Richard Schneider

Interview conducted by

Mark Jones, PhD

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Richard Schneider

Dr. Richard S. Schneider serves as a Member of Nominating, Executive, Compensation, Corporate Governance and Chairman of Compensation Committees at Sonosite Inc. He is a Director of Selective Genetics, Inc. and AvanViva, Inc. Dr. Schneider was an Advisor at Alliance Technology Ventures. He served as a General Partner at Domain Associates in Princeton from October 1990 till his retirement in June 1999. Prior to joining Domain Associates, Dr. Schneider served as a Vice President of 3i Ventures Corporation from April 1986 to July 1990. From June 1983 to December 1989, he served as the President of Biomedical Consulting Associates. From 1967 to June 1983, Dr. Schneider was the Vice President and Founder of Syva Corporation. He has over 25 years of product development experience in the fields of medical devices and biotechnology. Dr. Schneider spent nearly 18 years as an Executive with Syntex Corporation and related subsidiaries. His career in venture capital spans 15 years. Dr. Schneider was a Member of Investment Advisory Board of Pelion Venture Partners. He served as a Director of Landec Corp. since September 1991 until October 13, 2011. Dr. Schneider served as a Director of Imagyn Medical, Inc. since September 1995 and was a Member of Audit Committee. He was a Director of Sonosite Inc. and MitoKor. Dr. Schneider was also a Member of Advisory Board of Pacific Horizon Ventures. He completed Post-Doctoral studies at the Massachusetts Institute of Technology and attended the Stanford graduate School of Business. Dr. Schneider holds a Ph.D. in Organic Chemistry from the University of Wisconsin and a B.S. in Chemistry from the University of California, Berkeley.

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INTERVIEWEE: **Richard Schneider**

INTERVIEWER: **Mark Jones, PhD**

INTERVIEW: **Part 1 of 2**

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JONES: You received a PhD from the University of Wisconsin in 1966. When you were doing that, did you have in mind a typical academic career path, or did you intend to something else?

SCHNEIDER: No, I was clearly on an academic path. I did my PhD in about three years, with no stop, even for a master's, and I did a postdoc at Wisconsin for a couple of months after I finished, because it was early, and then I accepted a postdoctoral position at MIT. So, I was clearly going in that direction, going the academic route.

JONES: And then what made you veer toward industry? Did some kind of opportunity pop up?

SCHNEIDER: More than I could ever imagine. This was in 1966, probably before you were born, but certainly a long time ago. At that time, there was a tremendous shortage of academic and PhD level trained scientists in the United States, and the number of jobs in industry was just overwhelming. I thought it would be kind of fun to just cast my net, to put my hand up and talk to some people, and I talked to ten companies and got ten offers. The other reason I changed my mind was that academic research was beginning to undergo a lot of difficulty getting adequate funding. We could just begin to see the tip of the berg, the size of the berg, however, wasn't known, but it's turned out to be monstrous. And as a result, some

23 really high quality potential academic guys were turning toward industry that overall brought
24 the level of industrial science up to a very high level. Industry was then allowing people to
25 publish, allowing people to travel and do good science, at the highest level. And I could see
26 that, with financing being difficult and with the high quality of research being done in industry
27 that the number of opportunities was far greater, and the last was that I was extremely and
28 was always very interested in the application of science to business. I didn't realize what that
29 meant at the time, but when I started interviewing for some of these industrial positions, it
30 didn't take me long to figure out that we were in harmony, more so than I was with academic
31 colleagues. So, much to the chagrin of a number of people at that time...

32 **JONES:** At Wisconsin?

33 **SCHNEIDER:** Both at Wisconsin and MIT. I decided to take a position. Now, in addition to
34 that, I would tell you that I had a very unusual circumstance. I did finally accept a position at a
35 large pharmaceutical company called Sandoz, New Jersey. Then I read an article that
36 appeared in Chemical & Engineering News, that we all got at that time, and they were talking
37 about a new company, a new group of people, starting a company in California. I'm from
38 California. And it was in an area that I was interested in. And even though I'd already
39 accepted this job, I hadn't reported to the job, but I'd accepted it, I decided to write a letter to
40 the people that had started it. And they invited me to come to California and visit them on my
41 next trip, and I did. To make a long story short, I ended up accepting their offer to start a
42 company from scratch with two other people. I was the third employee in this company. And
43 I had to go back to Sandoz, this big, famous, strong company, and tell them that I wasn't
44 coming. So, you can imagine the consternation. First, I wasn't going to be an academic, and
45 second, I wasn't going to go the company about which they finally said, 'Yeah, that would be a

good one to go to.' I was going to go start one. So, to make a long story short, I didn't do what they thought I was going to do.

JONES: This was Syva?

SCHNEIDER: Yes.

JONES: Did you perceive that as a risky move at the time, to go from Sandoz to a start-up?

SCHNEIDER: Well, remember that I never went to Sandoz. Even though I'd accepted the position, I never reported to work. Did I consider that risky? Knowing what I know now, I consider that insane, but knowing what I knew then, it seemed like an opportunity. I also felt that once I got going, I remember that Syntex and Varian were the two financing founders of this company, that was before there was any venture capital, and I figured, 'Man, if I do a really good job at Syva, somebody at Syntex is going to see that.' I'm a chemist and they were a chemistry company, and I was only twenty-six years old, twenty seven. I thought, 'Man, if I was ever going to take that kind of a risk,' of course, I didn't realize the magnitude of the risk at the time, but that was the time to do it. And I never looked back. It was the best thing I ever did.

JONES: And when you arrived there, what kind of work did start doing?

SCHNEIDER: Well, that's a long, long time ago, over thirty years now. I was a lab scientist. I mean, there were only three of us, that's pretty incredible. We were managed by the senior managers of Syntex and Varian, the chairmen of their boards, and the Presidents of their operating divisions were on our board at Syva, and I just had opportunities to interact with Nobel-quality people all the time, at Stanford, at Syntex, and at Varian, and I started working on some pretty esoteric projects. The money that was promised us from the two companies

was designed to last us about four years, but as things would have it, young scientists being somewhat aggressive, trying to do too many things, we used the money up in three. At the end of three years, we didn't have a product and the economy had changed dramatically by 1970 and neither Syntex nor Varian had the extra cash to support us, so it looked like the lights were going out. They didn't. Something happened that caused us to keep them on.

JONES: And that was?

SCHNEIDER: Well, at that time, unfortunately the United States had a very massive involvement in Southeast Asia. 500,000 men and women were over there for reasons that we don't have to discuss, because everybody knows the history, but while they were there, they were being exposed to some pretty noxious agents, namely drugs of all kinds, and there was almost an hysteria in this country about bringing drug addicts back to the United States. They, meaning the government, said, 'Look, we've just got to test all of these people. We've got to know what we're going to get into when we bring them back.' One of our scientific advisory board members, actually two of them, were involved in drugs of abuse and were very concerned about this issue, and made a suggestion to us as we were about running out money. They said, 'Look, you guys are so bright, you're working in these very esoteric areas, maybe you could figure out a way to determine whether there's an abused drug, any of twenty, in somebody's urine, and do it quickly.' Because the only way that had been available to science in general at that time was a very labor intensive, very costly method of either thin-layer chromotography or high-pressure liquid chromatography, and imagine extracting 500,000 urine samples, shipping all that chloroform, it weighs a ton as it is, over there, it was just totally impractical. And to make a long story short, we came up with a method that would take one drop of urine, could test for twelve different drugs, took a minute to do it, and require almost nothing, just mix it with a reagent that we had developed and put it in a special

92 instrument that we had developed. And almost overnight, Syva went from as close to the
93 brink of extinction as you could get, to an operating company with sales and shipments, and
94 people in Asia, and airplanes, and we had a massive issue. And then, when these guys came
95 home, we developed some more assays that became useful, and were very generally useful, in
96 prison systems and all hospital emergency rooms. And the Syva broadened into therapeutic
97 assays in blood, serum, and others, for drugs that were being used therapeutically to treat
98 epilepsy, asthma, cardiac disease, what have you. And those assays were extremely precise,
99 very quantitative, and are used today to help physicians determine the correct dosage of drug
100 that an individual should be taking, a child or an adult. And again, to make a very long story
101 short, you know, the company became a $250 million a year, very profitable, wholly owned
102 subsidiary of Syntex. By 1977, it was already well on its way. I left in 1983, and I've been
103 gone a long time, but that was a very, very successful enterprise.

104 **JONES:** And when you had the first product, there was an immediately an explosion of growth,
105 you had to scale up to produce this, right? Was it at that point that you sort of transitioned
106 into managment, away from the lab bench to other sorts of functions?

107 **SCHNEIDER:** Well, it was probably happening during all of that time. I was the guy who was
108 leading the group that was developing these products, and we had more to do than we could
109 do, and none of us knew anything about product development, and nothing about medicine, at
110 that time. You know, we were just scratching it out. We were young kids, basically. And talk
111 about opportunity, it was overwhelming. We had to learn quality assurance, we had to learn
112 manufacturing, we had to build a plant, we had to build instruments for these products, we
113 had to build a sale force, and eventually, we had 1,100 people in that company. It became a
114 very, very major enterprise. And being in the right place at the right time, you know, good

115 luck is being prepared for an opportunity, but nonetheless, you have to have your eyes and
116 ears open.

117 **JONES:** When did David Kabakoff come to Syva?

118 **SCHNEIDER:** Well, David, sure I hired him. I remember very well, I wish I could tell you the
119 year. I think it was around 1979. I may be off by a little bit, maybe '78. He was at Baxter down
120 here in Southern California. I hired him and he became the assistant director of development,
121 and was just invaluable to us. We became very, very good friends. So, anyway, he played an
122 important role in it.

123 **JONES:** OK, let's see. You stayed at Syva until 1983, and then went to Liposome? What made
124 you decide then to leave Syva and do this other thing?

125 **SCHNEIDER:** You know, that's kind of a complicated story. It probably actually begins in
126 1979, when Syntex sent me to the Advanced Management Program at Stanford Business
127 School for the summer. I left the company and lived at Stanford and went to business school,
128 full- time, seven days a week. I loved it. I was learning formally what I should have been
129 doing, you know, the years before. When I came back, I assumed my old responsibilities, plus
130 I became general manager of a new instrument company that we were starting. So, I really
131 had an opportunity, again, to start something new. It was a wholly owned subsidiary of the
132 company, we were at a $20 million sales rate, with one customer, internal. Just overnight, we
133 were building instruments of all kind. During the next year or so, they asked me to help start
134 three other divisions, which we did, all of which became reasonably successful, and I realized
135 that what I really liked to do more than anything was to start new things. I was not a very
136 good long-distance runner, but I was a pretty good sprinter. Running large organizations just
137 didn't give me much of a thrill. Sitting in meetings slows me down. I didn't care for that. So,

that's really where a lot of the thinking started about leaving the company, because it was just very big. I was just feeling that there were other ways that I could leverage my time. There were other complications at that time, 1981-82. Genentech had just appeared on the scene, and went public in one of the most successful public offerings ever. In 1981, it opened at twenty- five dollars a share and closed at eighty-one. Something clearly was happening in the biology area, and I wanted to be part of it. You know, Cetus had started and then Chiron and Biogen. In 1981-82, Ted Greene, who as you know, is a very prominent member of the San Diego community, and Brook Byers came to see me and asked me to become the VP of R&D at Hybritech, and I said no. I told them that I was perfectly happy at Syntex and Syva, that this was my whole life, that I really loved doing it, and who are you guys anyway? What kind of a crazy, wild-ass idea is that? And I suggested another guy who we all all knew, Tom Adams, who at that time was at DuPont. And I said, 'Tom's exactly the guy you need for that job,' and Tom did become the first VP of R&D for Hybritech, and of course, David Kabakoff, who we mentioned before, was the second, an interesting coincidence. One of the poorer mistakes I've made, one of the bigger mistakes of my life, was not to take that one. Obviously, I left a lot on the table. But it began to infect me with the idea that there was a huge amount of opportunity for people who had the ability to implement new ideas and manage and lead people. So, I went to Syntex and I was resigned. I wasn't quite sure what I was going to do. I did that three times. On the third time, I really left. The first two, I was just kidding. On the third, I really did leave and I became president of a company called Liposome Technology, now known as Sequus. It's in the Bay Area. And to tell you the truth, I hated it, absolutely hated it. After nineteen years of one success after another at Syntex, or Syva, whatever, I really hit the mountain on that one. I didn't do my due diligence carefully. I did not fit with the people and the culture. They hired me because somebody was making them seek an outside guy, and the insiders really resented having anybody come in. I was the wrong guy in the wrong place at

163 the wrong time. And nine months late, I left the company, practically shattered, I must add, I
164 mean, I was just disillusioned completely. I didn't do anything for a couple of months. The
165 phone was ringing constantly with people who said, 'Look, why don't you help us this, help us
166 do that,' and I started a company called Biomedical Consulting Associates, which is Dick
167 Schneider. There isn't anybody else. I did that for a number of years and basically, people
168 would come with an idea, and I would help them with a business plan, if I liked the idea, and I
169 would try to get it financed. Trying to get them financed provided the entree to venture
170 capital, which I knew nothing about, but I learned fast. During the years that I had Biomedical
171 Consulting Associates going, I involved in starting five companies.

172 **JONES:** Which were those?

173 **SCHNEIDER:** The one that's best known today is one called Molecular Devices. That was also
174 started by another guy who started Syva years before. And there were some others, and at
175 this point it's irrelevant, but the fact is that I could see what I did well. I would go in as the
176 president and CEO, run that company, hire somebody who could run it long term, stay on the
177 Board, work with them, develop the strategy, recruit people, help develop the science
178 wherever I could, and then move on to the next. And of course, that provided the entree to
179 venture capital. I got an opportunity to join Sequoia, a very well-known venture capital firm.
180 I'm getting pretty long in the tooth by now, I'm an old guy, and they suggested that I come in
181 and help them with some business plans, and that they would help me look at some things.
182 Anyway, one thing led to another, and they suggested, and I concurred, that I really wanted,
183 that a reasonable career path for me was be to become a professional venture capitalist full-
184 time, and they made the suggestion that I join a firm, and they made some introductions, a
185 number of offers were made, and I ultimately accepted one from a group called 3i Ventures, a
186 very large source of money that came from the UK, here in Orange County.

JONES: And was Gensia one of the first companies that you got involved with at 3i?

SCHNEIDER: Yes, the first. It was the first investment that I made. I was involved with other companies, but the first one that I recommended that they invest in was Gensia. And the venture capitalists that I met, I met a lof of them during the due diligence process, but the most relevant and important one was a guy named Jim Blair. Jim Blair, of course, was just starting Domain at that time, and Blair said look, 'If you do Gensia, with us, you can become president. You become president, I'll become chairman, and we'll go find a president.' Of course, we found David Hale. But that's where Gensia came from. We met Harry and Paul at the lab at UC-San Diego, financed that company.

JONES: How did you evaluate, an dmaybe I could make this a general question, how do you go about evaluating people and technologies?

You don't have enough time to listen to that. I mean, that's what I do for a living. If you can be more specific, I'll be happy to answer your question?

JONES: Why did you invest in Gensia? Why did you think this would work? What was it about those guys and what they were doing?

SCHNEIDER: You could turn that around and say, 'Look, that was your first investment. How could you have possibly known?' I probably didn't. Sometimes you just get a feeling about things. That's not as quantitative as you'd like, but Harry and Paul, two bright, very articulate, and real sincere young scientists. I liked what they were doing. I understood them perfectly. I mean, on a technical basis, I understood them one for one. I thought I could add a lot of value. We were on the same wavelength in many respects. They had something that looked like it wasa proprietary program in an area that was very interesting, in very large markets, a hundred million plus dollars a year markets. As I said, they had good technology, good people.

It looked like it was in the realm of the doable, meaning with the resources that one could actually obtain. We thought we could attract good management around them, they were in San Diego, they were very highly regarded. You know, you put all of that together and you say, 'Well, gee, this is what you do for a living,' so you give them a hand and get it started.

JONES: You were involved in bringing David Hale in?

SCHNEIDER: Yes.

JONES: What were the circumstances surrounding that?

SCHNEIDER: Man, all of this stuff is so interrelated. Remember, I told you that I left Syntex in '83 for a short stint at LTI, and then did Biomedical Consulting Associates. The operative word there is consulting. Hybritech hired me as a consultant, and I worked for David Kabakoff, exactly the guy that used to work for me. So now we'd turned the tables. Now while I was there, I got to meet and know personally Cam Garner, David Hale, Tim Wollaeger, Tom Adams, and a list of guys, Kim Blickenstaff, Gunirs Valkirs, I mean, this whole group, many of the people who are on your list here. I can tell you other stories. You know, when you're as old as I am, sonner or later, you know almost everybody. Cam Garner, for instance, the fellow, who as you know, is the very successful, wonderful guy at Dura, was a sales rep when I first met him. When I was at Syva, I was a customer of his, one of his best customers, but nonetheless, that's where I first met him. He was working for a company out of Oberlin, Ohio called Guilford Instruments that sold spectrophotomers. Imagine now, the circumstances, here we are, investors in his compnay, Jim's on the Board, and we're investors in Spiros, and here's David Kabakoff running Spiros. I mean, you talk about a spaghetti factory here, we're all connected. And it happens because, it's going to bring you right back to this concpet, it's the people. These people. It's the people and their connections and knowing them and trusting

them and being friends with them, and having a lot of respect for them that you develop over years and years. It's not a mistake, it's not a surprise, it's not an accident. I don't believe that at all. There's a very good reason why all these people are where they are. Anyway, just to finish that up, that's how met David Hale. He was the CEO of the company that was employing me as a consultant. When I got into the venture capital business, the second deal I did was one, no actually, excuse me, I'll back up on that, was one called Immunetech. Immuntech is the predecessor company of Dura, which is a whole story in itself, in fact, there's a business school case written on Immunetech and Dura.

JONES: Whose case?

SCHNEIDER: I think it's at Darden. I have a copy of it if you'd like it. It's fascinating. I think it's fascinating. It's really neat. We were trying to recruit David Hale to become president at Dura while he was at Hybritech, because, you see, Hybritech was just sold at that time to Lilly, so David was potentially hirable. Well, we never really convinced him to come to Immunetech, but he did agree to join the board of Immuntech, nee Dura, and he still is on the board. Well, we got to know him even better, Blair and I, two different firms, I at 3i, Jim at Domain, and when Harry and Paul were rocking and rolling to get Gensia started, we went to him again, and they had gone to him dindependently, so he knew them, and again, to make a long story short, we convinced him to become the president, so we could get a real president and get me out of there.

JONES: A couple of people have told me that when putting together Gensia, there were some problems between Kleiner-Perkins and Domain about who would lead the deal, and that you acted as a sort of intermediary in those negotiations.

255 **SCHNEIDER:** Well, I wouldn't exaggerate my role, but I would tell that it seems so
256 incongruous today that Jim Blair, one of the paradigms of virture of the biotech industry, I
257 mean, he had done Amgen and Genzyme and Repligen and Immunex and Genetics, I mean, just
258 a million, and Brook Byers, who had done Hybritech and Genentech, etc., etc., huge things, and
259 the two of them had never met. They had never met.

260 **JONES:** Were you there when they met?

261 **SCHNEIDER:** I introduced them. Sure, in order to resolve this issue that you're now referring
262 to. I remember very well setting up that meeting. I think it was at the Hyatt here in town, or
263 maybe it was in San Diego, I don't remember anymore, exactly, but I mean, I remember
264 watching these two guys come together, and they became fast friends, and that was resolved
265 that afternoon. There was never another wrinkle in that.

266 **JONES:** Brook Byers didn't go on the board of Gensia. He put on Howard Birndorf as his
267 surrogate, is that how it worked out?

268 **SCHNEIDER:** Yes, for a very, very short time. Howard was really not on the board, he was not
269 on that board for very long. I don't remember how long, you can verify that, but he didn't stay
270 on that board too long. I just don't remember.

271 **JONES:** Did Kleiner-Perkins have a representative on the board?

272 **SCHNEIDER:** No.

273 **JONES:** It was basically a Domain company?

274 **SCHNEIDER:** Well, no. I mean, there were other very significant people who played a role in
275 that. 3i had a representative, that was myself. Oxford Bioscience, whih at that time was called

Fairfield, Ned Olivier, I don't think he was on the board, but he was there, Jerry Benjamin from Advent in the U.K. I'm sure I'm forgetting somebody in the early days, and maybe Paul or Harry, I mean, I don't remember now, but there were other venture groups involved.

JONES: What's your view on what happened with the clinical trials on the adenosine compound? I talked to Harry Gruber, and he blames David Hale for the problems that cropped up.

SCHNEIDER: Well, you're jumping ahead. I don't mind doing it, but there was a whole lot of stuff happening in the meantime. My view is that you have to look at things in perspective. You can't take things out of context, it's very dangerous to do. In addition, you have to have a certain belief that the system works. If you don't believe in that, then we're all doing the wrong thing. And what I mean by that is that the regulatory system works. My belief is net, net, net, the compound didn't work, OK? You don't blame David Hale, you don't blame Harry Gruber. It's Harry's child, so in a way, he's going to strike out and try to protect it. And I'm not being critical of that, but it went through a very exhausting trial, and net, net, a number of people much smarter than me looked at that data and concluded that it was not statistically significantly better than the placebo. Sorry, bell rings, bong! Now, maybe they picked the wrong indication, maybe they adjust the trila properly, maybe they didn't administer it properly, maybe they didn't present it to the FDA properly, maybe, maybe, maybe. Monday morning quarterbacks, irrelevant. Net, net, whatever they tried to prove, they were unable to?

JONES: And in the years that we just skipped over, what, in you opinion, were the really significant events that stand out?

SCHNEIDER: Well, look, I would say that David Hale was recognized as a very successful leader at Hybritech and he brought an aura of a winner, of a leader, to Gensia, and he raised a

299 lot of money, a huge amount of money over multiple times. The stock, as you know, went
300 from four or five dollars to sixty- some odd dollars. They had a full portfolio of very
301 interesting compounds and products. They built other instruments, as well, the Gen-Esa
302 system came out of there. It's an absolutely clever scheeme, originally proposed by Ron
303 Tuttle, a very, very clever guy. He recruited a superb board, guys like John Wilkerson joined
304 that board, from the Wilkerson Group, Steve Mandell, the ex-CEO of XOMA, and currently the
305 president of Prizm. These are, you know, wonderful, high-quality people. He recruited a
306 management team that was great, really wonderful people. Another one was the acquisition
307 of McGaw, which has now become Gensia Laboratories. There's a whole lot to talk to you
308 about that, and why that was done, and how it was done, and what the scheme was, and what
309 they were thinking about, all of that. This company was clearly on a rocket ship. I mean, it had
310 over a billion dollar market cap.. It was held up as a paragon to other companies in San Diego
311 and all over California, and all over the U.S., so there were a lot of positive things going on
312 there, but they took a couple of pretty serious torpedoes.

313 **JONES:** One being the adenosine compound, the other?

314 **SCHNEIDER:** The Gen-Esa system was not approved, either, until just recently, but
315 meanwhile, a lot of damage was done when that did not get approved. It did get approved in
316 Europe, as you know, and it's being sold in Europe, but it had a huge impact, those two turn-
317 downs in the U.S. They went back and re-submitted and argued the point and negotiated their
318 way, and now they've got the approval for Gen-Esa, and they're going to be able to market it,
319 but meanwhile, a lot of water had run out of the dam. They lost the patina of a winner, they
320 lost people, they lost time, they lost a lot. And you know, they had to basically sell the
321 company and refinance it, and now it's Gensia-Sicor, but it's a credit to Hale to stay in there
322 and fight the fight, and he's going to win, but that was a tough, tough, tough time.

JONES: Were you involved with Viagene, too? You were on the board there?

SCHNEIDER: Sure, certainly.

JONES: Do you remember the discussions about spinning it off?

SCHNEIDER: Sure, I remember it perfectly. This is the creativity of Harry Gruber. Harry had developed some of these ideas, the use of retroviral delivery vehicles for gene therapy, and it was clearly not within the original scope of Gensia, when we put it together, which was principally a cardiovascular company, working in ademosine metabolism. But the early founders of Gensia, the venture founders, said, 'Look, let's take a small amount of money, and you guys putter around in the back room,' I think it was Brad Gordon and Doug Jolly, 'and see if you guys can get a proof of principle, and then, if you can, we'll talk about spinning this out separately.' It was not within Gensia's purview or business plan, but if it's a good idea and it can stand on it's own, if the technology is robust enough, it ought to be financeable, and indeed it was financeable. And Gensia retained an ownership of 20%, originally, of Viagene.

JONES: At certain points, Viagene had problems raising money?

SCHNEIDER: Sure, what company doesn't?

JONES: Well, in particular, Series D wouldn't close.

SCHNEIDER: I don't think I can tell you for certain it was the Series D.

JONES: Doug Jolly said that this is one that seemed to go on forever.

SCHNEIDER: Well, that may be. I don't remember. I would say that it was probably an earlier round where they began to run into problems. One of the issues was that we had to make a change in the president, and that was a pretty uncomfortable time. Anytime you have to go in

344 and change the senior management of a company, you run the risk of losing the support of
345 your existing investors, and you clearly damage the possibility of getting any new ones until
346 you get things settled down. We went without a CEO for some period of time. That was a very
347 precarious time for Viagene.

348 **JONES:** How important, then, is the role of the CEO for those kinds of things? I mean David
349 Hale was invalable for Gensia. The problems that Viagene had, can you attribute them to, you
350 know, who the CEO was, or who wasn't the CEO?

351 **SCHNEIDER:** I think you have to, to some extent, to recognize that if there is a failure of
352 strategy or im implementation of strategy, it probably falls at the feet of the CEO. If there's a
353 failure of science, we can't manage biology. But a really hot management team would
354 recognize that the science isn't working and change course before they ride the horse over the
355 cliff. Well, in the early case of Viagene, the science was slow to develop and the science was
356 not being implemented properly, and so it was necessary to change the management. How
357 important is management in any of these companies? It's probably even more important than
358 the technology. It's probably the single most important element.

359 **JONES:** When you started working with Hybritech as a consultant what precisely were you
360 working on?

361 **SCHNEIDER:** When they were first starting the company, Ted Greene and Brook Byers will tell
362 you that they asked me if I would join their management team and start the company with
363 them. I said no. Years later, many years later like three, four, five, by then Tom Adams had
364 brought in David Kabakoff, Kabakoff was running R&D, and I was out of Syntex and Syva,
365 running Biomedical consulting as a free agent, and David Kabakoff called me up and asked if I
366 would have some time available to act as a consultant on certain elements of their business

367 strategy, and I said yes. Well, remember, at the time, and even now, I'm principally a scientist
368 and my area of expertise was in diagnostics, and particularly in immunodiagnostics, using
369 antibodies to detect the presence of certain antigens in small molecules, and Hybritech was a
370 diagnostics company at that time. The part that was being run by Dennis Carlo, in
371 therapeutics, I had nothing to do with, but the part of it that was diagnostics, which was Tom
372 Adams and David Kabakoff, was right down the throat of what I did, and I ran these groups for
373 years at Syva, so I had some contacts and expertise, and a small amount of knowledge, so
374 David said, 'Hey, look, it can't hurt, you know. If you don't screw anything up, come on in here
375 and give me a hand.' So, I was in there helping them with assays and automated assays,
376 machines, instrumentation.

377 **JONES:** Let me jump ahead now, to Biosite. It sound like what you were doing at Syva is very
378 similar to what they've done at Biosite. You were familiar with the problems, told them you
379 didn't think it would work, and declined to invest?

380 **SCHNEIDER:** Yes, I declined twice. I was wrong twice. That's my second mistake. My first
381 one was Hybritech.

382 **JONES:** What were the problems that you saw?

383 **SCHNEIDER:** I'm sure they told you that, because they love telling that story that Dick
384 screwed up again, and he did. Interestingly enough, my partner, Jesse Treu, at Domain, did
385 make the investment, and I'm glad we did, because we made money on it. But 3i, the company
386 that I represented and turned them down twice, did not make the investment and it didn't
387 make any money. The reason I turned them down was that I felt, and I thought, that the
388 magnitude of the task was very large. It was larger than they had estimated. They
389 underestimated how hard it would be to mix all those antibodies at one time, to get them all

390 balanced and to behave properly. But what I underestimated was the ability of Gunars and
391 Kim and the other people that they had with them, one in particular, I can't think of his name
392 right now, but I will in a minute, I underestimated how smart they were and how dedicated
393 they were to getting it done, and it really taught me a lot about people and their will. They
394 literally made it happen. They are really good people. I don't mind, they can tell that story all
395 they want.

INTERVIEWEE: **Richard Schneider**

INTERVIEWER: **Mark Jones, PhD**

INTERVIEW: **Part 2 of 2**

DATE: **September 24, 1997**

LOCATION: **San Diego, California**

JONES: The last time we talked about your career until 1986, when you decided to become a venture capitalist full-time. You joined 3i at that point. You mentioned that you had a number of offers that you could select from them. Why 3i?

SCHNEIDER: There were two reasons, well, three. One is I really liked the people. At the time, I thought that they were really good guys to work with and I, there was just a lot of chemistry there. That included the guy who was my boss, Fred Haney, and the other guy in the health care area that we hired at the same time as me, Mike Heenos [?]. These are really good people and I enjoyed working with them, and I worked with them and we got to be very successful. The second reason was that I really had no track record in venture capital and I felt that it would be difficult to raise money. I wouldn't bring much value to a venture firm in terms of their ability to raise money. 3i didn't need to raise money. They had it. So, it was risk-free for me, in terms of getting the capital. The third reason was that I liked the idea of going away from Silicon Valley where I had lived and worked, where venture capital was very well-established. It would be very tough, especially at forty-five at the time, I was forty-five, to get started in the shadow of all of these greats who are all over the place. I mean, I could retire and I'd never even know I was there. So, I thought that going to a market that was not super-saturated with venture capital, and Southern California was growing, San Diego was growing. It just looked like a good opportunity. So, those are the reasons, and I'm glad I did it. I think it was the right move. Yeah, I'm real happy about how it's turned out.

415 **JONES:** Are these folks you mentioned still in this business?

416 **SCHNEIDER:** Well, one of them is. My old partner, Mike Heenos [?] left 3i about the same time
417 I did, and he's now general partner of a new fund in the South, in Atlanta, called Alliance
418 Technology Ventures. He's done extremely well. He's a very well-known guy. Fred is more in
419 the consulting business today than in the venture capital business, but he's still very involved
420 in companies.

421 **JONES:** What were some of the companies that you reviewed and invested in with 3i? Gensia
422 was the first one.

423 **SCHNEIDER:** Between Mike and I, we did all of the health care investing for 3i in the Western
424 United States. And I think in the five years we were there, we did twenty-some odd
425 companies, a number of them in San Diego, including Gensia, Ligand, Viagene, Camino Labs,
426 BTI, and I'd have to go back and look, but, I mean, a lot. I'm just not sure about it right now,
427 but a lot.

428 **JONES:** Well, I'd like to ask you about specific companies, but what was your perception of
429 what was going on, this proliferation of things going on in San Diego, and what role did the
430 early success of Hybritech play in that?

431 **SCHNEIDER:** Well, there's no question it played a key role. I mean, anytime people go back
432 and look at where venture capital has been very successful and where entrepreneurism has
433 been very successful, there have always been good role models to point to, and Hybritech was
434 loaded with role models. It itself was a role model, and then the people that were in it became
435 role models themselves. Success begets success, so investors then follow these people
436 around, just watching and waiting. So, it was probably the single greatest thing that led to the
437 explosion of technology ventures and money invested, was probably the success of Hybritech.

JONES: You mentioned Ligand. Did you get in on that at the beginning?

SCHNEIDER: Yes, right at the very beginning, with Drew Senyei and Brook Byers.

JONES: That's an interesting case for me because the original technology didn't work. Can you tell me about Ligand?

SCHNEIDER: Sure, I remember it very well. Drew and Brook and I looked at that technology, the early technology, that Henry Niman had, that didn't work very well, although we didn't know it at the time. It was a very interesting concept. Henry was from Scripps and he had this idea, if I remember it right, people that had, normal people produce a whole series of proteins in the blood all the time, enzymes and non-enzymes, cytokines, factors of all kinds, many of which we don't even know what they're all for. We just know what a few of them are for. But his view was that you didn't need to know what they were all for, you just needed to understand that if you had malignant disease, the cells that were transformed would produce those proteins and a whole other set of proteins. And you didn't need to know what they were, either, this was his view, you would eventually find out what they were all for, but some of them would be markers of disease, that these cells were throwing, and in fact, that's true, I mean, that's the basis for a number of biochemical assays that people use to detect and monitor malignant disease. But his approach to how he was going to do it turned out to be unworkable, and we brought in some really good people who had good analytical biochemical expertise and they really couldn't reduce it to practice. They just couldn't make it work. They tried and they tried and they tried, and eventually we concluded that the technology may have just preceded out ability to master it. You know, it may be brilliant, but we couldn't convert it into anything useful. So, I remember very well that Howard Birndorf was brought into the company, kind of as the business development guy, and of course, he was a good personal friend of Brook's, and so, there was a natural connection, and Howard and some of the other

462 people there concluded that it wasn't going to work. There were still two million dollars in the
463 till. We had the choice, the Board was basically the three venture capitalists, and well, we
464 could just return the money, just say, 'Good try,' but Howard said, 'Well, before you do that,
465 I've got this guy, I know this other guy over at the Salk and he's got this sensational technology
466 for intracellular communication and you can use it for drug screening and what have you, and
467 I think that this is the basis for a whole new company. So, I guess in a moment of extreme
468 weakness, we decided that we had already poured the money in, we certainly could take it
469 back, but Howard was very credible and the new technology from Evans was very credible as
470 well. He's a Howard Hughes Fellow, he's a very well-known guy. It was a reasonable risk, a
471 lot, but we had worked together before, we all knew each other, Drew and Brook and I. We
472 decided to, you know, roll the dice. So basically, Ligand got started on the rebound out of, the
473 original company was called Progenx, by the way. Before it was called Ligand, it was called
474 Progenx. And we sat around, and one thing led to another, we recruited some more board
475 members, we did another round of financing, and before you know it, Ligand was born. So,
476 that was a case of venture capitalists working together with entrepreneurs, again there was a
477 lot of connection to Hybritech, a spin-off there, but that was neat.

478 **JONES:** Who contacted Scripps or Niman initially?

479 **SCHNEIDER:** I think Niman contacted Brook Byers. I don't know the early history. I don't
480 even remember. He may have contacted me. I didn't think much of him, I didn't like it, and
481 then Brook called and Drew called. I had a background in this area and we all had something
482 in common and we thought that maybe between us we could make this thing go. My
483 recollection is today that probably Brook and Drew called me, maybe Brook called me, and I
484 called Drew, I don't know, it doesn't make any difference, but those are three guys that got
485 together.

486 **JONES:** And would you say that you got involved primarily because it was Brook calling and
487 Drew Senyei calling, rather than the technology per se?

488 **SCHNEIDER:** Oh, that happens all the time. I would say sure. It's a business where you just
489 have to work together, and when a particular group of guys come together, men or women
490 come together, and they've got the right skill sets, and they've worked together before, I mean,
491 these were not people I didn't know, and we'd done other deals with them before. They were
492 very credible. So, while we all had our reservations, we also were silly enough to believe that
493 between the three of us, we could figure out what to do. We weren't necessarily right, we were
494 just lucky.

495 **JONES:** What deals had you worked with these guys before on?

496 **SCHNEIDER:** Oh, gosh, I'd have to get out a book. Well, Drew worked with me for a while at 3i.
497 I've known him for years. He was one of the founders of MBI. I was on the Board of that
498 company years ago, I mean, even before I was in the venture business.

499 **JONES:** When you were doing biomedical consulting?

500 **SCHNEIDER:** Right, so I knew Ken Widder and Drew from the time they started that company.
501 And then Drew went back to school and finished his medical degree, and in the course of
502 doing that he was a resident here in Irvine, I think at UC-Irvine, in Orange. I don't remember
503 how it came about, but he ended up doing some consulting work for us at 3i, and one thing led
504 to another and before long, he was doing a lot of consulting work for us. We were working
505 very closely with him. I think we started a company together called Adiza Biomedical [?], if I
506 remember right, up in the Bay Area, a women's health care diagnostics company. Gosh, this
507 was so long ago, and everybody's connected, so I don't remember all of this stuff any more,
508 there's just too many of them. But, then he went on to join Chuck Martin and Enterprise

Partners, here in Irvine at the time, and we were social friends as well as business colleagues. And he's a very smart guy, great background, and I've worked with him personally, I have a lot of respect for him. So, he called, and Brook called, and I said, 'Sure.'

JONES: Well, Ligand is one the companies in San Diego, what were others?

SCHNEIDER: Well, Viagene. We started Viagene out of Gensia. That turned out very good. I mean that was a very successful company.

JONES: I talked to Doug Jolly the other day about what they've done. Doug is a funny guy.

SCHNEIDER: Yeah, at the time we started Viagene, Doug was at the INSERM in France, and he had done some work here at UC-San Diego in the early days. The founders, Harry Gruber and Paul Laikind knew him, even though he was over there in France doing his thing, we pulled him in once we got the thing going. I remember talking to him on the phone, and he seemed like a strange guy, but there he was over in France doing his thing, but when we got it going, he came back. Viagene is a story in itself. We almost lost it twice. We lost the CEO, lost a lot of stuff, started over.

JONES: What's the story there? What happened?

SCHNEIDER: Well, it was a case of getting some really interesting technology. Remember, it started out as part of Gensia and it was in an area which is quite different from cardiovascular disease, which is what Gensia was working on. It was working on retroviral delivery for gene therapy. When we started Gensia, we knew we had this technology and took just a little bit of money and tried to develop a proof of principle, and we did that, the guys did that, I should say. I was on the Board of Gensia at the time, so I was very close to it. And the decision was made to get it funded externally, because we shouldn't be using the resources of Gensia which

were focused on cardiovascular disease, for this thing working on gene therapy. So, we basically wrote a business plan and put it on the market. Brad Gordon was the business development guy who wrote that and put it on the road. And we got it financed with some new venture capitalists, some of them were the same as Gensia, and some were different. We formed a separate board. Gensia had retained ownership of 20% of the company, so it had built some equity. David Hale joined the board, I did, Jesse Treu from Domain, Paul Klingenstein from Axcel. It was a real interesting group of people, and Harry and Paul. We recruited a CEO who was a really fine guy. His name was Greg Phelps. We ran it without a CEO for a while, but then after about a year, we recruited Greg. He helped us build a team, and we got it to a certain stage, and without going into a lot of stuff, we decided that we needed to make a change at the helm. We had to let Greg go. He has since gone on to a very successful career at Genzyme, by the way. He's a fine man in his own right, just not the right fit. We almost lost the company right there because we weren't raising money. We couldn't raise any money. We didn't have any corporate deals, and people were very skittish, they were all research-oriented people, money was running out. We thought they were all going to leave. I remember David Hale coming into that company and giving a talk to the employees to convince them to stay and that we were going to stay, and that we were putting more money in. This was Dick and David and Jesse's reputation was on the line here. We were there, "Stick around, we won't let you down.' And we didn't. We brought in a CEO, Bob Abbott, and the rest is history, a very successful company. We sold it to Chiron. It was a very successful outcome.

JONES: Was the problem with raising money that Greg Phelps wasn't a high-profile CEO? I mean, you had David Hale at Gensia....?

SCHNEIDER: I think there was some of that. You know, you have to have a vision. I think that many of these companies, you're selling a concept, and you've got to believe it down to your

555 socks and you have to understand it before you can believe it. You'll look right through
556 somebody who tries to sell you an empty sack of bananas. You know, it's just not a business
557 where you can do that. Bullshit just doesn't go very far. You really have to have a great inner
558 intensity, a great desire, and a great understanding of what you're talking about to look some
559 guy in the eye and tell him what you're going to do for him, in terms of providing some
560 cutting-edge science. Greg was not that kind of guy. He was a very, very fine man, but that
561 wasn't his thing. He wasn't as technical.

562 **JONES:** And was it his personality, in terms of selling an idea? A lot of people have told me that
563 one of the reasons Hybritech was so successful was that Ted Greene could generate
564 excitement....

565 **SCHNEIDER:** Yes, he's a great salesman. But see, he has that vision, and he has that
566 conviction, and he believes in himself. You can tell he believes it. And he's almost messianic in
567 the sense, if you've ever listened to him, whether it's one on one, or to a group of a couple
568 hundred people, you know, the time just flies by. He has that...it's a gift. You don't make those
569 guys. They're born that way. Ted is one of them. I think Bob Abbott has some of those
570 qualities in this area. But Greg is a different kind of guy. As I've said, he's gone on to be very
571 successful, so I'm not being critical, I'm just saying it's a different skill set requirement, and
572 Bob came in and did a great job and got it done.

573 **JONES:** Do you remember recruiting Bob Abbott? Where did he come from?

574 **SCHNEIDER:** Do I remember? Sure, he was my guy. Yeah, I was the one who was the
575 champion for Bob Abbott. I knew him because he had been with a company called NeoRx in
576 Seattle, and I had done some consulting work for them, so I knew him quite well from that, as
577 well as his other colleagues. But even before NeoRx, I was involved in recruiting him to come

578 to Seattle to work at a company called Oncogene, which is a spin-out of Genetic Systems,
579 which, when I was at Syntex, we funded Genetic Systems, and then with the spin-out of
580 Oncogene, I was on the Board of Oncogene. So, I recruited him to come to Seattle in the first
581 place. I'd know him for years before that. And he went on to NeoRx, and NeoRx had its issues,
582 it wasn't as successful as it might have been. Bob was blamed for some of that. My belief was
583 he was, not entirely blameless, but he certainly didn't carry the full burden. I felt that there
584 were a lot of mitigating circumstances. The guy was just a really good leader. He was
585 scientifically very competent and capable, and I believed that he had that vision. He could sell
586 it, and he understood it, and he would be a great addition to Viagene. The other Board
587 members, all they could see was NeoRx and it's fall from grace. It was what was called a fallen
588 angel. It was a company that had done very well in the market, the public market, and it kind
589 of frittered away to a very low market cap. There was some debt, there were some structuring
590 issues that the Board got them into, a lot of issues. But nonetheless, there was some objection,
591 but anyway, we got him sold, and I don't think there is any question, he was the right guy for
592 the job.

593 **JONES:** Do you remember, was it a tough sell to get him to move to San Diego? Was gene
594 therapy a tough sell?

595 **SCHNEIDER:** Well, Bob is a technically-oriented guy, and it was a case of serving it up on the
596 right plate, and giving him enough of a challenge. He needed an opportunity, another
597 opportunity to prove himself, and I told him that I had full faith and confidence in him, and
598 that I was going to be in that position, to give him an opportunity to show that he was really a
599 lot better than a lot of people really thought he ever could have been because of this other
600 thing, and I knew I was right. And he was, and he is. He's gone on to do very good things since.
601 Well, he went to Canada to help start a company in Vancouver, and he did very well there, and

now he's really on his own. He's in the middle of starting another company here, he's going on to another one. He's done real well.

JONES: So, that was '87, when Viagene got started?

SCHNEIDER: Yeah, '87 or '88. By the time we got Bob down here though, it was much further than that, I would guess '92 or '93. It was quite a ways down the road. Well, then we did Amylin. Remember that, I suggested to you that my connection to Domain goes back a long way before I joined them as a partner in 1990. I met Jim Blair, who's one of the partners in Domain, in the hallway of putting Gensia together. It was Blair and I, I was the first president of Gensia and Jim was the Chairman, and we kind of put that together and recruited David. But the Domain guys were nice enough and silly enough to ask me to join them as a partner in '88, and I did not do that, obviously, because I stayed with 3i until 1990. So, we co-invested in a lot of things. We did a lot of things together, the two firms became what I would call trading partners. We shared a lot fo deals, we did a lot of things together, and one of them was Amylin. So both Jim and I joined the Board right in the beginning with Ted, and again, see, we'd known him for a long time.

JONES: Had Jim Blair known him?

SCHNEIDER: You know, I don't know the early history. I don't know that. My sense is that he probably knew him. He may not have known him as well as I did, but I'm sure he knew of him, and I think he probably knew him from some other company, I just don't remember.

JONES: Did Ted Greene call you?

SCHNEIDER: Who called who? Beats the hell out of me. I just don't know. I don't know if Jim called me and said, 'Hey, I just found out about this new science. I just met this guy Garth

624 Cooper and Ted.' I just don't remember. Things moved on pretty fast. But that was a lot of fun
625 to do. Again, from the beginning, right at the beginning, when there was nothing. The first
626 employee that we hired was Marjorie Tillman, the CFO, and she's still [?] super, just brilliant.
627 Some of the other things that I was doing or had done at the time, boy, I've got to go back to
628 look. I don't mean to, I just didn't prepare myself for that. We've just done so many companies
629 over such a long period of time. A couple of device deals that we were working on at the time
630 were Camino Laboratories, a kind of interesting little medical device company that was
631 measuring intercranial presurres. Following brain surgery, your brain tends to swell, and
632 when it does, that's bad. Sounds bad, doesn't it? They had a neat way of measuring the
633 pressure, the pressure inside your skull. It was much better than what other people were
634 doing and ultimately we sold the company to a much larger company that was selling those
635 kinds of products. I was certainly involved in that. A bunch in the Bay Area, but your only
636 interested in San Diego, right? Right here in Newport Beach.

637 **JONES:** So, you spend a lot of time in the Bay Area and San Diego?

638 **SCHNEIDER:** That's all. The Bay Area or San Diego. We did a company here in town called
639 Neocrine at 3i, did it with Jim Blair also. That's a eyelet [?] cell transplantation company
640 involved in diabetes, the treatment of Type I diabetes. And it's still going. It's here in town.

641 **JONES:** When you're working closely with Domain, when you're doing deals with other
642 venture capitalists, is there a lot of trading of information, do you rely on them for
643 information, do you sort of share due diligence?

644 **SCHNEIDER:** Yeah, I think the answer to that is yes. It's always qualified. You know, you can't
645 rely on other people unless you really know them well, or you shouldn't. Or, you kind of get
646 what you deserve. I mean, if you trust the wrong guy -- I said guy, but I mean guy or gal,

647 person -- but over the years, you develop a working relationship with these people where you
648 develop a lot of trust, and you also learn how they do their due diligence. I used to do it all by
649 myself on every deal, and after a while, I found that they would do the same thing I did. They
650 would call the same people, they'd ask the same kinds of questions, they came to the same
651 kind of conclusion. So, after a while, we would just kind of divide it up and I would trust their
652 judgment, and they would trust my judgment, and we would share due diligence. It's kind of a
653 survival mechanism because there's so much work that you could do on any given deal, so you
654 tend to share the load and make it a little bit easier. That's kind of why venture capital firms
655 tend to work with other venture capital firms. The same ones seem to come together in
656 syndicates all the time. It's probably because of those kind of, I don't what you would you call
657 them, but just say, established relationships.

658 **JONES:** You're a scientist, but are there some companies, for example, Amylin, where it might
659 not be exactly within your area of expertise, who are the people that you call then to evaluate?

660 **SCHNEIDER:** Well, I think, probably 80% of the time -- I just made up a number -- I wouldn't
661 call anybody, OK? I'd try to figure it out myself. I might talk to a couple of people, but I
662 wouldn't hire anybody to do the technical due diligence. I try to do that myself. I consider
663 that so important, that and the people. I've always made my own reference calls, and I've
664 always called my own network of people. I still do. But for the other 20%, the stuff becomes
665 very esoteric, very focused, very complex, cutting-edge science, very hard for an old guy to
666 understand all of that stuff. You don't trust necessarily your own intuition, you want someone
667 else to validate it, or question what you're doing. Then usually what I do is call around and try
668 to find somebody who's a world-class expert in the field, who knows someone I know, so I
669 have an entree. I may have mentioned, one of my sons, he's a physician, and during all of this
670 time he was going to medical school, and you just can't imagine the entree that provided me,

671 other people that I met through him at the medical school, faculty level, plus students who
672 were quite expert themselves in many of the cutting edge technologies, and I still use those
673 contacts.

674 **JONES:** Is he still up in the Bay Area?

675 **SCHNEIDER:** At the time, he was an undergraduate at San Diego, then he was at UCLA, then at
676 UCSF, and then back at UCLA. Now he's up at the University of Washington. The contacts are
677 superb. And that's a competitive advantage that I have that other people don't have. It's just
678 an access, it's a window. He knows hundreds of people, so if I need an expert in radiation
679 biology, and it's hard to find somebody like that, he knows three or four of them.

680 **JONES:** What's his expertise?

681 **SCHNEIDER:** Radiation oncology. But you do what you've got to do. It's a case of building a
682 network and knowing who to call.

683 **JONES:** Well, in 1988, you decided not to join Domain. You were happy with what you were
684 doing at 3i?

685 **SCHNEIDER:** Well, I had given my word. I didn't have a contract with them, but I told them
686 that if they'd give me five years, I'd help build up a reasonable business, and remember, I told
687 you that I didn't have much experience in the business, and they were trusting me a lot. They
688 were taking a big risk. It just didn't seem to be the right thing to do. I mean, I't told somebody
689 I was going to do something. I wasn't about to, it was one of the hardest decisions I've ever
690 made. Financially, it was not a good decision. I made the wrong decision financially. I would
691 have made more money had I gone to Domain earlier. But there are other reasons for making
692 decisions. I'd given my word.

JONES: You were successful during this time? You established a reputation as a top-notch venture capitalist during those years?

SCHNEIDER: I think I established a reputation as being a value-added investor, a guy with integrity, and a guy who tried really hard to help the companies that he invested in, and the rest takes care of itself. I made some money for 3i, all that was fine. I mean, I went to school on their money, that's the way I look at it. I needed that time to get educated. And I learned from Brook Byers, Drew Senyei, from Don Milder, from Bob Hall, from Chuck Martin, from Jim Blair, that's who I learned from, from Mike Heenos, the guys I was working with. I just, you know, now that I look back on it, I think maybe at the end of my life as a venture capitalist, I will have probably done better because of what I learned during that time.

JONES: Any particular lessons stand out in your mind?

SCHNEIDER: Well, I don't think, I've said to you before that my belief is that people like Ted Greene aren't made, they're born that way. You know, I think venture capitalists aren't born, they're made. It's just the other way around. It takes a long time to make one, a good one. You've got to invest time and money. I think it was Brook Byers who said it takes about seventeen million bucks to make a venture capitalist, which means he's going to lose some money, a lot of money. You learn, you learn by doing. When I first started in the business, the first eighteen months, this was before I was at 3i, I was working at Sequoia on a part-time basis, but I was in the business, no question about it, I didn't do a deal. Eighteen months. I couldn't discriminate good from bad. I wanted to do all of them, and those guys wouldn't let me do any of them. And so I was chomping at the bit, and the first deal I did at 3i, I lost money. The second one, I lost money. That was also the last one I lost money on. It takes time. People ask, you know, for one lesson or two. Come on, walk in our shoes for a while. It takes a long time. And I'm still learning, I must say. I'm still learning.

JONES: Well in 1990, you did eventually leave 3i and moved to Domain. What went on in that episode?

SCHNEIDER: Well, I remained close to my friends at Domain. They really wanted a Calfornia presence because at that time, about 60% of their deals were in California, and they had an office in Princeton and no presence in California at all. I was probably getting a little tired of dealing with the bureaucracy of the Brits, just getting tired of it. And getting tired of explaining to people who really were interested more in consumer products or retail, or electronics, why a biopharmaceutical opportunity was such a good thing.

JONES: Was 3i doing a lot of, a broad range?

SCHNEIDER: Yeah, right. Absolutely. They were what you would call a non-focused fund. They were a general fund. They did everything. They spent a long time in meetings, and wrote a lot of reports. I just got tired of it. So, I don't remember how the conversation started, probably with Jesse and I, or Jim and I, or Jim and Jesse. It didn't make any difference. They said, 'Hey, you know, we're going to do another fund.' They had just finished their first fund and they were getting ready to start another. They said, 'Look, we need to open an office in California. We won't find anyone else. There's nobody else who would take the damned job. Why don't you rethink it?' And I said, 'Well, OK, I'll take it.' I mean, I didn't have to think about it for five minutes. I made the decision in thirty seconds. I mean, I knew I wanted to do that. These guys were the best in the business that I knew. They were focused in an area that I thought was what I wanted to do. We understood each other right from the get-go. We jsut had a lot of communication, we thought the same way, we had the same kind of background. We were all about the same age. We knew each other and each other's families. It was an easy decision, really easy. So, within about a week, a deal was put together. I went to the people at 3i and told them what I was going to do, and they said, 'OK.' What were they going to

say? I didn't have a contract with them, and I had fulfilled my obligation in time, and they certainly had a thriving business. But they asked whether I would transition over a year 's period of time and manage their investments in the area that I was responsible for, and I had about nine at that time, eight, ten, whatever. And I said, 'Sure, I'd be happy to.' I mean, I was doing them anyway. You have to understand, many of these were common to Domain, of the same group. Not all, but many. So, I moved out of my office in Newport Beachand I moved into one here in Center Tower, and the coincidence there was I ended up sharing an office with Ned Olivier, who was a partner of Oxford Bioscience Partners, on the eighth floor, another guy that I knew well, and he had an empty office. He said, 'Look, you're making this transition. Why don't you just come over and camp for a few months until you figure out what you want to do and where you want to go.' Well, a few months turned into five years. I just didn't move. It was like fish, you know, it started to smell after a while. So, I just stayed and we shared an office, and then his fund grew, and I had cleared some plans to expand our presence in California, so we separated our geographic location. They stayed down on the eighth floor, and we moved up here and expanded into all this space.

JONES: For this five years, you were Domain out here?

SCHNEIDER: Yes.

JONES: But now you've got other people.

SCHNEIDER: Quite a few.

JONES: And during this time, you've been investing in San Diego companies, which ones?

SCHNEIDER: Well, let's see. Prizm Pharmaceuticals would be one. Biosite, another spin-off of Hybritech. Ixyss, Genta.

JONES: Were you involved with that, or was that Jim Blair?

SCHNEIDER: Jim was both Genta and Dura. 3i made the initial investment in Immunetech, and then that turned into Dura. I was certainly involved in that transition, although Jim was again the guy on the Board doing that. We continued to play with Amylin for a long while. Since that time, Mitokor, more recently. We stayed very involved with Viagene during that time. Jesse resigned from the Board and I kept that Board seat for Domain until we got the company sold. Seems like a lot to me.

JONES: What can you tell me about Genta? When they started to run into trouble and Jim Blair resigned from the Board, was that because Genta was going to sell off part of the company?

SCHNEIDER: Well, I do recall, but remember this is a public company, so I have to be much more circumspect about specific details about what happened or didn't happen. But I would just say, in general, the Board, namely Sam Coella, Jim Blair, etc. felt that the company ought to develop a strategy going in one direction and the company's management felt it should go in another direction. When that happens, and there's diversity or a division in opinion about the direction in which to go, and the Board member cannot be constructive in terms of the role that they're playing with management, then they shouldn't be on the Board. I mean, you either change the management or change the Board, but the Board should support the management. And if, for whatever reason, they can't do that, rather than sit there and tear each other apart, which is not constructive, not helping, you may be right, but it doesn't make any difference. You either get with the program of get off of the program. And I think Jim is a very seasoned venture capitalist and he recognized that he couldn't move the train, so he got off.

JONES: Let me ask you a couple of general questions about doing business as a venture capitalist. How much time do you spend, in rough percentages, raising money, and then managing your investments?

SCHNEIDER: Well, 80% of our time is managing our investments. 5% of our time is raising money. 10% of the time is looking for new ones. And 5% of the time that is left is just networking, doing all of the things that you need to do. 80% of the time is managing investments. The rule of thumb is that 80% of the work in any deal will be done after you put your money in.

JONES: What about negotiating with scientists or entrepreneurs? What kinds of things do you think they don't understand about what you do and what you have do, that maybe you would like them to?

SCHNEIDER: Well, everybody's different. Every case is different. Generalizations are dangerous. I would say probably most, an awful lot of people don't really understand the venture capital business at all, don't really understand what I need to try to accomplish and why. They don't really understand some of the behavior that they see. They just see the behavior and they don't understand why I'm doing doing that. Generally, I think we try to spend a lot of time developing trust between us and an entrepreneur or a management team, so that they do understand what our business is and what we're trying to accomplish in a pretty forthright manner. We tell them, which sometimes make it a lot easier to understand why we might suggest that we do it this way instead of that way, instead of just coming in and saying, 'This is the way it's going to be.' There is a huge fear of loss of control. You hear it all the time, young entrepreneurs and scientists say, 'Those guys have to own 51% of the business, they will control it.' My answer to that is, 'Bologna.' Even if I own 99% of the business, where venture capitalists own 99%, they still don't control it. The reason is we're

808 not there every day. They are. If the incentives aren't right in their hands, and they're not
809 turned on to what's going on, they're not going to be successful, no matter what. And likewise,
810 if they own 99% and you own 1%, that's not where it's at, control is not the issue at all.
811 Control lies with the people who are there every day. So, that takes a lot of understanding.

812 **JONES:** Do think that's changed over the years? Have scientists become more sophisticated?

813 **SCHNEIDER:** No, there are new scientists coming up all the time. But those who have done it
814 once are far more sophisticated than those who have never done it at all. And there are more
815 and more of those around. The density of those who have done it and been successful, and
816 want to do it again, is much higher than those who are just starting out, so it makes it a lot
817 easier.

818 **JONES:** So you would prefer to work with those people if the situation is right?

819 **SCHNEIDER:** Well, yeah. I think there's a natural proclivity toward working with people that
820 you know.

821 **JONES:** Did you think there are any inherent tensions in financing start-ups this way between
822 the demands of getting a relatively short term return versus the long-term stability of the
823 company, especially in a biopharmaceutical company, when you have this fifteen year product
824 development cycle?

825 **SCHNEIDER:** There's always conflict there. Our view is that you build a lot of value in a
826 company before the fifteen year cycle. That is, you build a lot of value in long before a product
827 ever finds it way to the market, and there are steps that you take to try to do that. It's not a
828 cookie cutter by any means. On the other hand, there are so many common elements that I
829 think it can certainly be analyzed in terms of steps 1, 2, 3, 4, 5. You can make step 3, step 9,

830 and then step 4, but it's the same. The order may change a little bit, but you're going to try to
831 do the same general thing. Domain's general philosophy has been from the beginning, and is
832 today, that it takes a lot of work and energy to build a company, and becoming a public
833 company is not so much a liquidity event for us, but a financing event for the company. It's
834 one step along the road, and just because a company goes public doesn't mean that we aren't
835 involved, that we can't still play an important role. And that's why we're still involved on the
836 Boards of many of our public companies, Dura, Amylin, Genisa, just to name three. They've
837 been public for years. We're still very involved. The job's not done.

838 **JONES:** Well, you've been doing this for a while, you've been successful at it. You've probably
839 made enough money doing this that you could retire if you wanted to. You don't have to do
840 this, right? What motivates you to do this work?

841 **SCHNEIDER:** The answer lies in the fact that I get to meet and work with the smartest people
842 in the world. I'm excited every day. I'm truly excited and turned on by what I do. And it's the
843 people that make it. We are living in a time when the science of biology and medicine is
844 changing so dramatically right in front of us, just think since the last time you've been here,
845 what's changed, what's new, new genes that have been discovered, new mechanisms of
846 disease in the last six months that have been uncovered. Changes in medical reimbursement
847 programs, changes in the way medical care is delivered that have happened in the last six
848 months. So, science is exploding. We're in a golden age. Hey, I love that. I am privileged to do
849 it. It has nothing to do with money. I'd make money anyway. I could make money selling hot
850 dogs. That's not the point. I could make a living. I just can't explain to people how exciting
851 being a part of this is. And had I known when I was twenty-six years old, leaving graduate
852 school, starting a company, I would have laughed. I would have thought, 'You've got to be
853 kidding.' Now that I'm here, I'm not giving up this seat. I'm not done. This is great fun.

JONES: Can you think of any anecdotes involving San Diego companies?

SCHNEIDER: People are very bright, very high-strung, very dedicated, very serious about what they do, committed to what they do. There are some very funny things that happen along the way as a result of their seriousness and their commitment, and every once in a while something like that happens, and people think that's pretty funny, but they're very serious about it at the same time. This is not a game. They're a very dedicated group of people.

JONES: What was it like working with Ted Greene at Amylin?

SCHNEIDER: Well, Ted is one of the most natural, dynamic leaders, as I told you before, that you'll ever meet. He's a one of a kind guy. He's about as challenging as you'll ever find anyone to deal with. He comes up with so many ideas, some of them are nuts, but they deserve attention. You've got to listen to them. They make sense in a funny sort of way. In his mind, they do. So, he's just a bundle of energy. He's constantly coming up with new things, and he's just a lot of fun to work with. People are really attracted to a guy like that. He's just a special case, I think. Just a special case.

JONES: Anything else I should know?

SCHNEIDER: The fact is that we're all here, most of the players are alive and well. They live and breath and walk on that street. And when they get together, and they do from time to time, just call it a great convergence, there's some meeting and all of them show up, you know, it's electric. It really is. There is a certain spark when some of these people get together. I've often sat there and had a glass of wine or a beer with some of these guys, and some wild idea comes out and gets tossed around, and an hour later, by the end of the day, three or four of them are saying, 'Let's start a company to do that.' That's electric, whether they actually do it or not, you can see the excitement and the juices flowing from these guys. And that's just an

877 awful lot of fun. And then the new people that come in, the new scientists who break out and
878 get swept into this stream. They kind of get tossed around for a while until they realize the
879 direction in which they're heading, going upstream is tough, but it's really fun. They're good
880 people. So, I'm happy to help you out if you want to chat again or check some facts or
881 whatever., I'll be happy to talk to you about it. I have never sat down and made a list of all the
882 deals I've been involved in. IDEC, there's another one. We IDEC at 3I.

883 **JONES:** When did you get in on that?

884 **SCHNEIDER:** They were really in deep trouble at the time. They've really done well. It was
885 kind of a later round. I knew Bill Rastetter from Genentech and some of the other guys that he
886 had with him at that time. But I did that at 3i.

887 **END INTERVIEW**

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The San Diego Technology Archive (SDTA), UC San Diego Library, La Jolla, CA.

The San Diego Technology Archive (SDTA), an initiative of the UC San Diego Library**,** documents the history, formation, and evolution of the companies that formed the San Diego region's high-tech cluster, beginning in 1965. The SDTA captures the vision, strategic thinking, and recollections of key technology and business founders, entrepreneurs, academics, venture capitalists, early employees, and service providers, many of whom figured prominently in the development of San Diego's dynamic technology cluster. As these individuals articulate and comment on their contributions, innovations, and entrepreneurial trajectories, a rich living history emerges about the extraordinarily synergistic academic and commercial collaborations that distinguish the San Diego technology community.