

1 Dick Schneider 9/24/97

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

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

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31 Q: Are these folks you mentioned still in this business?

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36 Well, one of them is. My old partner, Mike Heenos [?] left 3i about the same time I did,

37 and he's now general partner of a new fund in the South, in Atlanta, called Alliance

38 Technology Ventures. He's done extremely well. He's a very well-known guy. Fred is

39 more in the consulting business today than in the venture capital business, but he's still

40 very involved in companies.

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44 Q: What were some of the companies that you reviewed and invested in with 3i? Gensia

45 was the first one.

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49 Between Mike and I, we did all of the health care investing for 3i in the Western United

50 States. And I think in the five years we were there, we did twenty-some odd companies,

51 a number of them in San Diego, including Gensia, Ligand, Viagene, Camino Labs, BTI,

52 and I'd have to go back and look, but, I mean, a lot. I'm just not sure about it right now,

53 but a lot.

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57 Q: Well, I'd like to ask you about specific companies, but what was your perception of

58 what was going on, this proliferation of things going on in San Diego, and what role did

59 the early success of Hybritech play in that?

60 Well, there's no question it played a key role. I mean, anytime people go back and look
61 at where venture capital has been very successful and where entrepreneurship has been
62 very successful, there have always been good role models to point to, and Hybritech was
63 loaded with role models. It itself was a role model, and then the people that were in it
64 became role models themselves. Success begets success, so investors then follow these
65 people around, just watching and waiting. So, it was probably the single greatest thing
66 that led to the explosion of technology ventures and money invested, was probably the
67 success of Hybritech.

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

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

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

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86 Sure, I remember it very well. Drew and Brook and I looked at that technology, the early
87 technology, that Henry Niman had, that didn't work very well, although we didn't know
88 it at the time. It was a very interesting concept. Henry was from Scripps and he had this
89 idea, if I remember it right, people that had, normal people produce a whole series of
90 proteins in the blood all the time, enzymes and non-enzymes, cytokines, factors of all
91 kinds, many of which we don't even know what they're all for. We just know what a few
92 of them are for. But his view was that you didn't need to know what they were all for,

93 you just needed to understand that if you had malignant disease, the cells that were
94 transformed would produce those proteins and a whole other set of proteins. And you
95 didn't need to know what they were, either, this was his view, you would eventually find
96 out what they were all for, but some of them would be markers of disease, that these cells
97 were throwing, and in fact, that's true, I mean, that's the basis for a number of
98 biochemical assays that people use to detect and monitor malignant disease. But his
99 approach to how he was going to do it turned out to be unworkable, and we brought in
100 some really good people who had good analytical biochemical expertise and they really
101 couldn't reduce it to practice. They just couldn't make it work. They tried and they tried
102 and they tried, and eventually we concluded that the technology may have just preceded
103 out ability to master it. You know, it may be brilliant, but we couldn't convert it into
104 anything useful. So, I remember very well that Howard Birndorf was brought into the
105 company, kind of as the business development guy, and of course, he was a good personal
106 friend of Brook's, and so, there was a natural connection, and Howard and some of the
107 other people there concluded that it wasn't going to work. There were still two million
108 dollars in the till. We had the choice, the Board was basically the three venture
109 capitalists, and well, we could just return the money, just say, 'Good try,' but Howard
110 said, 'Well, before you do that, I've got this guy, I know this other guy over at the Salk
111 and he's got this sensational technology for intracellular communication and you can use
112 it for drug screening and what have you, and I think that this is the basis for a whole new
113 company. So, I guess in a moment of extreme weakness, we decided that we had already
114 poured the money in, we certainly could take it back, but Howard was very credible and
115 the new technology from Evans was very credible as well. He's a Howard Hughes

116 Fellow, he's a very well-known guy. It was a reasonable risk, a lot, but we had worked
117 together before, we all knew each other, Drew and Brook and I. We decided to, you
118 know, roll the dice. So basically, Ligand got started on the rebound out of, the original
119 company was called Progenx, by the way. Before it was called Ligand, it was called
120 Progenx. And we sat around, and one thing led to another, we recruited some more board
121 members, we did another round of financing, and before you know it, Ligand was born.
122 So, that was a case of venture capitalists working together with entrepreneurs, again there
123 was a lot of connection to Hybritech, a spin-off there, but that was neat.

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127 Q: Who contacted Scripps or Niman initially?

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132 I think Niman contacted Brook Byers. I don't know the early history. I don't even
133 remember. He may have contacted me. I didn't think much of him, I didn't like it, and
134 then Brook called and Drew called. I had a background in this area and we all had
135 something in common and we thought that maybe between us we could make this thing
136 go. My recollection is today that probably Brook and Drew called me, maybe Brook
137 called me, and I called Drew, I don't know, it doesn't make any difference, but those are
138 three guys that got together.

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142 Q: And would you say that you got involved primarily because it was Brook calling and

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Drew Senyei calling, rather than the technology per se?

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

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155 Q: What deals had you worked with these guys before on?

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

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166 Q: When you were doing biomedical consulting?

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171 Right, so I knew Ken Widder and Drew from the time they started that company. And
172 then Drew went back to school and finished his medical degree, and in the course of
173 doing that he was a resident here in Irvine, I think at UC-Irvine, in Orange. I don't
174 remember how it came about, but he ended up doing some consulting work for us at 3i,
175 and one thing led to another and before long, he was doing a lot of consulting work for
176 us. We were working very closely with him. I think we started a company together
177 called Adiza Biomedical [?], if I remember right, up in the Bay Area, a women's health

178 care diagnostics company. Gosh, this was so long ago, and everybody's connected, so I
179 don't remember all of this stuff any more, there's just too many of them. But, then he
180 went on to join Chuck Martin and Enterprise Partners, here in Irvine at the time, and we
181 were social friends as well as business colleagues. And he's a very smart guy, great
182 background, and I've worked with him personally, I have a lot of respect for him. So, he
183 called, and Brook called, and I said, 'Sure.'

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

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

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

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

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212 Q: What's the story there? What happened?

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215 Well, it was a case of getting some really interesting technology. Remember, it started
216 out as part of Gensia and it was in an area which is quite different from cardiovascular
217 disease, which is what Gensia was working on. It was working on retroviral delivery for
218 gene therapy. When we started Gensia, we knew we had this technology and took just a
219 little bit of money and tried to develop a proof of principle, and we did that, the guys did
220 that, I should say. I was on the Board of Gensia at the time, so I was very close to it.

221 And the decision was made to get it funded externally, because we shouldn't be using the
222 resources of Gensia which were focused on cardiovascular disease, for this thing working
223 on gene therapy. So, we basically wrote a business plan and put it on the market. Brad
224 Gordon was the business development guy who wrote that and put it on the road. And we
225 got it financed with some new venture capitalists, some of them were the same as Gensia,
226 and some were different. We formed a separate board. Gensia had retained ownership of
227 20% of the company, so it had built some equity. David Hale joined the board, I did,
228 Jesse Treu from Domain, Paul Klingenstein from Axcel. It was a real interesting group of
229 people, and Harry and Paul. We recruited a CEO who was a really fine guy. His name
230 was Greg Phelps. We ran it without a CEO for a while, but then after about a year, we
231 recruited Greg. He helped us build a team, and we got it to a certain stage, and without
232 going into a lot of stuff, we decided that we needed to make a change at the helm. We
233 had to let Greg go. He has since gone on to a very successful career at Genzyme, by the
234 way. He's a fine man in his own right, just not the right fit. We almost lost the company
235 right there because we weren't raising money. We couldn't raise any money. We didn't
236 have any corporate deals, and people were very skittish, they were all research-oriented
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238 people, money was running out. We thought they were all going to leave. I remember
239 David Hale coming into that company and giving a talk to the employees to convince
240 them to stay and that we were going to stay, and that we were putting more money in.
241 This was Dick and David and Jesse's reputation was on the line here. We were there,
242 "Stick around, we won't let you down.' And we didn't. We brought in a CEO, Bob
243 Abbott, and the rest is history, a very successful company. We sold it to Chiron. It was a
244 very successful outcome.

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

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255 I think there was some of that. You know, you have to have a vision. I think that many of
256 these companies, you're selling a concept, and you've got to believe it down to your
257 socks and you have to understand it before you can believe it. You'll look right through
258 somebody who tries to sell you an empty sack of bananas. You know, it's just not a
259 business where you can do that. Bullshit just doesn't go very far. You really have to
260 have a great inner intensity, a great desire, and a great understanding of what you're
261 talking about to look some guy in the eye and tell him what you're going to do for him, in
262 terms of providing some cutting-edge science. Greg was not that kind of guy. He was a
263 very, very fine man, but that wasn't his thing. He wasn't as technical.

264 Q: And was it his personality, in terms of selling an idea? A lot of people have told me
265 that one of the reasons Hybritech was so successful was that Ted Greene could generate
266 excitement....

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

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281 Q: Do you remember recruiting Bob Abbott? Where did he come from?

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286 Do I remember? Sure, he was my guy. Yeah, I was the one who was the champion for
287 Bob Abbott. I knew him because he had been with a company called NeoRx in Seattle,
288 and I had done some consulting work for them, so I knew him quite well from that, as
289 well as his other colleagues. But even before NeoRx, I was involved in recruiting him to
290 come to Seattle to work at a company called Oncogene, which is a spin-out of Genetic
291 Systems, which, when I was at Syntex, we funded Genetic Systems, and then with the
292 spin-out of Oncogene, I was on the Board of Oncogene. So, I recruited him to come to
293 Seattle in the first place. I'd know him for years before that. And he went on to NeoRx,

294 and NeoRx had its issues, it wasn't as successful as it might have been. Bob was blamed
295 for some of that. My belief was he was, not entirely blameless, but he certainly didn't
296 carry the full burden. I felt that there were a lot of mitigating circumstances. The guy
297 was just a really good leader. He was scientifically very competent and capable, and I
298 believed that he had that vision. He could sell it, and he understood it, and he would be a
299 great addition to Viagene. The other Board members, all they could see was NeoRx and
300 it's fall from grace. It was what was called a fallen angel. It was a company that had
301 done very well in the market, the public market, and it kind of frittered away to a very
302 low market cap. There was some debt, there were some structuring issues that the Board
303 got them into, a lot of issues. But nonetheless, there was some objection, but anyway, we
304 got him sold, and I don't think there is any question, he was the right guy for the job.

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308 Q: Do you remember, was it a tough sell to get him to move to San Diego? Was gene
309 therapy a tough sell?

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313 Well, Bob is a technically-oriented guy, and it was a case of serving it up on the right
314 plate, and giving him enough of a challenge. He needed an opportunity, another
315 opportunity to prove himself, and I told him that I had full faith and confidence in him,
316 and that I was going to be in that position, to give him an opportunity to show that he was
317 really a lot better than a lot of people really thought he ever could have been because of
318 this other thing, and I knew I was right. And he was, and he is. He's gone on to do very
319 good things since.

Q: What's he doing now?

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324 Well, he went to Canada to help start a company in Vancouver, and he did very well
325 there, and now he's really on his own. He's in the middle of starting another company
326 here, he's going on to another one. He's done real well.

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

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

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Q: Had Jim Blair known him?

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

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358 Q: Did Ted Greene call you?

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363 Who called who? Beats the hell out of me. I just don't know. I don't know if Jim called
364 me and said, 'Hey, I just found out about this new science. I just met this guy Garth
365 Cooper and Ted.' I just don't remember. Things moved on pretty fast. But that was a lot
366 of fun to do. Again, from the beginning, right at the beginning, when there was nothing.
367 The first employee that we hired was Marjorie Tillman, the CFO, and she's still [?] super,
368 just brilliant. Some of the other things that I was doing or had done at the time, boy, I've
369 got to go back to look. I don't mean to, I just didn't prepare myself for that. We've just
370 done so many companies over such a long period of time. A couple of device deals that
371 we were working on at the time were Camino Laboratories, a kind of interesting little
372 medical device company that was measuring intercranial presures. Following brain
373 surgery, your brain tends to swell, and when it does, that's bad. Sounds bad, doesn't it?
374 They had a neat way of measuring the pressure, the pressure inside your skull. It was
375 much better than what other people were doing and ultimately we sold the company to a
376 much larger company that was selling those kinds of products. I was certainly involved
377 in that. A bunch in the Bay Area, but your only interested in San Diego, right?

Q: Mostly, yeah. How much time do you split between...where is 3i located?

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Right here in Newport Beach.

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

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

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

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Yeah, I think the answer to that is yes. It's always qualified. You know, you can't rely on other people unless you really know them well, or you shouldn't. Or, you kind of get what you deserve. I mean, if you trust the wrong guy -- I said guy, but I mean guy or gal, person -- but over the years, you develop a working relationship with these people where you develop a lot of trust, and you also learn how they do their due diligence. I used to do it all by myself on every deal, and after a while, I found that they would do the same thing I did. They would call the same people, they'd ask the same kinds of questions, they came to the same kind of conclusion. So, after a while, we would just kind of divide it up and I would trust their judgment, and they would trust my judgment, and we would

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413 share due diligence. It's kind of a survival mechanism because there's so much work that
414 you could do on any given deal, so you tend to share the load and make it a little bit
415 easier. That's kind of why venture capital firms tend to work with other venture capital
416 firms. The same ones seem to come together in syndicates all the time. It's probably
417 because of those kind of, I don't what you would you call them, but just say, established
418 relationships.

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

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428 Well, I think, probably 80% of the time -- I just made up a number -- I wouldn't call
429 anybody, OK? I'd try to figure it out myself. I might talk to a couple of people, but I
430 wouldn't hire anybody to do the technical due diligence. I try to do that myself. I
431 consider that so important, that and the people. I've always made my own reference
432 calls, and I've always called my own network of people. I still do. But for the other
433 20%, the stuff becomes very esoteric, very focused, very complex, cutting-edge science,
434 very hard for an old guy to understand all of that stuff. You don't trust necessarily your
435 own intuition, you want someone else to validate it, or question what you're doing. Then
436 usually what I do is call around and try to find somebody who's a world-class expert in
437 the field, who knows someone I know, so I have an entree. I may have mentioned, one of
438 my sons, he's a physician, and during all of this time he was going to medical school, and
439 you just can't imagine the entree that provided me, other people that I met through him at

440 the medical school, faculty level, plus students who were quite expert themselves in
441 many of the cutting edge technologies, and I still use those contacts.

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445 Q: Is he still up in the Bay Area?

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

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459 Q: What's his expertise?

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464 Radiation oncology. But you do what you've got to do. It's a case of building a network
465 and knowing who to call.

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469 Q: Well, in 1988, you decided not to join Domain. You were happy with what you were
470 doing at 3i?

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474 Well, I had given my word. I didn't have a contract with them, but I told them that if
475 they'd give me five years, I'd help build up a reasonable business, and remember, I told
476 you that I didn't have much experience in the business, and they were trusting me a lot.

477 They were taking a big risk. It just didn't seem to be the right thing to do. I mean, I't
478 told somebody I was going to do something. I wasn't about to, it was one of the hardest
479 decisions I've ever made. Financially, it was not a good decision. I made the wrong
480 decision financially. I would have made more money had I gone to Domain earlier. But
481 there are other reasons for making decisions. I'd given my word.

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

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

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502 Q: Any particular lessons stand out in your mind?

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507 Well, I don't think, I've said to you before that my belief is that people like Ted Greene
508 aren't made, they're born that way. You know, I think venture capitalists aren't born,

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

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

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

535 Q: Was 3i doing a lot of, a broad range?
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540 Yeah, right. Absolutely. They were what you would call a non-focused fund. They were
541 a general fund. They did everything. They spent a long time in meetings, and wrote a lot
542 of reports. I just got tired of it. So, I don't remember how the conversation started,
543 probably with Jesse and I, or Jim and I, or Jim and Jesse. It didn't make any difference.
544 They said, 'Hey, you know, we're going to do another fund.' They had just finished their
545 first fund and they were getting ready to start another. They said, 'Look, we need to open
546 an office in California. We won't find anyone else. There's nobody else who would take
547 the damned job. Why don't you rethink it?' And I said, 'Well, OK, I'll take it.' I mean, I
548 didn't have to think about it for five minutes. I made the decision in thirty seconds. I
549 mean, I knew I wanted to do that. These guys were the best in the business that I knew.
550 They were focused in an area that I thought was what I wanted to do. We understood
551 each other right from the get-go. We jsut had a lot of communication, we thought the
552 same way, we had the same kind of background. We were all about the same age. We
553 knew each other and each other's families. It was an easy decision, really easy. So,
554 within about a week, a deal was put together. I went to the people at 3i and told them
555 what I was going to do, and they said, 'OK.' What were they going to say? I didn't have
556 a contract with them, and I had fulfilled my obligation in time, and they certainly had a
557 thriving business. But they asked whether I would transition over a year's period of time
558 and manage their investments in the area that I was responsible for, and I had about nine
559 at that time, eight, ten, whatever. And I said, 'Sure, I'd be happy to.' I mean, I was doing
560 them anyway. You have to understand, many of these were common to Domain, of the

561 same group. Not all, but many. So, I moved out of my office in Newport Beach and I
562 moved into one here in Center Tower, and the coincidence there was I ended up sharing
563 an office with Ned Olivier, who was a partner of Oxford Bioscience Partners, on the
564 eighth floor, another guy that I knew well, and he had an empty office. He said, 'Look,
565 you're making this transition. Why don't you just come over and camp for a few months
566 until you figure out what you want to do and where you want to go.' Well, a few months
567 turned into five years. I just didn't move. It was like fish, you know, it started to smell
568 after a while. So, I just stayed and we shared an office, and then his fund grew, and I had
569 cleared some plans to expand our presence in California, so we separated our geographic
570 location. They stayed down on the eighth floor, and we moved up here and expanded
571 into all this space.

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

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586 Q: But now you've got other people.

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591 Quite a few.

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

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

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

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

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618 Q: What can you tell me about Genta? When they started to run into trouble and Jim

619 Blair resigned from the Board, was that because Genta was going to sell off part of the
620 company?

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624 Well, I do recall, but remember this is a public company, so I have to be much more
625 circumspect about specific details about what happened or didn't happen. But I would
626 just say, in general, the Board, namely Sam Coella, Jim Blair, etc. felt that the company
627 ought to develop a strategy going in one direction and the company's management felt it
628 should go in another direction. When that happens, and there's diversity or a division in
629 opinion about the direction in which to go, and the Board member cannot be constructive
630 in terms of the role that they're playing with management, then they shouldn't be on the

631 Board. I mean, you either change the management or change the Board, but the Board
632 should support the management. And if, for whatever reason, they can't do that, rather
633 than sit there and tear each other apart, which is not constructive, not helping, you may be
634 right, but it doesn't make any difference. You either get with the program or get off of
635 the program. And I think Jim is a very seasoned venture capitalist and he recognized that
636 he couldn't move the train, so he got off.

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

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646 Well, 80% of our time is managing our investments. 5% of our time is raising money.
647 10% of the time is looking for new ones. And 5% of the time that is left is just
649 networking, doing all of the things that you need to do. 80% of the time is managing
650 investments. The rule of thumb is that 80% of the work in any deal will be done after
651 you put your money in.

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

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661 Well, everybody's different. Every case is different. Generalizations are dangerous. I
662 would say probably most, an awful lot of people don't really understand the venture
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664 capital business at all, don't really understand what I need to try to accomplish and why.
665 They don't really understand some of the behavior that they see. They just see the
666 behavior and they don't understand why I'm doing doing that. Generally, I think we try
667 to spend a lot of time developing trust between us and an entrepreneur or a management
668 team, so that they do understand what our business is and what we're trying to
669 accomplish in a pretty forthright manner. We tell them, which sometimes make it a lot
670 easier to understand why we might suggest that we do it this way instead of that way,
671 instead of just coming in and saying, 'This is the way it's going to be.' There is a huge
672 fear of loss of control. You hear it all the time, young entrepreneurs and scientists say,
673 'Those guys have to own 51% of the business, they will control it.' My answer to that is,
674 'Bologna.' Even if I own 99% of the business, where venture capitalists own 99%, they
675 still don't control it. The reason is we're not there every day. They are. If the incentives
676 aren't right in their hands, and they're not turned on to what's going on, they're not going
677 to be successful, no matter what. And likewise, if they own 99% and you own 1%, that's
678 not where it's at, control is not the issue at all. Control lies with the people who are there
679 every day. So, that takes a lot of understanding.

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

689 No, there are new scientists coming up all the time. But those who have done it once are
690 far more sophisticated than those who have never done it at all. And there are more and
691 more of those around. The density of those who have done it and been successful, and

692 want to do it again, is much higher than those who are just starting out, so it makes it a lot
693 easier.

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697 Q: So you would prefer to work with those people if the situation is right?

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702 Well, yeah. I think there's a natural proclivity toward working with people that you

703 know.

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707 Q: Did you think there are any inherent tensions in financing start-ups this way between

708 the demands of getting a relatively short term return versus the long-term stability of the

709 company, especially in a biopharmaceutical company, when you have this fifteen year

710 product development cycle?

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714 There's always conflict there. Our view is that you build a lot of value in a company

715 before the fifteen year cycle. That is, you build a lot of value in long before a product

716 ever finds its way to the market, and there are steps that you take to try to do that. It's not

717 a cookie cutter by any means. On the other hand, there are so many common elements

718 that I think it can certainly be analyzed in terms of steps 1, 2, 3, 4, 5. You can make step

719 3, step 9, and then step 4, but it's the same. The order may change a little bit, but you're

720 going to try to do the same general thing. Domain's general philosophy has been from

721 the beginning, and is today, that it takes a lot of work and energy to build a company, and

722 becoming a public company is not so much a liquidity event for us, but a financing event

723 for the company. It's one step along the road, and just because a company goes public

724 doesn't mean that we aren't involved, that we can't still play an important role. And
725 that's why we're still involved on the Boards of many of our public companies, Dura,
726 Amylin, Genisa, just to name three. They've been public for years. We're still very
727 involved. The job's not done.

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

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

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753 Q: Can you think of any anecdotes involving San Diego companies?
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758 People are very bright, very high-strung, very dedicated, very serious about what they do,
759 committed to what they do. There are some very funny things that happen along the way
760 as a result of their seriousness and their commitment, and every once in a while
761 something like that happens, and people think that's pretty funny, but they're very serious
762 about it at the same time. This is not a game. They're a very dedicated group of people.

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

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781 Q: Anything else I should know?
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786 The fact is that we're all here, most of the players are alive and well. They live and
787 breath and walk on that street. And when they get together, and they do from time to

788 time, just call it a great convergence, there's some meeting and all of them show up, you
789 know, it's electric. It really is. There is a certain spark when some of these people get
790 together. I've often sat there and had a glass of wine or a beer with some of these guys,
791 and some wild idea comes out and gets tossed around, and an hour later, by the end of the
792 day, three or four of them are saying, 'Let's start a company to do that.' That's electric,
793 whether they actually do it or not, you can see the excitement and the juices flowing from
794 these guys. And that's just an awful lot of fun. And then the new people that come in,
795 the new scientists who break out and get swept into this stream. They kind of get tossed
796 around for a while until they realize the direction in which they're heading, going
797 upstream is tough, but it's really fun. They're good people. So, I'm happy to help you
798 out if you want to chat again or check some facts or whatever., I'll be happy to talk to you
799 about it. I have never sat down and made a list of all the deals I've been involved in.
800 IDEC, there's another one. We IDEC at 3i.

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Q: When did you get in on that?

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