very creative president but certain management problems, and so on. They were solving those and things really went well, and they went public.

They had gotten into a business called Stage6, which put up your little video clips. It was kind of an entertainment thing. But there wasn't any revenue coming. The DivX part of it, the basic money-making part, was something called codec, compression of digital information. So that on most DVDs now, you'll see that it's a DivX inside kind of thing. It's a good company. You get into all kinds of things. But the top management is the key to the whole thing—nothing more important than the person that's running the company.

08-00:42:20
Hughes: Well, that might be a good place to end.

08-00:42:26
Draper: All right. I think so, too.

08-00:42:29
Hughes: Are there any final thoughts that you want to impart?

08-00:42:33
Draper: No, but Silicon Valley is so lucky, starting with Stanford. I don't think there'd be a Silicon Valley without Stanford. So we get in the habit of giving back, so a lot of us write checks to Stanford. But now the whole of Silicon Valley is getting in the spirit of giving back in a broader sense. The best thing I've done, I think—and maybe the thing that I'll do in my next stage of life is to really focus on it: we started a foundation called Draper Richards Foundation, and we've got two wonderful women from Stanford Business School running it now. The idea is just like venture capital. You start out an entrepreneur who's got a light in his eye, or her eye, and a vision of doing something big, and brain power, and energy, and a willingness to commit their life to it. We give them three years of money and attention—it's got to be the biggest money they ever got—and it's not very big money; it's like $100,000 a year for three years. Then at the end of three years, they're on their own.

But during that three years, these gals go on the board, they help them get money, they help them get, let's say, more management, more contacts, put the board of directors together—help them in every way they can. At the end of three years, they're out, they're graduates of our Draper Richards Fellows Program. We get them together once a year, and they all share ideas, and they come out here, and we have experts from outside on different tech topics. And that has been really exciting. We did three a year to start, and then four a year; now it's about six a year that we're doing. And we just love the whole con[cept].

One was Room to Read. Ours was their first big money. They now build thousands of libraries and hundreds of schools in Asia and Africa and their budget is $29 million. The fellow wrote a book called *Leaving Microsoft to Save the World*. Another is a woman that helps immigrants that are not in their sweet spot, and they're driving a bus and they've got an MD or a double E or a PhD or something. And so we have volunteers that help get them organized.

We have one called Little Kids Rock, where kids in grammar school get together because a teacher in fourth grade is willing to work with them after school. Then if they are, we sign that teacher up, and we give her or him all the instruments that they need for a band, and if they're still at it at the end of the school year, they get to keep their instruments. That's been a bonanza, Little Kids Rock. Another is helping hook AIDS knowledge into soccer in Africa, it's called Grassroots Soccer. They're all over the map.

We helped start Kiva, which is microlending over the Internet, so that you can lend $50 to a mechanic, or somebody that's got a business to, say, repair bicycles in Ghana, or a woman that's running a laundry in Kathmandu. Her face will come up and a little bit about her and everything. We work through microlending organizations around the world. Kiva was just two young Stanford graduates who had the idea of filling in the long tail, they call it, of microlending. Instead of big blocks of money, this is to let somebody who has the heart and a small purse connect with somebody in China that needs help, and putting all that together over the internet. They're just taking off like a rocket. Several of these [fellows] have appeared on the *Oprah Winfrey Show*.

08-00:47:33
Hughes: So the idea is to get the organization on its feet, and then they have to go it alone?

08-00:47:38
Draper: Just get it started. Then they're on their own at the end of three [years]. The Room to Read fellow, John Wood, has broken all records. We gave him his first $100,000. This year he's on a $29 million budget. Isn't that amazing?

08-00:47:57
Hughes: My heavens!

08-00:47:58
Draper: And the woman with the immigration program started in the Bay Area, had a long struggle for several years, and then all of a sudden it broke loose. She's now in New York and Boston, thinking about Chicago. They're all different.

08-00:48:19
Hughes: Where does the money for the foundation come from?

08-00:48:24
Draper: That's personal—Robin and I. My son, Tim Draper, has just started to add to the endowment. It's just our money, now. Maybe we will bring in others later.

08-00:48:29
Hughes: Well, I can see why that makes you feel good.

08-00:48:31
Draper: Oh, yes! It's great. It's getting to be even more fun that venture capital, which is more fun than eating ice cream!

08-00:48:49
Hughes: Well, Mr. Draper, it's been a real pleasure for me.

08-00:48:52
Draper: Well, I feel the same way.

[End of Interview]