Dick Schneider #1 7/9/97

Q: 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?

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.

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

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 really high quality potential academic guys were turning toward industry that

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

Q: At Wisconsin?

Both at Wisconsin and MIT. I decided to take a position. Now, in addition to that, I would tell you that I had a very unusual circumstance. I did finally accept a position at a large pharmaceutical company called Sandoz, New Jersey. Then I read an article that appeared in Chemical & Engineering News, that we all got at that time, and they were talking about a new company, a new group of people, starting a company in California. I'm from California. And it was in an area that I was interested in. And even though. I'd already accepted this job, I hadn't reported to the job, but I'd accepted it, I decided to write a letter to the people that had started it. And they invited me to come to California and visit them on my next trip, and I did. To make a long story short, I ended up accepting their offer to start a company from scratch with two other people. I was the third employee in this company. And I had to go back to Sandoz, this big, famous, strong

company, and tell them that I wasn't coming. So, you can imagine the consternation. First, I wasn't going to be an academic, and 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.

Q: This was Syva?

Yes.

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

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.

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

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.

Q: And that was?

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 instrument that we had developed. And almost overnight, Syva went from as close to the brink of extinction as you could get, to an operating company with sales and shipments, and people in Asia, and airplanes, and we had a massive issue. And then, when these guys came home, we developed some more assays that became useful, and were very generally useful, in prison systems and all hospital emergency rooms. And the Syva broadened into therapeutic assays in blood, serum, and others, for drugs that were being used therapeutically to treat epilepsy, asthma, cardiac disease, what have you. And those assays were extremely precise, very quantitative, and are used today to help physicians determine the correct dosage of drug that an individual should be taking, a child or an adult. And again, to make a very long story short, you know, the company became a

$250 million a year, very profitable, wholly owned subsidiary of Syntex. By 1977, it was already well on its way. I left in 1983, and I've been gone a long time, but that was a very, very successful enterprise.

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

Well, it was probably happening during all of that time. I was the guy who was leading the group that was developing these products, and we had more to do than we could do, and none of us knew anything about product development, and nothing about medicine, at that time. You know, we were just scratching it out. We were young kids, basically. And talk about opportunity, it was overwhelming. We had to learn quality assurance, we had to learn manufacturing, we had to build a plant, we had to build instruments for these products, we had to build a sale force, and eventually, we had 1,100 people in that company. It became a very, very major enterprise. And being in the right place at the right time, you know, good luck is being prepared for an opportunity, but nonetheless, you have to have your eyes and ears open.

Q: When did David Kabakoff come to Syva?

Well, David, sure I hired him. I remember very well, I wish I could tell you the year. I think it was around 1979. I may be off by a little bit, maybe '78. He was at Baxter down

here in Southern California. I hired him and he became the assistant director of development, and was just invaluable to us. We became very, very good friends. So, anyway, he played an important role in it.

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

You know, that's kind of a complicated story. It probably actually begins in 1979, when Syntex sent me to the Advanced Management Program at Stanford Business School for the summer. I left the company and lived at Stanford and went to business school, full-time, seven days a week. I loved it. I was learning formally what I should have been doing, you know, the years before. When I came back, I assumed my old responsibilities, plus I became general manager of a new instrument company that we were starting. So, I really had an opportunity, again, to start something new. It was a wholly owned subsidiary of the company, we were at a $20 million sales rate, with one customer, internal. Just overnight, we were building instruments of all kind. During the next year or so, they asked me to help start three other divisions, which we did, all of which became reasonably successful, and I realized that what I really liked to do more than anything was to start new things. I was not a very good long-distance runner, but I was a pretty good sprinter. Running large organizations just 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 the wrong time. And nine months late, I left the company, practically shattered, I must add, I mean, I was just disillusioned completely. I didn't do anything for a couple of months. The phone was ringing constantly with people who said, 'Look, why don't you help us this, help us do that,' and I started a company called Biomedical Consulting Associates, which is Dick Schneider. There isn't anybody else. I did that for a number of years and basically, people would come with an idea, and I would help them with a business plan, if I liked the idea, and I would try to get it financed. Trying to get them financed provided the entree to venture capital, which I knew nothing about, but I learned fast. During the years that I had Biomedical Consulting Associates going, I involved in starting five companies.

Q: Which were those?

The one that's best known today is one called Molecular Devices. That was also started by another guy who started Syva years before. And there were some others, and at this point it's irrelevant, but the fact is that I could see what I did well. I would go in as the president and CEO, run that company, hire somebody who could run it long term, stay on the Board, work with them, develop the strategy, recruit people, help develop the science wherever I could, and then move on to the next. And of course, that provided the entree to venture capital. I got an opportunity to join Sequoia, a very well-known venture capital firm. I'm getting pretty long in the tooth by now, I'm an old guy, and they suggested that I come in and help them with some business plans, and that they would

help me look at some things. Anyway, one thing led to another, and they suggested, and I concurred, that I really wanted, that a reasonable career path for me was be to become a professional venture capitalist full-time, and they made the suggestion that I join a firm, and they made some introductions, a number of offers were made, and I ultimately accepted one from a group called 3i Ventures, a very large source of money that came from the UK, here in Orange County.

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

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.

Q: 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?

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

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.

Q: You were involved in bringing David Hale in?

Yes.

Q: What were the circumstances surrounding that?

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.

Q: Whose case?

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.

Q: 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.

Well, I wouldn't exaggerate my role, but I would tell that it seems so incongruous today that Jim Blair, one of the paradigms of virture of the biotech industry, I mean, he had

done Amgen and Genzyme and Repligen and Immunex and Genetics, I mean, just a million, and Brook Byers, who had done Hybritech and Genentech, etc., etc., huge things, and the two of them had never met. They had never met.

Q: Were you there when they met?

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

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

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

Q: Did Kleiner-Perkins have a representative on the board?

No.

Q: It was basically a Domain company?

Well, no. I mean, there were other very significant people who played a role in 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.

Q: 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.

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?

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

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

U.S., so there were a lot of positive things going on there, but they took a couple of pretty serious torpedoes.

Q: One being the adenosine compound, the other?

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

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

Sure, certainly.

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

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.

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

Sure, what company doesn't?

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

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

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

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

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

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

Q: When you started working with Hybritech as a consultant what precisely were you working on?

When they were first starting the company, Ted Greene and Brook Byers will tell you that they asked me if I would join their management team and start the company with them. I said no. Years later, many years later like three, four, five, by then Tom Adams had brought in David Kabakoff, Kabakoff was running R&D, and I was out of Syntex and Syva, running Biomedical consulting as a free agent, and David Kabakoff called me up and asked if I would have some time available to act as a consultant on certain elements of their business strategy, and I said yes. Well, remember, at the time, and even now, I'm principally a scientist and my area of expertise was in diagnostics, and particularly in immunodiagnostics, using antibodies to detect the presence of certain antigens in small molecules, and Hybritech was a diagnostics company at that time. The part that was being run by Dennis Carlo, in therapeutics, I had nothing to do with, but the part of it that was diagnostics, which was Tom Adams and David Kabakoff, was right down the throat of what I did, and I ran these groups for years at Syva, so I had some contacts and expertise, and a small amount of knowledge, so David said, 'Hey, look, it can't hurt, you know. If you don't screw anything up, come on in here and give me a hand.' So, I was in there helping them with assays and automated assays, machines, instrumentation.

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

Yes, I declined twice. I was wrong twice. That's my second mistake. My first one was Hybritech.

Q: What were the problems that you saw?

I'm sure they told you that, because they love telling that story that Dick screwed up again, and he did. Interestingly enough, my partner, Jesse Treu, at Domain, did make the investment, and I'm glad we did, because we made money on it. But 3i, the company that I represented and turned them down twice, did not make the investment and it didn't make any money. The reason I turned them down was that I felt, and I thought, that the magnitude of the task was very large. It was larger than they had estimated. They underestimated how hard it would be to mix all those antibodies at one time, to get them all balanced and to behave properly. But what I underestimated was the ability of Gunars and Kim and the other people that they had with them, one in particular, I can't think of his name right now, but I will in a minute, I underestimated how smart they were and how dedicated they were to getting it done, and it really taught me a lot about people and their will. They literally made it happen. They are really good people. I don't mind, they can tell that story all they want.