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University of California
Berkeley, California

DONALD T. VALENTINE

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

Interviews conducted by
Sally Smith Hughes, PhD
in 2009

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

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Donald Valentine, 2002
Photo courtesy Sequoia Capital

Project Overview

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

The Project

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

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

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

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

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

Project Director and Interviewer: Sally Smith Hughes

Videographers: Julie Allen, Caroline Crawford, and Linda Norton

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Donald T. Valentine Biography

Mr. Valentine is a venture capitalist at Sequoia Capital focusing on semiconductor, systems and software investments. Don founded Sequoia Capital in 1972 and was one of the original investors in Apple Computer (AAPL), Atari, Cisco Systems (CSCO), LSI Logic (LSI), Oracle (ORCL) and Electronic Arts (ERTS). Prior to starting Sequoia Capital, Don was a founder of National Semiconductor and a senior sales and marketing executive with Fairchild Semiconductor.

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01-00:00:01
Hughes: Today is October 20, 2009 and this is the first interview with Donald Valentine. I'd like to start at the beginning, namely where you were born, what it was like to grow up in your family, and your early schooling.

01-00:00:32
Valentine: Suppose I don't like subjects like that, can we finesse them?

01-00:00:38
Hughes: Well, sure. But not only are people interested in where you came from, but in many cases it shows the evolution of how you got where you got, and what you may have picked up along the line that you later found useful, or *not*. So, go through it as much you can stand, please.

01-00:01:06
Valentine: You'll find that I like dealing in brevity and summary. As is true of a lot of people, I was born and raised in the East where it snowed, and I vowed never to live anywhere where it snowed on my driveway. So I came to California.

01-00:01:33
Hughes: [chuckling] And that's the early life of Donald Valentine?

01-00:01:39
Valentine: Well, I mean that's a motivation that got me here.

01-00:01:43
Hughes: Well, yes, but there was something in between.

01-00:01:47
Valentine: Not especially exciting or relevant.

01-00:01:50
Hughes: Well, I don't know that I agree. One thing that I learned is that virtually all your schooling, with the exception of business school at UCLA, was in Catholic schools.

01-00:02:06
Valentine: Correct.

01-00:02:08
Hughes: Well, what did that instill?

01-00:02:15
Valentine: Well, the one thing that I remember that it instilled—the Catholic nuns did not allow people to write left-handed. The Italian word for left is *sinistra*, which also obviously means sinister. And the Catholic nuns thought people who wrote left-handed were sinister, so you wrote right-handed. And they pounded

you with a yardstick until you changed, and I discovered that I didn't *change* easily. [Hughes chuckles] So yes.

01-00:03:04
Hughes: So there was a little contention?

01-00:03:08
Valentine: I wouldn't quibble over the adjective, but I think it was more than a little. I had demonstrated a technique of writing left-handed that I think qualified for the Palmer writing system that they felt strongly about, which only got me a few more lashes of the yardstick.

01-00:03:33
Hughes: And how do you write nowadays? With which hand?

01-00:03:36
Valentine: As you have seen, I don't write at all, I print.

01-00:03:40
Hughes: All right, you print, but it's very beautiful, as I told you off tape.

01-00:03:44
Valentine: Thank you. It's an accident of a violent learning experience. So, if you like this Catholic orientation, I started with Franciscan nuns who were generalists, not especially well educated, very passionate about their faith, and very adept at beating you.

01-00:04:16
Hughes: Physically, you mean?

01-00:04:19
Valentine: Did you ever get hit this way? [demonstrating]

01-00:04:21
Hughes: No. On the ears?

01-00:04:24
Valentine: Wherever their hands happened to hit on your head. I graduated from the nuns to Marist brothers who were slightly better educated and were not given to violence. That's because the kids were bigger.

01-00:04:37
Hughes: This was high school?

01-00:04:40
Valentine: Yes, Mount Saint Michael, and retaliation was always the threat. And then I was educated by the Jesuits at Fordham who are very highly educated by comparison to my prior experience, and their idea of brutality was intellectual. As a generalization, they were well educated, they were smart, and they would bait you into positions that clearly demonstrated their superiority. They used a Socratic technique of teaching.

01-00:07:00
Norton: Can I ask where you went to college?

01-00:07:05
Valentine: Fordham University.

01-00:07:07
Norton: I went to Holy Cross.

01-00:07:08
Valentine: Ah! A similar kind of fraternity.

01-00:07:12
Hughes: And I had a stint with the Catholics too, way back. So some of what you're saying, not the physical beating aspect, but others I think we both can probably identify with.

01-00:07:30
Valentine: Yes, having never gone to any other kind of school, they are very relevant historically. And it's an interesting history. Dan Brown, a current active author, is making a lot of progress writing about things that involved, or involve, history and fantasizing about different elements and timing of the Catholic Church.

01-00:08:05
Hughes: Well, let me ask you one more thing and then we'll leave it. What did this rather rocky introduction to Catholicism do for your faith?

01-00:08:26
Valentine: [pause] Interesting question. Never thought about the question, don't have a pat answer. I suspect since it was the only religious orientation I was ever exposed to, until I got to the Jesuit's level of education I never thought about alternatives. So, dealing with the question more obliquely, my middle initial is T for Thomas. Thomas was the apostle who was the doubting person.

01-00:09:10
Hughes: Doubting Thomas.

01-00:09:10
Valentine: It probably did a great deal to encourage both my inquisitiveness and inclination not to believe what I was told or heard. Now, how is that relevant? In the business I'm in, it's all about figuring out which questions are the right questions to ask, and since we don't have a clue what the right answer is we're very interested in the *process* by which the entrepreneur gets to the conclusion that he offers. Our business is a business of highly intuitive decision making and the fact that it's done in a scientific area doesn't make it scientifically, practical to make decisions that way. So—long-winded answer about faith.

01-00:10:18
Hughes: The way you describe yourself at a young age is you're not sitting around just taking what's thrown at you. Does that have some relationship to the way you were raised? What about your parents?

01-00:10:51
Valentine: [pause, sigh] I'm struggling to make a connection. Neither were educated, neither graduated from grade school.

01-00:11:01
Hughes: Really?

01-00:11:02
Valentine: Both were dedicated readers, but rather random and not especially purposeful toward an objective. Reading for entertainment was much more a descriptive than attempting to learn a body of knowledge about anything. I don't think there was a connection. My grandparents were equally uneducated, so there isn't a real nexus between the family pasts, regardless of generations, that I can recognize or conclude.

01-00:11:53
Hughes: Well, I can think of two ways that it might. First of all, they may have wanted more for you. So that leads to the question, did they want you to exceed academically? Did they want you to go to good schools?

01-00:12:14
Valentine: I have a brother, and if I were to judge, I would say that our parents were interested but allowed us to make the decisions, deferring I think because of lack of familiarity with choosing a high school, lack of familiarity of choosing a college. So I think they deferred to however the school influenced and formed our thinking about what to do next.

01-00:12:51
Hughes: Were they pleased when you achieved?

01-00:12:54
Valentine: Yes. The family member I learned the most from was my Danish grandfather who explained to me that despite the fact that you cannot write left-handed you should eat left-handed, and that you should eat everything. [Hughes chuckles.] And by trial and error you'll find things that you like a lot and things that you like less, and just eat the things you like a lot but try everything.

01-00:13:27
Hughes: Did you extend that philosophy beyond food?

01-00:13:32
Valentine: It's the only areas in which he and I interacted. He was only partially an English-speaking man and unfortunately lost his hearing in the Spanish-American War. I have no idea why he was in the Spanish-American War, but

he was. As far as I know there was no draft or anything in those days. And he was clearly an immigrant from Copenhagen, so what he was doing in Cuba was a mystery to me.

01-00:14:07
Hughes: Now the other way I could imagine some connection, stepping back a bit, I read that your father was a truck driver and a Teamster?

01-00:14:20
Valentine: Yes.

01-00:14:22
Hughes: That, speaking very stereotypically, produces an image in my mind of somebody who is no patsy. I imagine a strong individual?

01-00:14:39
Valentine: Headstrong. Yes. The fundamental basis of conversation between us on anything that had any consequence was his dedicated position of being in a union, the Teamsters, and eventually becoming a very, very minor functionary in the Teamsters. His argument was: you know you clearly are opposed to the unions but they got you where you are. I don't remember what I said but it was probably something like, "It's part of overcoming my past.

You know I'm going to edit all of this out. This is never going to see the light of day.

01-00:15:45
Hughes: Well, then you're going to get some opposition from yours truly.

01-00:15:47
Valentine: It'll have to do with the next two hours.

01-00:15:50
Hughes: [chuckling] Are you issuing an ultimatum?

01-00:15:58
Valentine: If it came across like an ultimatum, it's an ultimatum.

01-00:16:04
Norton: You're the first venture capitalist who's threatened us. [chuckling].

01-00:16:05
Hughes: Chalk that one up!

01-00:16:07
Valentine: I will be the first to do a lot of things that you haven't encountered before.

01-00:16:12
Hughes: Well, we're a pretty vicious group.

01-00:16:13
Valentine: Yes, right.

01-00:16:17
Hughes: I'm wondering if that rough-and-ready family background didn't start you off in a certain direction, and I mean in terms of how you confronted the world.

01-00:16:25
Valentine: Well, it's interesting because I don't remember ever thinking about these things. Once I protested to my father that I was getting tired of these regular beatings, and he said, "Well, they wouldn't beat you if you weren't doing something wrong, so clean up your act!" I think he was very inclined toward authority and its relevance, and I became just the opposite. I was—terrible attitude about the military. Didn't like, don't like regimentation. Don't like interviewers telling me what we have to talk about even if I don't want to talk about it.

01-00:17:44
Hughes: [chuckling] You seem to be doing a good job.

01-00:17:50
Valentine: Time will tell.

01-00:17:51
Hughes: Well, let's go through more or less chronologically. Skipping over grammar school, but by the time you got into high school, and then Fordham, did you know what you were interested in?

01-00:18:11
Valentine: No.

01-00:18:12
Hughes: What were you studying? What did you like?

01-00:18:15
Valentine: High school, an all-boys school, small, was a matter of the normal, general reading and writing and arithmetic approach. There were opportunities to take courses, and I would take courses more in technical areas simply because the nature of the teachers were better. And they were teaching things about which I knew absolutely nothing. So there's a sort of an indirect selection process, but of not very many options.

01-00:19:12
Hughes: You liked the practicality of it? Or was it just this was better instruction?

01-00:19:18
Valentine: I think it was because the instructors were better, and so better instruction would be my choice in that multiple choice. I don't know anything about Holy Cross, but I suspect it's the same in the general sense of it being a university that has different schools. Fordham has a school of pharmacy, a school of law, a school of education, both at the graduate level and the undergraduate level. But you spend two or two-and-a-half years taking the core prerequisite courses, after which you got to choose something if you had something in

mind that you wanted to choose, with a big dollop of religion, which became progressively more optional as you went from sophomore year to junior year to senior year.

So, probably most interesting to me in those days was chemistry. I now have a 16-year-old grandson who is an exceptionally good student, and he asked why I took chemistry. He thinks of chemistry as a difficult high school subject. I told him that the periodic table had very few elements then compared to now—a lot of things have been discovered in 50 years. More blanks than there were elements, and you could tell from the electron valences what the chemistry of the unit would be when found. I said, "It was easy, I only had to learn about a dozen elements. You have to worry now about 150."

He said, "You have to be kidding! You didn't have these elements then?" And I said, "No, they were invented between my time being fifteen and my time not being fifteen." So it's different, and that's as close as I would have gotten to something exceptionally technical.

01-00:21:53
Hughes: Why Fordham; why did you go there?

01-00:21:59
Valentine: One of two reasons was the primary reason. It was close and an easy commute, and it was inexpensive. My father's position was you can go to any school you want. It's your problem getting there and back; it's my problem paying for it, and this is what I'm going to pay. Teamsters don't make a lot of money. It's the top of the Teamsters that are rich because they have access to the treasury.

01-00:22:32
Hughes: [chuckling] And your father didn't.

01-00:22:37
Valentine: My father didn't have access to the treasury. I was one of the few people who went to school, paid their tuition quarterly in cash. My father did not have a checking account, so there was no way to take a check.

01-00:22:52
Hughes: Yes, so where are we, about 1950? No, we're a little later than that because you graduated from Mount St. Michael's Academy in 1950. So we're sort of 1954, 1955, right?

01-00:23:13
Valentine: They were all the same.

01-00:23:14
Hughes: Yes, well, the fifties were—

01-00:23:13
Valentine: Not much going on.

01-00:23:19
Hughes: What happened there that might have set you in certain directions?

01-00:23:30
Valentine: There was a mandatory draft, and I was drafted.

01-00:23:39
Hughes: Right.

01-00:23:41
Valentine: And I found out my sense of disobedience was not totally civil, in either definition of the word. I was a terrible soldier. Fortunately, the period of time that I was in the military was an Olympic year, and somebody decided to get all of the athletes together. And to develop teams, basketball, water polo teams, whatever kind of teams, to compete in the Olympic trials and to eventually go to Helsinki. So I saw this as my way out of the military. I was in the army in electronics, trying to teach senior officers to use modern technology instead of the way they were inclined to fight wars. I fortunately got sent, after being in the army for about twelve or thirteen months, I got sent to the navy.

01-00:25:03
Hughes: Why was that?

01-00:25:05
Valentine: Why? That's where all of the water polo players in the world were being trained. So I was in the navy for nine months, stationed in California—where I finally found a place where it does not snow in February. So I knew where I was going to live, and I got out of the military as fast as possible.

01-00:25:41
Hughes: Now what about the water polo?

01-00:25:42
Valentine: What about it?

01-00:25:43
Hughes: Were you playing it?

01-00:25:45
Valentine: They gathered probably thirty to forty people—it is amazing to me how the military doesn't change. They put us all on a naval base, a naval base that was a naval flight base. So our water polo team had its own air force. There were a half-a-dozen pilots among us and any number of planes available to us so the pilots could practice. And the first thing that happened after breakfast, we sent out two planes. One went north, one went south, and the whole purpose of reconnoitering the ocean was to find out where the biggest waves were. And as soon as the choice was made, they radioed back to get the station wagons ready. We were going to go to Huntington Beach where the outside break was spectacular in the morning, and we would surf all morning.

01-00:27:01
Hughes: [chuckling] And you wanted to get out of this?

01-00:27:03
Valentine: Huh?

01-00:27:04
Hughes: You wanted to get out of the military when this is what you were doing?

01-00:27:08
Valentine: Then we had training in the afternoon. So we were in the water surfing for four or five hours, and then we played water polo for several hours.

01-00:27:18
Hughes: Sounds tough.

01-00:27:19
Valentine: And yes, I wanted out of the military. So at one point in time, it turns out no one was keeping records. You could get out in that draft era in twenty-one months. I applied to get out—and this is before the Olympic trials. One of the senior people managing this program said, “Well, if you extend your stay in the military we’re going to, in addition to the Olympic trials, go on a world tour and play water polo all over Western Europe.” I told him, “Tell me when the tour ends to the *day*, and I’ll extend to that day, not a minute longer.” “No, you have to extend for a year.” So I moved into a fraternity house at USC [University of Southern California] when my time was over. That’s where the big pools were in Los Angeles in those days. And that’s where the Olympic trials were conducted, the preliminary rounds, at SC, at the Coliseum. So my military career ended without my having to fire a rifle or any other kind of weapon, in a fraternity house at SC.

01-00:28:48
Hughes: [chuckling] That’s pretty good!

01-00:28:50
Valentine: And the thing I learned was that SC had the best dental school on the West Coast, and as a result my dentist from 1956 onward has been an SC dentist. And they were right; they have a good dental school. So that’s all I learned in the military.

01-00:29:10
Hughes: All right, well, that’s a different sort of military career than I am familiar with. Does UCLA business school come next?

01-00:29:23
Valentine: It was an interesting experience. I was just interested in taking courses in sales and marketing. While working, I took those in the late afternoon. These courses were conducted—what’s the course that they teach where cooking’s involved? Something or other economics or economy or—

01-00:29:50
Norton: Home economics.

01-00:29:49
Valentine: Home economics. Home economics and marketing were in adjacent rooms. So I took marketing and an early dinner or a late lunch every day at the home economics class before going to taking my curriculum.

01-00:30:13
Hughes: [chuckling] You're figuring things out pretty well, aren't you?

01-00:30:15
Valentine: Mmm, yes.

01-00:30:21
Hughes: I couldn't figure out the chronology here. You were at Sylvania Electric?

01-00:30:29
Valentine: No, I had long since moved on. Sylvania Electric was back where it snows.

01-00:30:39
Hughes: Oh, okay. So that was right after Fordham, before you went into the military?

01-00:30:45
Valentine: No, Fordham, the military, Saint Sylvania Electric [Hughes chuckles] that had West Coast facilities. So my entire objective was to get employed in electronics in a company that had West Coast facilities, another scheming-oriented career move.

01-00:31:09
Hughes: I am picking up on that. You hadn't any particular interest at that point in electronics?

01-00:31:18
Valentine: Very interested in electronics. Sylvania was not a great example of advanced capability. They were an old-line company. Sylvania is half of the word Pennsylvania, and they had factories all over Pennsylvania and upstate New York.

01-00:31:37
Hughes: But it did get you to California.

01-00:31:41
Valentine: Yes! Never, never to look back.

01-00:31:43
Hughes: [chuckling] You don't miss the snow?

01-00:31:50
Valentine: No. See I'm a great believer going back to then that Frederick Jackson Turner was right.

01-00:31:58
Hughes: Westward young man.

01-00:31:58
Valentine: It's all about—the perimeter of civilization is where things happen.

01-00:32:06
Hughes: But you didn't have that concept as a young man, did you?

01-00:32:11
Valentine: Soon as I read Frederick Jackson Turner I did.

01-00:32:16
Hughes: So that was another reason for going west; it wasn't just a matter of weather?

01-00:32:21
Valentine: Yes, it was a confirmation that you could have great weather *and* be on the leading level, or leading edge of opportunity of any kind. You'd be in our country, in the West. And if you look retrospectively then, Europe, which is to me the East, was dead and an economic disaster. This is postwar by ten years. So it's a Marshall Plan, and it's a mess. The near East, Boston and places like that, had not a lot happening in electronics. But it was the only place in the U.S., other than the West Coast, where something was happening, because of M.I.T. and Harvard and a few of the great universities that are there. But they were flawed; they had snow, and I'm not interested in that.

01-00:33:30
Hughes: [chuckling] We seem to be getting back to that.

01-00:33:36
Valentine: It was a very easy decision for me. Follow Frederick Jackson Turner where the weather's good and life will be fine.

01-00:33:40
Hughes: And it was.

01-00:33:40
Valentine: Which I proved.

01-00:33:37
Hughes: So you're not enrolled full time, I gather, at UCLA.

01-00:33:47
Valentine: No, no.

01-00:33:48
Hughes: You're taking courses as you can.

01-00:33:49
Valentine: Right, I'm not interested in a degree.

01-00:33:52
Hughes: Now why is that?

01-00:33:52
Valentine: I don't believe in business school.

01-00:33:54
Hughes: Why?

01-00:33:57
Valentine: We have people here at Sequoia who went to business school, but most of the primary partners here have not gone to business school. Or said differently, and this is a true story, when asked where I went to business school, I said, "Fairchild Semiconductor." And the people said, "We've never heard of it." I was talking to people who thought that if you didn't go to Harvard Business School you could never learn how to manage money. And my rejoinder was I was not interested in learning how to raise money; I was interested in building great companies, and I didn't have to go Harvard Business School to build great companies.

01-00:34:53
Hughes: Where does that idea come in—building big companies. Are you collapsing time here?

01-00:34:56
Valentine: *Great* companies. Yes, I'm trying to get to something I'm interested in talking about, instead of all this stuff *you're* interested in talking about, if you want to make a sharp point of it.

01-00:35:09
Hughes: [laughing] All right, well, we'll move along then if I'm boring you—or you're boring yourself.

01-00:35:17
Valentine: Boring myself.

01-00:35:17
Hughes: Well, you did admit that you hadn't thought of some of the things that I asked questions about.

01-00:35:27
Valentine: Yes.

01-00:35:30
Hughes: At least one of the classes, or maybe all the classes that you were taking at UCLA you said were in sales and marketing. Why that particular facet of business?

01-00:35:47
Valentine: Well, once having established a Fredrick Jackson Turner thesis personally, it was a question then of what do you do? Well, early on at Sylvania I learned I was not going to be a great scientist. And in a world where things change a lot, it's usually a world in which science has a major component in the change that's going on. So I knew I couldn't do that and didn't want to do that. So what else is there to do in a great company? Where is the decision-making process in a great company? And the answer is it's in marketing. In a well-run company, the marketing department in conjunction to the science department *decides*, based on what their capabilities are, what problems they can solve, and what sequence should they solve them in, and how much money can they spend on developing that product, and how big is the market? Who's going to buy this stuff? And that all happens with marketing in a primacy position. And I would guess, I don't know who you talked to among your twelve other victims, that very few of them were real marketing people.

01-00:37:47
Hughes: That's true.

01-00:37:48
Valentine: I didn't choose marketing because I was going to be in the venture business; I chose marketing because I thought that was the best place for me to be, on the West Coast, in new ideas and new companies.

01-00:38:10
Hughes: And you really had thought this through in your twenties, or whatever you were, thirties?

01-00:38:17
Valentine: Yes, true.

01-00:38:18
Hughes: Very deliberately.

01-00:38:19
Valentine: Yes.

01-00:38:22
Hughes: That's kind of amazing.

01-00:38:25
Valentine: I suspect there's a hidden compliment there which I'll thank you for and move on. The point though is I don't think recognition is a great art form, because that's what we do here [at Sequoia]. We recognize by Socratic questioning opportunities that are better than others, and why. And it seemed to fit my information-processing ability and interest. So yes, I—very geography-centric. Unlike Pitch [Franklin "Pitch" Johnson]—did you ever talk to Pitch?

01-00:39:18
Hughes: Yes.

01-00:39:19
Valentine: He worked in a steel mill somewhere in Ohio or somewhere. I mean, you couldn't get six marines strong enough to drag me into a steel mill in Inland Steel in Ohio. Pitch has a totally different agenda and thought-processing system. He was willing to do that; I was not willing to do that. I knew what I was willing to do and where I wanted to do it. And tenacity is an adjective that *does* work for me.

01-00:40:00
Hughes: I can sort of agree with that. [chuckling] I do want to hear about Fairchild.

01-00:40:09
Valentine: Fairchild was my major education.

01-00:40:13
Hughes: You implied that.

01-00:40:15
Valentine: You can skip all three schools and the beatings with the nuns and the fascination with the Jesuits. Fairchild was an early company when I joined it. I was maybe employee number forty or fifty or something like that. It was in Mountain View, California, and it was in a leadership technology area—unproven. For which, if you had the right imagination to go with the product, it could have been, and did become, a spectacular company. It is the mother of all the spinouts in Silicon Valley.

01-00:41:04
Hughes: Had you been following Fairchild, or semiconductors, or anything related to it?

01-00:41:11
Valentine: Semiconductors.

01-00:41:13
Hughes: Why?

01-00:41:17
Valentine: Because in my opinion, the whole world of electronics components prior to semiconductors was vacuum tubes. And places like General Electric made them, and Philco made them, and RCA made them, and Sylvania made them, and they were all dead companies—East Coast, hidebound on the past, not forward looking or thinking. They all went out of the television business, they all went out of the vacuum tube business, they were never a factor in the semiconductor business. So my bet was that the semiconductor business was the business of the future in electronics. All of that stuff initially was made with an element called germanium, which in its fundamental properties was a very limited capability material.

01-00:42:23
Hughes: Was that what [William] Shockley was using as well?

01-00:42:29
Valentine: No. The people that got the Nobel Prize, of whom Bill Shockley was one, were in Bell Labs working on primarily germanium, but also other materials. But the first transistors were all germanium. And Fairchild Semiconductor was the first company, as far as I could find, anywhere in the world that began making the semiconductors with silicon.

01-00:42:59
Hughes: Now, for somebody naive in this field—me—why is silicon superior to germanium?

01-00:43:08
Valentine: The fundamental, elemental characteristics. So one of the things that happens in general in chemistry is when you heat a material it changes its activity and its performance capabilities. Germanium had a limited temperature range of performance capabilities. When exceeded it was worthless; it would die. Silicon worked at much, much higher temperatures. If anything, the higher the temperatures the better. So you had a real fundamental occurrence of the beginning of recognition. Everything made in the semiconductor business these days is made with silicon. Ninety-nine percent of every dollar sold worldwide, by any country, is silicon.

01-00:44:05
Hughes: And had Bell Labs been moving in that direction?

01-00:44:06
Valentine: Yes, all the big laboratories. They're places that experiment and develop science and technology; they don't make things unfortunately, but that's a different story. Fairchild Semiconductor of Mountain View, California was a start-up, and that's why in my opinion it was the best education I had, and infinitely better than any business school education.

01-00:44:39
Hughes: Well, look at the people you were rubbing shoulders with. Do you want to say a little bit about that? I imagine there was some one-on-one education if you've got Bob Noyces [Robert N. Noyce] and Gordon Moores [Gordon E. Moore] and people of that ilk in what was then quite a small company right?

01-00:44:59
Valentine: Yes.

01-00:45:01
Hughes: How many people where there, how many employees when you joined, roughly?

01-00:45:08
Valentine: Well, if I was employee number fifty, there were forty-nine.

01-00:45:12
Hughes: [chuckling] All right, yes.

01-00:45:14
Valentine: I mean it was a very small company, and that's in all disciplines.

01-00:45:20
Hughes: I read somewhere you were *not* in the original— what did they call them, the—

01-00:45:25
Valentine: The Traitorous Eight.

01-00:45:29
Hughes: The Traitorous Eight.

01-00:45:31
Valentine: Bill Shockley called them that.

01-00:45:34
Hughes: Yes, right, understandably. He must have been more than a little disturbed, because there went his brain power, right?

01-00:45:40
Valentine: He got what he deserved.

01-00:45:40
Hughes: Had you been following all that, too? You were very aware of what was happening at Shockley Semiconductor?

01-00:45:51
Valentine: The decision to follow silicon was like the decision to follow Frederick Jackson Turner. Once I began to understand the thesis, the thesis of silicon, having taken chemistry, it was very obvious when you looked at the properties of the alternatives.

01-00:45:54
Hughes: Give me a picture of what you found when you arrived at Fairchild and what you then did.

01-00:46:21
Valentine: Well, the eight people were of different disciplines. Nobody had any management experience, nobody had any manufacturing experience. These were incredibly bright, narrow-focused individuals. So one guy knew all there was to know about silicon, but he didn't know if tomorrow was Wednesday or Thursday—wasn't interested. So you had a talent pool that retrospectively was perfect, except they had to learn how to make them, and they had to learn how to sell them. And I was one of the people sent to Los Angeles in sales. And the first year the company sold anything, 1959, it was barely a $1 million, or $1.5 million. In 1960, I sold five times as much in Los Angeles myself. So this was product that everybody had been waiting for; they just didn't know it. So we had fabulous science, we learned how to make the stuff, and it solved big problems. And the customers were often in the military and

aerospace business. There was a fairly famous defensive missile, called the Minuteman, that was filled with all this stuff. And Fairchild was born.

01-00:48:15
Hughes: I'm imagining, and it doesn't take much imagination, that with a new breakthrough product like that you had to do a lot of educating.

01-00:48:28
Valentine: Well, yes. In a big company, the people who are the real buyers are technical engineers who design them into the electronics equipment. And that's easy, because the alternative was so poor by comparison. The difficulty at selling them is when you get to the manager in the company, and the management discovers that some tiny company from Podunk has all these designs, and they're appropriately worried. And that's where you encounter the difficulty of being bonafide. And whenever we encountered that, and it's one of the great advantages of the small company, I called Bob Noyce and said, "We have some problems here. Everything's fine in engineering, but now we're at the bureaucratic level and we need you to visit."

01-00:49:43
Hughes: And he would?

01-00:49:44
Valentine: He would, oh sure.

01-00:49:46
Hughes: Was it at this stage or a little bit later that you had your rather famous sales conferences?

01-00:49:58
Valentine: The sales conferences?

01-00:49:59
Hughes: Or was that when you were at National Semiconductor?

01-00:50:02
Valentine: No, that was at Fairchild. I never considered them famous. We were doubling and tripling sales every year. There are two things in business that matter, and you can learn this in two minutes—you don't have to go to business school for two years: high gross margins and cash flow. All the other financial metrics you can forget. The accountants can get the numbers into the boxes eventually, but if you have a product with high gross margins, and Fairchild did, it generates huge cash flow. And that means you can grow the company as fast as the market will allow. And that's what we were doing. And we began having sales meetings—not unprecedented—at one resort-like place after another. So we went to Hawaii. No big deal.

01-00:51:20
Hughes: Was that a new idea?

01-00:51:24
Valentine: [chuckling] It was for the people at Fairchild!

01-00:51:27
Hughes: Were other companies doing this sort of thing to sell their goods?

01-00:51:32
Valentine: Oh yes, the big companies like RCA and GE had—

01-00:51:35
Hughes: They'd been doing all that.

01-00:51:37
Valentine: There's nothing very fancy about that. I mean it's a matter of just taking a small number of people to someplace like Hawaii. We're now in the very early mid-sixties. We had employees in the company who thought Hawaii was right next to Japan, and that they could go for the weekend before the meeting, stop in Tokyo for a couple of days, and then go to Hawaii. It was amusing to explain to people that once you got to Hawaii you had another three thousand miles to go. But none of those people grew up when Pearl Harbor was a reality. So that's Fairchild Semiconductor.

01-00:52:37
Hughes: Are you going to keep track of some of these people as you move on in life?

01-00:52:45
Valentine: Yes.

01-00:52:47
Hughes: There's a name that I picked up from that interview you pointed out—Roger [G.] Kennedy. I wasn't clear what—

01-00:53:10
Valentine: Oh, Roger had nothing to do with the semiconductor days. Roger was the head of the Ford Foundation.

01-00:53:18
Hughes: Where does that come in?

01-00:53:21
Valentine: When I first tried to raise money to be in the venture business.

01-00:53:26
Hughes: So I'm jumping ahead. I couldn't tell from that interview where it fitted in. So maybe we should wait until we get there?

01-00:53:33
Valentine: Sure. Roger was early seventies.

01-00:53:34
Hughes: There's something going on I believe at this time. There's this thing called The Group, right?

01-00:53:51
Valentine: I don't know.

01-00:53:51
Hughes: Well, again, it's from reading and also talking to Bill [William K.] Bowes, who spoke to me quite a bit about The Group, a loose group of friends who had some money and were investing.

01-00:54:08
Valentine: Oh, totally different era. I didn't realize we had left the semiconductor business and had moved on.

01-00:54:18
Hughes: Well, I thought this was happening in the sixties, right?

01-00:54:24
Valentine: Not for me; I was gainfully employed in the semiconductor business for all of the sixties until the early seventies.

01-00:54:31
Hughes: Well, I read that you were beginning to privately invest when you were at Fairchild.

01-00:54:38
Valentine: That's true.

01-00:54:41
Hughes: But it's not with this group?

01-00:54:43
Valentine: No.

01-00:54:44
Hughes: All right, well, I think that's relevant to the story, do you not?

01-00:54:49
Valentine: I don't know. Who the hell is in the group? I've never heard of them.

01-00:54:53
Hughes: No, I mean the fact that you were beginning to privately invest.

01-00:54:56
Valentine: Yes, yes. That's sort of a sideline. If there was a group I was not among the invited.

01-00:55:10
Hughes: Oh, okay. Well, you haven't addressed my question about private investment.

01-00:55:30
Valentine: If you stop interrupting me I'll— It's on the tip of my tongue.

1-00:55:34
Hughes: [chuckling] It's lucky I have a sense of humor. I could be very intimidated, but strangely enough I'm not.

01-00:55:46
Valentine: Good for you. That'll eliminate one story anyway, about the guy I talked to, apparently very sternly, and he fainted.

[interruption]

01-00:56:03
Hughes: We have five minutes before a tape change.

01-00:56:04
Valentine: Ah! Fairchild is spawning companies left and right. Our major resource is our engineering, and customer after customer comes along and wants us to do something slightly different than we're doing. What's wonderful about the semiconductor companies is their production. They make a lot of units similar to the concept of Henry Ford. You can have any kind of unit you want as long as it's black, and it's made this way, and that's the way the industry flourished. Certain big customers wanted their products slightly differently. We didn't have the engineering resources to take care of all these people, so I evolved a system of selection. Which companies are we going to make these special units for? What are the ingredients of these companies? How big are their markets? How good is their management? And we would maybe make a special product for one out of fifteen.

And I began to think that maybe that selection process could also be used to determine which companies might make interesting investments. Fairchild was not interested in investing in these kinds of companies, so I said, having failed to persuade the board that they should, that I would do it. And I began making very, very small personal investments in these companies which we were treating specially, and I did it alone. If there was another group of people doing it, as I mentioned earlier, I wasn't invited, I didn't participate, I didn't even know who Bill Bowes was.

[End Audio File 1]

Begin Audio File 2 10-20-2009.mp3

02-00:00:14
Valentine: One final comment on this concept of a group. One of the things that will become more and more evident to you is that my own personal inclination has never been to be part of a group. I have always tended to be, without trying, very individualistic—very selfish, in the Ayn Rand definition of selfish, and it's comfortable for me.

So having said that, we've established that Fairchild is the mother of all spin-offs, and at a particular time, early 1967, a number of us were organizing to leave Fairchild. Bob Noyce was still the manager. It was still a division of Fairchild's Camera and Instrument [Corporation]. In my exit interview with Bob, who for me was the smartest person that I've ever known— He had an incredible blind spot and none of us could persuade him with any argument. He was a dedicated smoker, and he smoked cigarettes that had no filters, and he died of heart attack. And Gordon [Moore], Victor Grinich—we all argued with him unsuccessfully. He was unmovable on this subject.

So anyhow, it was our time to leave. Bob said, "Okay we have to talk about it. I have these great ideas." I agreed that he had great ideas continuously. And he said in addition—it's early 1967—"It's too late to start a semiconductor company."

02-00:02:31
Hughes: Why were you not happy just to stay with him at Fairchild?

02-00:02:36
Valentine: Because the nature of the structure—Fairchild Camera and Instrument was a company on Long Island, had multiple divisions. All the earnings for Fairchild Camera and Instrument came from Fairchild Semiconductor, and the management took that cash flow and invested in all these other turkeys that were terrible! And they wouldn't provide enough equity participation for the people at Fairchild Semiconductor.

02-00:03:09
Hughes: I see.

02-00:03:09
Valentine: Which is why all the spinouts continued. Now, the reason I tell you this anecdote about Bob in 1967 is because in 1969, two-and-a-half years later, he and Gordon announced they were leaving and starting a semiconductor company. So I called. I said, "I want to come see you." He said, "I'd love to have you join here in a minute. What are we going to talk about?" I said, "Two and-a-half years ago you told me it was too late to start a semiconductor company. I want to get your thinking about why two-and-a-half years later it's appropriate. What's changed?" Because our business is all about change. "Share with me what is happening in the universe that would cause you to do this." This was Intel in formation.

02-00:04:04
Hughes: Yes, right.

02-00:04:06
Valentine: So, National was sort of a repeat of Fairchild Semiconductor in one sense. At Fairchild, at age roughly twenty-nine, I was running a sales force worldwide doing $150 million in revenue. And what you like about that time and that industry is you got opportunities when you were young and when you could

impose whatever creative ideas you had on a business—that was exceptionally dynamic. National, which was, unlike Fairchild, not a startup, was a public company, very small, probably technically bankrupt. And a number of us went there and effectively created a company where there had been a staggering company that was really destined to go out of business. The experience I got there was complementary to the experience I had at Fairchild, which was a startup. By the time it got to be 1971 I had had enough. I had learned, I thought, all I was going to learn about silicon, all I was going to learn about the semiconductor business. Having invented an entirely different structure in marketing at Fairchild, I invented yet another structure at National. Now, I've carelessly used the word invented as though it had some kind of important technological component, which is untrue and unintentional. It was just a matter of how you organize to do business at that particular point in time in the world. And we formulated one at Fairchild which was very successful, and we formulated a second one at National which was very successful.

02-00:06:22
Hughes: Why isn't that invention?

02-00:06:25
Valentine: To me, invention is what the people at Bell Labs do. They change the fundamental relation between one kind of material and another. They change from having a computer that would fill this room to where this giant computer becomes a laptop—that's invention. Anyhow, it's a quibble. No one's going to buy the book for that reason. So, what's happening? National is a public company, the president of National is a manufacturing guy, a very good one.

02-00:07:15
Hughes: Who was that?

02-00:07:16
Valentine: His name was Charlie [Charles E.] Sporck. But, he was not a gifted public speaker, and he didn't like to do it, and public companies have certain obligations forced on them by Wall Street to explain what you're doing. And I was put into that role as part of the management's explanation of the semiconductor business and National's position in it. I was approached by people in an organization, in the audience, who ran a very large mutual fund in Los Angeles called the American Funds or Capital Research and Management. And they knew about my private investing, and they asked me if I would be willing to manage a pool of money dedicated to starting new companies. They would help organize it and raise it. One of the things I did not do and didn't learn from my diligence was there was a law called the Prudent Man [Rule], which basically said that the pension funds, the endowments and foundations, which is where all the money in the country is, were not allowed to prudently invest in venture capital.

02-00:08:51
Hughes: Because it was too risky.

02-00:08:53
Valentine: Too risky. In those days they invested in bonds primarily; equities were considered pretty risky. So that's when I met Roger Kennedy. Roger Kennedy was running the Ford Foundation, one of the most high-impact managers and think-tanks in the overall investment world in those days. Roger was the person leading the charge to persuade the different entities in the government that it *was* prudent to invest in stock. It was prudent to invest in stock in companies in Europe, which was then unheard of.

02-00:09:42
Hughes: He was trying to change the rule?

02-00:09:45
Valentine: He changed the Prudent Man Rule.

02-00:09:47
Hughes: 1978. And what was his argument?

02-00:10:07
Valentine: [pause] I'm not sure Roger knew what argument that he had plied them with for years finally caused the stars to line up right in a highly politicized world. How does the government make decisions now? Well, if anything, it was almost as complicated then in these areas. You had all of these guys sitting on boards somewhere who were eighty years old saying, "Gee, we can't invest in Western Europe." I mean how long has Siemens been in business? A hundred and twenty years, and it's too risky. They wanted to invest in bonds. They didn't want to invest in stock.

02-00:10:58
Hughes: Well, the late seventies is a period when the people in Washington, the policy makers, are getting worried about the United States losing out, particularly in technology. The Japanese are going to do it all. I'm just wondering if they made that leap: if we loosen up the rules here we'll get people investing in new companies and maybe we have a chance to regain our superiority.

02-00:11:31
Valentine: I'd like to believe that was a prevailing argument. I have no idea which arguments were prevailing, but these mossbacks didn't want you investing in the biggest bank in London, never mind worrying about Toshiba. I think they were so myopic about risk and the loss of dividends and the cash flow associated with it, they were hard pressed to expand in any direction, and Roger was hammering on them since 1970. And progressively, this was not where you threw a switch and the law changed—this was grinding it out slowly; you made a little progress here and you could do that, and you made some progress here and you could do this. But it was hell on wheels trying to get some relaxation. So if I ever needed a patron saint, Roger's my nominee, because in some mysterious way he moved a mountain.

And all of a sudden University of California was willing to give us money, Yale University was willing to give us money, Alcoa was willing. So a whole bunch of people who had been sitting on the edge of their seats to make more aggressive investments with a very small part of their funds *finally* got a small go ahead, and people like us were able to start in business. Now, I did it differently. Guys like Pitch, Bill [William C.] Edwards. I'm trying to think who was Pitch's partner. Bill Bowes might have had an SBIC. They went to the government. It was Bill Bowes, Pitch Johnson, Bill Edwards. Who was Pitch's—

02-00:13:58
Hughes: Reid Dennis?

02-00:14:00
Valentine: Reid Dennis was at Fireman's Fund, so he was in a different formation but certainly one of the pioneers.

Anyhow, a number of people went to a government agency called the SBA, the Small Business Administration, where there was funding available, fairly complicated forms, you were borrowing money and you worried about the interest and all the rest of this stuff. I preferred *not* to do business with the government, which has been my lifelong preference to never do business with the government.

02-00:14:40
Hughes: And spell out why.

02-00:14:43
Valentine: Because they are unpredictable, irrational. For instance, if I take money from a pension fund, any U.S. pension fund, the Department of Labor can decide next week that it's a bad idea for American pension funds to be invested in illiquid categories and stop it. And I said, I'm not interested in being in business where there's a unilateral behavior potential. I want to be in business where the decisions are made by rational people at Yale University.

02-00:15:29
Hughes: [chuckling] I'm thinking of Yale's situation at the moment [huge portfolio loss in the recession].

02-00:15:39
Valentine: Who is the guy who was the head of a U.S. bank [Export-Import Bank of the United States]? I can't remember Bill's last name.

02-00:15:51
Hughes: [William H.] Draper.

02-00:15:52
Valentine: Draper. He was another one who used the government SBA format. And my impression is it worked fine for them. I don't know anything about the details. I don't know how it all worked. I just ruled it out as a category. You know

who Willie Sutton is? Well, in a Willie Sutton orientation, you take the money that is in all the foundations in the U.S., all the endowments, all the mutual funds in money management companies, and you probably have 85 percent of the investable funds in North America. So why go with the government? As a partner, they're the partner of last choice from my point of view. It was that simple. I just went a different direction.

Reid, as I think of it and maybe remember correctly, after he left the Fireman's Fund and raised a fund, his orientation was insurance companies. That might be because he was at the Fireman's Fund for a while, and he was steeped in the insurance business. They had lots of money, and I think Reid flourished by getting money from the insurance companies.

So Sequoia was launched, thanks to Roger.

02-00:17:24
Hughes: Really, you really hand it to him?

02-00:17:27
Valentine: Well, he changed the law. Raising money was impossible under the prior law, and under Roger's progressive relaxations of the law, raising money became a relatively simple and easy thing to do. Did you talk to [Thomas J.] Perkins?

02-00:17:49
Hughes: Yes.

02-00:17:50
Valentine: Well, you can confirm with Tom, because he and I raised money at the same time, roughly speaking.

02-00:17:58
Hughes: Right, you formed your companies at the same time.

02-00:18:00
Valentine: And he didn't go anywhere near the SBA, as I remember. He went the same direction I did in the sense of—

02-00:18:09
Hughes: He told me that of all the well-known venture capitalists, he thought that his strategy was closest to yours. Would you agree?

02-00:18:22
Valentine: Yes.

02-00:18:22
Hughes: I don't think the word SBA left his lips. I don't think he was thinking of that in particular. I think he was thinking of what we'll presumably be getting to, namely operating experience and technical knowledge.

02-00:18:42
Valentine: Well, I just thought of something and probably totally irrelevant. The people who went to the SBA [tapping on table at mention of each name]: Bill Edwards, Bill Bowes, Pitch Johnson, Bill Draper, all went to Harvard Business School. Tom Perkins went to Harvard Business School—overcame it.

02-00:19:06
Hughes: [laughter] He liked Georges Doriot very much, though. He was invited to join his company and reneged.

02-00:19:15
Valentine: I don't know anything about that. When they were writing the Georges Doriot book recently they called me for a comment. I told them I had no comment about Georges Doriot; I never heard of him.

02-00:19:27
Hughes: [chuckling] Is that true?

02-00:19:31
Valentine: He was never in the venture business that I recognized. He made an investment—*one*.

02-00:19:41
Hughes: Right, American Research and Development Corporation.

02-00:19:44
Valentine: Digital Equipment Corporation.

02-00:19:46
Hughes: Oh, Digital, yes, right.

02-00:19:47
Valentine: We made 750 investments.

02-00:19:49
Hughes: Yes, but he did precede you.

02-00:20:02
Valentine: Never heard of him.

02-00:20:03
Hughes: Well, you're talking to an historian.

02-00:20:09
Valentine: Historians sometimes magnify the impact of irrelevant events beyond their utility.

02-00:20:20
Hughes: [laughing] Well, so much for that category!

02-00:20:25
Valentine: Right—moving right along.

02-00:20:27
Hughes: All right, so we've got Sequoia Capital founded. Now who's there? Do you have partners right away?

02-00:20:40
Valentine: No.

02-00:20:43
Hughes: Have you cut all your strings? I mean you're not doing this part-time; you've dropped National [Semiconductor]?

02-00:20:54
Valentine: I left the semiconductor business, National specifically, in 1972.

02-00:20:57
Hughes: Well, we didn't talk about why that was. I mean why was this now the time? Simply because you thought you had opportunities because of what Roger had done?

02-00:21:12
Valentine: Didn't know about Roger then until after I left National. I decided that I had learned all I wanted to learn in the semiconductor business. I had managed through a lot of the things that were interesting and useful. It was going to be repetitive continuing, and the people at Capital Research and Management offered me the opportunity of a startup, investing institutional money in technology areas. So I decided to go in an entirely different direction.

02-00:22:02
Hughes: Was that somehow related to what you had been doing privately?

02-00:22:05
Valentine: Yes.

02-00:22:05
Hughes: I mean were you doing well? And you knew you were good at investing?

02-00:22:18
Valentine: [pause] My struggle with the question is it's an opportunity to be modest, and it's unnatural for me to struggle being immodest.

02-00:22:26
Hughes: [laughing] We're not going to collapse if you actually *are* immodest.

02-00:22:33
Valentine: When you're starting companies it takes a while to know whether this is going to work. And it's one of the problems of building a firm like Sequoia, or Tom's firm, Kleiner Perkins. It takes a long time for a person to find, invest, and help a company achieve its natural success. It may be five years, it may be

six years. So to say that I was *successful*, I don't think I had enough companies that I invested in in quantity, and they had not achieved enough in quality for me to be totally confident. In part, because I never had the resources to apply to these companies. As a company begins to succeed you have to put more money into the proposition, and I didn't have the *more money* to put into some of these companies. So their limitation was my inability to personally finance them.

02-00:23:40
Hughes: I see.

02-00:23:42
Valentine: Whew!

02-00:23:45
Hughes: But you must have been liking it at some level.

02-00:23:47
Valentine: Yes!

02-00:23:48
Hughes: You're saying it was too soon in the game to know whether your investments were actually going to be successful—

02-00:23:55
Valentine: Yes.

02-00:23:55
Hughes: But there are other things that you were picking up.

02-00:23:58
Valentine: Yes.

02-00:23:59
Hughes: And you *liked* that, but tell me more.You made it clear that these things are connected, but you were still veering off from the path that you'd been trotting along. So there had to be something that was pulling you, or some *things*.

02-00:24:27
Valentine: I had a sense that my system of selection would work far more than it wouldn't. But I didn't have the resources to play Texas Hold 'Em and put more chips up. The opportunity to have a large discretionary pool of money to continue to support the investment ideas was the difference in the environment I was in, and the environment I was interested in going to. And, after twelve or thirteen years in the semiconductor business, I had a very high-profile reputation in this community. So people who were interested in starting companies often gravitated to *me* to help them start their company. From their point of view I had some money, and I knew how markets worked and how to help them position their company in the market. So I had a bit of

an unfair advantage in those two respects. But the most unfair advantage I had is I knew what the future was, and very few people knew what the future was.

02-00:25:59
Hughes: You're speaking of a technological future, right?

02-00:26:02
Valentine: Right. Having been at Fairchild, Bob Noyce's name is on the patent for the microprocessor. All of these products *work* because of a microprocessor, and I knew that was coming. Both Fairchild and National— Intel was started on that premise; that's the conversation I had with Bob. I knew what the future was and had a fairly good idea of when that future would begin, and I would finance companies where that future played an important role. Nobody else was from the semiconductor businesses, nobody else knew marketing, and nobody else knew the microprocessor.

02-00:27:01
Hughes: The nobodies being the venture capitalists.

02-00:27:08
Valentine: The venture capitalists, yes. So I thought I had a good leg up: sponsorship, money, unique experience, and a special awareness of the future.

02-00:27:22
Hughes: And name recognition in—

02-00:27:27
Valentine: The technical community.

02-00:27:28
Hughes: Yes.

02-00:27:29
Valentine: Here.

02-00:27:29
Hughes: Which would be important.

02-00:27:29
Valentine: Right, very. That's why I didn't have to know General Doriot.

02-00:27:33
Hughes: [chuckling] Yes.

02-00:27:35
Valentine: I was going to work in the 408 area code, and he was somewhere, wherever the heck Boston is.

02-00:27:40
Hughes: Yes, he was at Harvard.

02-00:27:41
Valentine: So that's how Sequoia launched, and those are the underlying principles on which I was confident to start an entirely new business in an entirely different area.

02-00:28:03
Hughes: What was the first investment?

02-00:28:07
Valentine: Atari.

02-00:28:10
Hughes: That was a pretty good one, wasn't it?

02-00:28:12
Valentine: Full of microprocessors.

02-00:28:15
Hughes: Yes, so what year would that have been? Let's see, Sequoia was 1972.

02-00:28:19
Valentine: 1975.

02-00:28:24
Hughes: So did it take three years or so to raise that first fund?

02-00:28:29
Valentine: Less than that. Took me probably a year and a half. It took me some time to figure out areas I wanted to be in, markets that I hadn't previously been looking at, and I chose Atari.

02-00:28:50
Hughes: Games.

02-00:28:51
Valentine: Games.

02-00:28:54
Hughes: Yes, but it was because of the technology behind it.

02-00:28:57
Valentine: Because of the microprocessor running the games.

02-00:29:01
Hughes: So that eliminates a lot of choices, doesn't it?

02-00:29:08
Valentine: It does. See, I eliminated a lot of things. Among the things I decided at the beginning was— I used to tell this to our limited partners, and they used to look at me like I was completely nuts, not just partially nuts. I would tell them that the world is flat, and when you go east past Denver you go off the edge into a technical oblivion, and there are no companies out there worth

financing. So I'm staying right here. On the West Coast. Frederick Jackson Turner. I want to see that Pacific Ocean in the morning. And I chose a whole bunch of rules like that to govern the area in which we make our money primarily or initially because we select a good business. But it's the value-add that we at Sequoia give this company for five or six years. We help them, with our Rolodex, build all of the features and abilities into these companies that they don't personally possess, and I can't do that if it's in Atlanta or if it's in Cleveland.

[Paragraph Mr. Valentine added during editing]:
The ground rules governing investment selection at Sequoia: must be a very big market; must be in Northern California; must be in advanced technology; must have high gross margin ability; must have the potential for Sequoia to make $100 m[illion]; must be positively responsive to our active participation.

02-00:30:46
Hughes: So geographic proximity has to be part of the mix.

02-00:30:49
Valentine: Rigid. It is now almost 2010. Give me the name of another city in North America, any state you like, that has created 1 percent of the great companies as around here.

02-00:31:18
Hughes: Well, the only place that I guess would come close would be the Boston, MIT, Route128 region.

02-00:31:29
Valentine: That's right, and your careful phrasing is true. It's the only one that comes close. It hit its peak and zenith in the era of the minicomputer business. It isn't even accurate to say it's the second best place in the country. It's not competitive with this [region]. So, going to Minneapolis from Cleveland, there are these places—you're flying towards less than you're looking down at.

02-00:32:08
Hughes: So you didn't see the point [of investing elsewhere]!

02-00:32:13
Valentine: Gold was found twice in California.

02-00:32:15
Hughes: Right.

02-00:32:15
Valentine: In Mountain View, California.

02-00:32:18
Hughes: It seems a perfect segue into all the mythology that's grown up around Silicon Valley. People talk about the obvious ingredients, but I'd like to hear your

take on it. Do you have an interesting way of explaining why this particular piece of geography has been so successful in this industry?

02-00:32:50

Valentine: I have ten interesting ways, none of which, to me, are the answer. This is a subject that probably has opened more bottles of wine than any other single subject. *Why* did it happen here? Tony Tan [Keng Yam] was here at lunch one time and asked the question. Tony Tan was then the assistant prime minister of Singapore, and I said in answer to his question, it was luck. He wouldn't buy that. Try great universities. There are *lots* of places with great universities, all over Europe; great universities in China. Why *here*? Why *when* it happened? Now, it's called Silicon Valley for a reason. Silicon is the modern equivalent of petroleum for the unholy alliance made between Standard Oil and General Motors way back when. But now there's silicon everywhere—Japan, China, Texas, all over. Why? And I have to tell you that I don't think there is a single answer, even one that has multiple ingredients that explain it.

One of the arguments that I think is very compelling is, once you get a success momentum moving, the young people will leave Fairchild or Intel and go to the next startup because of wealth creation. So you can throw into the mix stock options and an *exceptionally* vibrant stock market from 1975 to 1995 or longer if you like to include a few more years. There are so many elements around which you can make a very, very passionate argument that none of them, in my opinion, stand alone. But in aggregate, nothing like it exists elsewhere, or has *ever* existed elsewhere. Think about a Japanese man leaving a good job, starting a company that fails. He'd have to commit suicide. We *love* to finance people who have tried and failed; they have really something to prove. Think of the rigidity of the Germans.

A company we didn't finance was up and running, made very good software. The founder of the company understood without any help that he didn't want to run the company; he wanted someone else to run the company. He was in Sacramento; he was near an air force base. He hired a retiring colonel. [rapping the table] Now this is the typical software company—with dogs in the building, bicycles in the building, everyone's wearing jeans and t-shirts. I had this intuition about this colonel. And I said, sort of in the political framework, "What are you going to do for the first hundred days?" He said, "The dogs are out. Those goddamn bicycles are out. Those haircuts—we're going to look—." I said, "Why? Why is that relevant? Who cares if there's a dog here, or twenty–two dogs? We're in the software business. Why do you care? The guy bought a bicycle that cost more than a car! He wants it [rapping table] inside." So it's a matter of finding passion that's connected to reality. The reality is, in a software company whatever happens happens. And haircuts, dress code— Has anybody seen Steve Jobs in other than jeans and a black mock t-shirt in twenty years? [Hughes chuckles] It's not relevant!

02-00:38:30
Hughes: Well, it is relevant, but in the opposite way than what you're describing.

02-00:38:35
Valentine: Yes, that's why big companies fail. See if Steve went for a job interview at HP, instead of starting Apple in 1978 when we financed it, he wouldn't have gotten a job! They'd look at him and say, "You look like Ho Chi Minh." There are relevant things that people do, and things that are just happenings of an era.

02-00:39:08
Hughes: Don't you think that success is the background to all this? That you can tolerate anything, or virtually anything, as long as you're building successful companies.

02-00:40:18
Valentine: Yes, and Tom [Perkins], if you ask him, turned down Apple because he met Steve and Steve was dressed the way Steve dresses. And he said, "Pfff. This guy doesn't look professional." He wasn't. He was 19! He hadn't gone to school. He had sandals, jeans, and a t-shirt and a Ho Chi Minh beard. Atari—you go on the factory tour and the marijuana in the air would knock you to your knees—where they were manufacturing the product. We had board meetings in a hot tub, with bottles of Ripple floating around the hot tub! [Hughes chuckles] There are no rules that say that certain behavior produces a result that's directly related to the behavior. I think when you do that you get big companies that die, like our automotive companies. They have so many rules, so many things that they do and have long since forgotten why, that it takes a different attitude. Now, I don't go around advocating marijuana-smoking in the manufacturing area, but that's the way Nolan [Bushnell] ran the company.

02-00:41:51
Hughes: You might have said something if the company wasn't doing well.

02-00:41:59
Valentine: Yes, but what would I say—get a higher brand of marijuana? Get a better bottle of wine than is floating in the hot tub?

02-00:42:06
Hughes: [chuckling] Well, you would have pulled out.

02-00:42:10
Valentine: There are a lot of opinions about why this place succeeded. And most of them are comparable—you compare them to other places. And the city I would give you, it has a few monuments nobody understands or gets, is Seattle. You have the number one sports company in America, Nike. It's a sensational company! You have Microsoft, of course, that's sort of getting to the hardening-of-the-arteries phase. And you have Amazon out there lurking. Pretty nice companies, small community, not famous universities but nice universities, generate a lot of engineers and everything, fabulous quality-of-life place if

you don't mind a little rain, or a little more than a little rain. But people love living there. *No* state tax.

02-00:43:28
Hughes: Are you saying, but it's still not Silicon Valley?

02-00:43:38
Valentine: Yes, but if you're looking for comparables, everybody always says, "Well, how about North Carolina and the Golden Triangle, whatever they call it.

02-00:43:47
Hughes: Research Triangle [Park].

02-00:43:48
Valentine: Research Triangle. Nothing's ever happened. State money, federal money, university money—show me the monuments! No monuments. Seattle has monuments. Seattle is not recognized, particularly, as a technology area. There's no Harvard, there's no MIT, but all of those places, wherever you want to go, have produced *nothing*. And I don't know why. I have no idea how close Boston is to England, psychologically.

Now one of the things I didn't mention is that Silicon Valley has and has had—we have a huge, huge continuous influx of Orientals. If you sat in our lobby for a week, you would think we were a prejudiced employer because there are very few Caucasians. Huge numbers of Chinese, Indians, Japanese—you name the flavors of all Southeast *Asia*. And we have had them for years. They are highly desirable to the engineering and science departments as graduate students and research fellows. And we have the dumb law, protected by the Senate, that only allows a certain number of visas a year to allow these people to come. I can't believe senators are willing to sound so stupid in print, but they claim that they're protecting American jobs. However, we're talking about 30,000 people, all of whom have master's degrees. And they're here for PhDs. We don't want you. You are going to take the job at McDonald's?

02-00:46:14
Hughes: Yes, the research universities are saying the same thing.

02-00:46:18
Valentine: They *want* these people!

02-00:46:19
Hughes: Yes, of course they do.

02-00:46:21
Valentine: And yes, they don't all stay. But you have the benefit of their genius when they're here. They make reasonable instructors, great researchers, et cetera. And we have our government fighting against attracting the best and brightest.

02-00:46:44
Hughes: Are the two venture capital organizations [NVCA and WAVC] lobbying or doing something to try to turn government policy around in this area?

02-00:47:01
Valentine: I don't know. I have to tell you that I never accepted an invitation to Washington, DC. I would never go there to lobby a senator.

02-00:47:16
Hughes: And why?

02-00:47:21
Valentine: I think the prospect of their listening and understanding—it doesn't get them any votes! It doesn't get them any contributions. "Why are you here to see me?" These are not patriots who are in the Senate. These are low-IQ people who have an agenda of staying elected. So no, I don't talk to senators about the obvious. If you don't see it and get it, it isn't a matter of Roger Kennedy explaining a better world. If you don't understand that 30,000 visas is nothing on a base of 300 million people—if we had 60,000 or 160,000 it would have *no* impact on employment. If you have to explain things like that by traveling 3,000 miles, I'm not your man!

02-00:48:30
Hughes: [chuckling] Shall we do one more question and then stop?

02-00:48:41
Valentine: Well, if I like the question.

02-00:48:42
Hughes: It's a very practical one. At the beginning it's just you, the way you're describing it, but with this whole network and set of experiences behind you. When and why do you decide to take on partners?

02-00:49:00
Valentine: [Mr. Valentine added this paragraph during editing]:

Adding new talent was and remains a continuous process: conventional education was never a high priority. We look for people with functional experience in a startup, i.e., design and application engineering, product marketing, sales, aspects of out-sourcing manufacturing. Our investment decision-making process requires very self-confident people—able to be challenged publicly. At Sequoia, we all get credit and recognition for investing in Apple, Cisco, Google, and we all assume the mistakes of poor investment choices. We are *team* investment partners at Sequoia. We pride ourselves on our differences and the methodology by which we develop our individual opinions. We have one acronym we are religious about: ROT—return on time. Most people are generally sensitive about the concept of not throwing good money after bad. To us time is only invested where the return prospects do not require candles and prayers.

The ability to manage a startup as an investor requires a huge amount of time. Our limited partners like the University of California or Yale would remind us that you need *more* people to help these companies; you need people beyond just yourself. If you want to have a larger fund, you need more people. If you make five investments in the beginning each year, you're accumulating all these investments, there's no liquidity events happening, so you end up with maybe twenty companies. Impossible to provide them with the time and attention which they deserve. So you begin to look for people

I look for people that are as far as possible different than I am, because we do things here on the basis of consent among the partners. And I don't like having a homogenized set of opinions. I want as much confrontation and different thinking as possible. So we are slow and cumbersome making our decisions because we're trying to find out everything that's relevant. This is a business where the Socratic technique— First of all you have to figure out the questions that are relevant, then you have to ask them. And you have to understand the answer in the context of what it is you're trying to do. And you can't do that forever alone. It just requires more people.

[Paragraph added by Mr. Valentine during editing]:

Venture partnerships are very unstable—they blow up a lot. The building of a partnership is very hard, and the least difficult issue is compensation, which is over the top. It is a rare partnership that makes the transition to a second generation of management. As an example, I have not managed Sequoia for at least the last eight or nine years, and we have been better than ever. It is clear to me who our next managing partners will be. We have two now, and will have two new ones within this decade. This stability is part of why we have had the same limited partners for almost 40 years. *Stability and returns* is how Sequoia is positioned.

02-00:51:28
Hughes: The fact that the limited partners were asking you to nurture these companies, I'm imaging it wasn't because they had any particular interest in the welfare of the company. They wanted their investment protected, right?

02-00:51:50
Valentine: Yes. They didn't stress the idea of nurturing the company for the benefit of the company. It's clearly nurturing the company for the benefit of their return.

02-00:52:03
Hughes: Yes, but where does that balance work out for Sequoia? Because your limited partners are staring you in the eye and saying, "Where's this fabulous return you're promising us?" So how much energy are you putting into making these companies successful enough so you can get your money out, and how much do you really care about building a good company?

02-00:52:38
Valentine: The different people—some are much more needy than others. Someone like Steve Jobs, a completely uneducated individual, is one of the *best* interrogators that I have ever either seen or heard. Somehow or other he knew what to focus on and how to build a sequence and series of questions that were additive to the answers, sometimes from witnesses that were reluctant. We have other guys who fumble and stumble and don't know their way around.

One of my favorite stories— What happens in a conference room like this, we have people come and pitch us for financing. And it's storytelling—can you tell a story? Huge numbers of them have no idea how to explain their business. And they come in and they ramble on and on and on. So one day there were two Sequoia people, three people from a company, and the guy was just making no sense, no progress. And I said, "Let's have a timeout. Here's my card. We're going to come back in ten minutes and I want you to write your business plan on the back of my card." And he says, "That's impossible." And the other two guys on the team, clearly were loving this, because they didn't understand it either! And we went away and [came back]. You can imagine, the card was almost all ink. But he did an infinitely better job having thought about it, focused on the few messages he wanted to get across that were not full of all this extraneous barrage of data but not facts.

And it seemed like a cruel thing to do, and I didn't do it for that reason, [but] because I wasn't getting the pitch. And we have a concept around here called ROT, R-O-T [spells], and it means Return on Time. We can't afford to have four partners sitting in this room, and somebody explaining something, and I'm not getting it. Now it's not we're not getting it because it's super-scientific and we don't understand it—it's the storytelling technique. It's the building of the idea, the size of the market, the degree of the technical risk to get this product finished. Who's going to care? And explaining that in a very simple way, we can tell that that person is somebody we want to be in business with. And it takes sometimes just lots of time, because he has no Rolodex. He has *never* rented a building. He has never opened a bank account. I mean, the list of the things that you would think of that he has never done is *everything*! Because he's not been in business, and he didn't learn how to do all that stuff.

So finding Steve is rare. You have to overcome the shock of his appearance.

02-00:56:43
Hughes: Well, I remember reading that of all the people who you've met in your career, that there were two people that you call visionaries. And one of them, as you might expect, is Steve Jobs and the other one was Bob Noyce.

02-00:57:01
Valentine: That's right.

02-00:57:03
Hughes: Do you see their talents as similar?

02-00:57:07
Valentine: No, no. Steve is the brutal manager. He's very smart. Bob was a very light-hands-on-the-steering-wheel manager, very, very brilliantly educated, fabulous scientific mind. One *stupid* habit—smoking. So they're entirely different and both work. Both systems and techniques of management work; but they work differently.

02-00:57:49
Hughes: You call them visionaries. What does that mean to you?

02-00:57:54
Valentine: That they had the vision. When we invested in Apple, the Apple computer didn't exist. Nobody had a personal computer. The cheapest computer was $250,000. And Steve's vision was, we're going to make them so that everybody will have one. Pretty simple.

02-00:58:15
Hughes: Were you just dealing with Jobs? You weren't worrying about [Steve] Wozniak?

02-00:58:28
Valentine: The important questions were asked by Jobs. The important answers were given by Jobs. Steve Wozniak—and this is not meant to be a criticism—was the color commentator, if you understand the difference between the person who watches and explains the play by play in the baseball game or the football game, and the other guy has the color on what just happened. Both were critical to the operation. Neither could have been employed by a regular company because of the way they looked and the way they communicated.

We at Sequoia are sometimes criticized for financing companies that are impossible. The financing of Cisco [Systems] was— We financed two people that were *incredibly* impossible, one of whom was a woman. They had a great idea. In a sense, you can augment management, you can help them with more people that are highly qualified. And that's why this [raps a book] is an important thing for you to read—we invest on the size and dynamics of the market. I don't care if Genghis Khan is running the company; we'll give Genghis Khan some help. And give me a giant market—always. [Referring to Linda Norton at the camera] The whistleblower is silently whistling two seconds.

02-01:00:24
Hughes: Why don't we stop there?

02-01:00:25
Valentine: Okay.

Interview #2: December 4, 2009
Begin Audio File 3 12-4-2009.mp3

[Mr. Valentine asked off-tape to orchestrate, uninterrupted, the beginning of the second interview.]

03-00:00:15
Valentine: So the beginning that I intend to go through quickly is a 30,000-foot level view of how I got from the university to the founding of Sequoia Capital and the implementation of a technology investment program.

We're starting in 1954 when I graduated, got done with the formal educational part of my launch in life—and the focus always was a focus on science and specifically electronics. As was customary in the mid-fifties, I did some time in the military, both at Fort Monmouth and Fort George Meade, both of which were technology bases on the East Coast. My entire duration at those sites was involved in electronics, both studying it and teaching it.

After the two years or so in the military, I moved on and joined an East Coast company by the name of Sylvania, with locations in New York State and New England and Pennsylvania. I was at Sylvania, again in a totally electronic immersion, from 1957 to 1959. I changed and briefly worked for Raytheon, a similar kind of electronics company, although they were more oriented toward the military than Sylvania, which was quite oriented towards consumer products like televisions. My stay at Raytheon ended in 1960, and this was a major transition point in time.

In 1960, I moved to California, which was a big change from living in the East, and, second, I joined Fairchild Semiconductor, a startup company located in Silicon Valley. I began with Fairchild in Los Angeles, totally immerged in semiconductors, in electronics. I was with Fairchild from 1960, initially in Los Angeles, until 1962, at which time I moved to Mountain View, California, the heartland of Silicon Valley. In 1967, I moved from Fairchild to National Semiconductor, another semiconductor company totally immersed in electronics kinds of work.

So very, very early in 1971, I decided to do something radically different. I decided I had figured out and found what the future was going to be, both in specifics in electronics, as well as *where* it was going to be. And it was going to be in Silicon Valley, based on my experience in Mountain View, California. I started Sequoia Capital, very early 1972. Up until the present, as we are looking at concluding calendar year 2009, we have been in the business of starting companies, not totally focused in electronics, but overwhelmingly focused in electronics. We have probably financed 700-odd companies, and using that round number, out of that 700 probably 670 were electronics companies, all of which were a natural selection and decision of the prior years of being involved in, oriented, and committed to the electronics future, which was just sort of beginning.

It's hard to remember, just thinking about 1960, that we didn't have a lot of the things that are on the table [in this conference room]. There were no personal computers, there was no polycom telephone, there were no calculators, there were no iPhones. None of that existed when I began the experience of being in Silicon Valley. Now, we're going to pause here because I'm having some trouble talking, so I need some lubrication.

03-00:06:02
Hughes: [chuckling] The tea that you like.

03-00:06:04
Crawford: The coughing is picking up nicely [on the tape].

03-00:06:07
Valentine: Yes, I'm good at it. I've been coughing since Thanksgiving.

03-00:06:09
Hughes: Oh, wow.

03-00:06:11
Valentine: So now is the time to question, from your point of view, because my stream-of-consciousness interest is less structured, more detailed, but covers the same time.

03-00:06:39
Hughes: So do I enter in here?

03-00:06:42
Valentine: I just gave you your line, and you're supposed to dance onto the stage from the right.

03-00:06:48
Hughes: [chuckling] Well, here I come. And I am on the right. I should have said this at the beginning, but the monologue, which did not last fifteen minutes as you predicted, was at your request. And that's fine, because I think it reflects something about Donald T. Valentine.

03-00:07:14
Valentine: We didn't get to the monologue yet.

03-00:07:15
Hughes: Oh, we didn't?

03-00:07:16
Valentine: All you had was the prelude foundation. We went from 30,000 feet, and now we'll go down to ten feet.

03-00:07:23
Hughes: Well then, I would ask you to tie in that capsule history with what you think about venture capital. You mentioned the heavy emphasis on electronics—now why was that? And how could you predict the future? Let's link all this stuff that's happened to you in the past and makes you what you are now and had something to do with how you went about venture capital. Does that fit in with your free-wheeling?

03-00:08:12
Valentine: Okay. Do have any other questions?

03-00:08:18
Hughes: Oh, I have a lot, but let's just deal with that first.

03-00:08:22
Valentine: Because it's easier to integrate them simultaneously than to go back.

03-00:08:27
Hughes: Well then, one of the things I really want you to talk about comes from that conversation on the phone that we had when you were in Montana. And it's about your friend Lerasche and—

03-00:08:41
Valentine: [William S.] Lerach.

03-00:08:42
Hughes: Lerach, okay, hard ch, and how that incident applies to your policy about documents at Sequoia. I also have a lot of questions about how you go about investment. You know, why you do this, why you don't do that.

03-00:09:11
Valentine: You're going to become a competitor?

03-00:09:13
Hughes: No. [chuckling] That was not in my mind.

03-00:09:17
Valentine: These do not have to be historically perfectly linked because you're going to cut and edit anyway, and you can put the Lerach story wherever you want it.

03-00:09:27
Hughes: No, I'm not. Because the way we do our oral histories is that we keep them intact. We edit for clarity but we don't move things around.

03-00:09:38
Valentine: Oh really? Hmm.

03-00:09:39
Hughes: It's supposed to reflect how you think about things, not how *I* think about things, although I realize my questions may lead you in different directions.

03-00:09:57
Valentine: What led me to the conclusion that I made that's wrong is the movie that I'm also working on, and it's the same material. And *they* cut and paste wherever they want the things. I mean I can talk about something and then they want to go ten years earlier and fifteen years later.

03-00:10:18
Hughes: Yes, well, they're doing a different kind of documentation. They're probably trying to sell it to a major network and appeal to a general audience. We're trying to get down history, some of which will be boring, but it presumably shows how things evolved. Instead of sound bites, it's a continual tape.

03-00:10:50
Valentine: So we'll put Bill [Lerach] in here. [pause] Okay, ready?

03-00:11:09
Crawford: Taping.

03-00:11:13
Valentine: This is at least advertised and intended to be a somewhat historic stream of consciousness. Unlike the prior observations at 10,000 feet or 30,000 feet, this is going to be a lot more from my point of view, a *key word* kind of flow, because there are words that have evolved in the evolution and the creation of Silicon Valley that are personally meaningful and probably meaningful to all of your other participants.

We've started so that you understand the platform in California that I existed in and on was Fairchild Semiconductor, a very, very modern and advanced technology company that made products in 1960 that no one else in the world made. It was that company I selected to join in 1960, and I joined in Los Angeles in sales. The customers in those days were the major military and aerospace companies that existed and still exist in Los Angeles. They were building then, and are building now, weapons systems that require very advanced capabilities in electronics. And that was my initial involvement in the electronics industry in California. Circumstantially, it turns out that all of the users and customers were in the greater Los Angeles area, but all of the semiconductor companies, like Fairchild, were in Northern California, which eventually became identified as Silicon Valley.

The company I joined was a startup and had a very difficult time getting financed. The rather interesting—and this is one of those six degrees of separation kind of stories— The company was initially financed by Arthur Rock, who is one of your other victims, and Arthur had a very hard time financing Fairchild Semiconductor. Financing West Coast ventures in 1957 was rare. It was the exception to the rule. All of the money in 1960, or the late fifties more accurately when Fairchild was financed, was in the East. Basically, Arthur found that no one was really interested in financing a whizbang science company 3,000 miles away with a whole bunch of people they never heard of.

So Arthur, creatively, contacted a man by the name of Sherman Fairchild, who was the chairman of a company in his name. His family, the Fairchild family, was at one point in time the largest shareholder in IBM. So it was a family that knew about science, knew about electronics, was deeply invested in the premium electronics company in the world—IBM—and was very fascinated by what the science was going on in Mountain View, California. So Fairchild was financed through a public company corporate vehicle. The name of the company was Fairchild Camera and Instrument, and it was through Fairchild Camera and Instrument that we got financing. The interesting irony is the president of Fairchild Camera and Instrument, with all of their assets and entities in the East, happened to be—and I think it helped a lot—happened to be a graduate of Stanford and had in his heart some historic interest in the area and interest in the Stanford community.

So, the company was off and running, financed, '57 and '58, and I joined and was one of the early employees in sales in Los Angeles. The year ending before I joined the company had a few million dollars in revenue, so it was really a small startup company. The first year I was in the company in Los Angeles, and in the Los Angeles military complex, I sold personally more of Fairchild's product than they had sold in the history of the company, and certainly more than the prior year.

03-00:16:40
Hughes: Are going to talk about what your approach was? How you could do that?

03-00:16:52
Valentine: OK. There's no special cleverness; there is no lack of interest on my part. But there are other parts of the history here that do have more innovation and more cleverness. It was just understanding what the customer's technical problem was, and understanding what the Fairchild Semiconductor *solution* was, and being able to explain to the customer what it was and how it worked. The way startups work, it's you have very few people but they're all one extended team. And the person who ran Fairchild Semiconductor, who basically ended up with his name on the patent for the microcircuit—Bob Noyce. The customers we were dealing with, the opportunities were so big, if I had a technical problem that the customer couldn't resolve and I couldn't resolve with them, Noyce would fly to Los Angeles and come see the customer. So if there was a secret, I had a genius as an application engineer.

So because it was a startup and it was doing well, all the natural evolution of promotions, having joined in 1960, by 1964 I was the worldwide sales manager for the company. And the company's rate of doing business was now $100 million, and we were doing business all over the U.S. and in Western Europe.

03-00:18:54
Hughes: What was the scope of its operations when you joined in 1960?

03-00:19:02
Valentine: Revenues in 1959 had been approximately $1 million.

03-00:19:09
Hughes: Worldwide?

03-00:19:10
Valentine: Same $1 million.

03-00:19:10
Hughes: Fairchild had tentacles all over the world, even when you joined?

03-00:19:21
Valentine: Oh, I'm not responding to the question you might be asking. I'm not responding to what the sales were of Fairchild *Camera*, I'm only responding to what the Fairchild Semiconductor *division* sales were. So you can say, prior to my arrival, they were zero, and by the end of 1964 they were $100 million. Now, you have to understand that in addition to there being very clever people at Fairchild, this product was spectacular. Once you could get the customer to understand it and how it worked, it was exceptionally easy to persuade them to buy. It was a matter of spending time with people who were dealing with this kind of a solution for the first time in their life.

03-00:20:15
Hughes: Did you find you had a natural facility for explaining technology?

03-00:20:20
Valentine: Yes, that's what all of the years [of experience] were. Because among the things that I did in the military was teaching senior officers in the army how these electronic systems would allow them to fight battles differently. It's sort of amusing. When I encountered the military, the tanks—now this is clearly post-World War II right, which was a *tank* war. The tanks were in a part of the army called the cavalry, sort of like John Wayne and horses and that kind of stuff. The people who ran the cavalry, and therefore the tank corps, still thought like John Wayne, and they had no idea how to use radar; they had no idea how to use the communication systems, which were very crude. They would stand up in the tanks and yell to one another. It was their communication system. Now, a tank has no muffler, so when you have ten tanks going, it's more sound than you can believe.

03-00:21:44
Hughes: The other obvious key here is you understood the technology. I imagine you had to get up to speed in a specific product—

03-00:21:51
Valentine: Yes.

03-00:21:52

Hughes: If it's a very tight company, not only small but obviously communicating, that's not going to be a problem either, right?

03-00:22:01

Valentine: Right, and that's what all of this quick 30,000-foot view explaining all the time I spent in electronics and progressively higher orders of technology allowed me to get to a point in 1960 where I understood things that were happening and about to happen that other people didn't know about.

So, Silicon Valley, early mid-60s—an explosively exciting place. New companies are forming, people are on the move going from one company to another.

03-00:22:46

Hughes: Now how do explain that? It wasn't called Silicon Valley, but you're already mentioning that there were companies in Northern California. Why this sudden flowering?

03-00:23:06

Valentine: The best answer to the question is I don't know. The second answer to the question takes about two days to explain, at the end of which I'm not satisfied with my answer. [Hughes chuckles] What happened here has never happened elsewhere in the world, in technology. If you take the automotive industry and go back to 1900, Silicon Valley's name then was Detroit. There were dozens and dozens and dozens of car companies, companies that made total cars as well as companies who made fenders and parts and radios. You had a *huge* industry. The technology being created there was brand new, and there were a lot of very brilliant people—Henry Ford—that established that part of the world as the *center*. Now, I have no more idea why *that* [automotive industry] was chosen for Detroit, because nobody blows a whistle and says, "Okay, everybody move to Detroit."

What happens is, in the case of Silicon Valley, the universities attract different kinds of people for their advanced education. One of the great advantages Silicon Valley has always had is we have been *very* fortunate to have a *huge* population of immigrants. I have to guess that something similar happened in Detroit, or any other technical revolution where something that didn't exist before suddenly became the way things were happening.

If you just start in 1900 and do a fast study of the first twenty-five years of Detroit, you'd probably find the similar kinds of phenomena that happened here. But I have no idea what the formula is, because people from all over the world have been coming here trying to find out what the DNA sample is that they can take and go back to Sweden or South America or someplace and replicate Silicon Valley. And no one's replicated it, because no one's figured out the DNA. How important are the immigrants? Very. How important is Berkeley? Extremely. When I refer to Berkeley I'm talking about the university. There were assets here that were here, and they were just exploited in different ways by the people who came here.

One of the very incredibly clever things that Stanford University allowed, or maybe even beyond allowing, *encouraged*—they encouraged their faculty to get involved with the local technology companies: be advisors, be consultants, be on the board, participate. I'm trying to remember the name of the company and I'm not succeeding. The current president of Stanford [John L. Hennessy] took a leave of absence about maybe fifteen or seventeen years ago. He was then one of the senior people in the management of the engineering department at Stanford, left the school on a sabbatical, spent about two or two-and-a-half years doing a start-up semiconductor company financed the way we finance all other companies. It was very successful; he made money; he came back to Stanford, went through the steps he was going to go through just two-and-a-half years later, and became the president. Lots of schools don't have that willingness to take the best and brightest and launch them outside the university. And in the case of John, he did that.

So that's part of the environment. How important is that? Hard to weigh any of the unusual features that exist here that you don't find elsewhere, and hard to put a precise value on them and speculate if you didn't have that capability, would the place have been that successful? So, as I warned you, it's a very long-winded, unsatisfactory answer about why Silicon Valley happened *here* when it did. It was just a confluence. Hewlett-Packard had already been here, Varian had already been here—Ampex. There were the beginning of major companies in the technology business, and it didn't happen overnight.

I'm sure some clever marketing guy, whose name is Regis McKenna, came up with the term Silicon Valley. Silicon Valley used to end, by the way, in mid-Palo Alto or even slightly north of mid-Palo Alto. It now goes down way beyond San Jose. So it's more of a state of mind to me than a geographic happening. It's the can-do kind of place, in contrast to other places in the world where there are lots of restrictions and things that are limitations.

Anyhow, we're rolling. As a result of the success, lots of companies started. There was a very hot stock market for IPOs; these are initial public offerings.

03-00:30:00
Hughes: What era are you in?

03-00:30:02
Valentine: We're about 1964-65. Companies were going public left and right, net worth is being built famously. People are doing well, companies are expanding, companies are acquiring one another.

A very clever lawyer, by the name of Lerach, figured out a terrific business for plaintiff lawyers. He would take the position that the companies that went public did a number of things that violated the securities laws, and he would sue them.

03-00:30:55
Hughes: Such as what kind of violations?

03-00:30:59
Valentine: No, I don't want to go into that. The violation that was most typical is that the security laws are extremely complex, and they didn't take the right number of cautious steps to be in compliance with different laws that had been on the books. Mainly, what Mr. Lerach wanted was a *hunting* license. He would write up a very small, vicious brief, submit it, the suit was launched against the company and its directors, and what he wanted was the ability to do discovery. He wanted his lawyers and himself to be able to go into the company's records and find out what they did right and what they did wrong.

03-00:32:05
Hughes: Was this new in the law?

03-00:32:08
Valentine: Yes. It was new in the way law was practiced, in the exploitation by individual plaintiff lawyers, that you'd sue and find out the facts later. The lawsuit was based on what they found in the company's records. Very early on a number of us recognized the threat that Lerach and company represented because they were suing the directors of the board, the venture capitalists, as well as the management.

So, at this point in time, early 60s, mid-60s, we had disk drives. We had ability to store records so it wasn't paper. To me, storing pieces of paper in files is a complete waste of time. I outlawed files [at Sequoia]; I outlawed storing pieces of paper. We basically were trying to be more efficient, and also to not have any information that would potentially help the Bill Lerachs of the world and the plaintiff lawyers as a category.

03-00:33:47
Hughes: Now this was a policy as soon as you founded Sequoia?

03-00:33:51
Valentine: No, it happened a little later, because when I founded Sequoia the cost of these kind of memory systems was more expensive than they've proven to be, and I wasn't as sensitized to how useless is the filing system in American companies. Somebody will have a piece of paper come across his desk, and he doesn't really know what to do with it. So he writes a little note on it and gives it to his assistant and says, "File this." So you have a useless piece of paper, now in folder, that nobody understands the title of, and you'd never want to retrieve it anyway because you couldn't, because she has no idea why she filed it where she did. So the whole concept of filing was a *huge* monumental cost and waste of time. So I outlawed it, and it turned out—

03-00:34:56
Hughes: But [you were also reacting to] the Lerach situation?

03-00:35:02
Valentine: That was a confirmation of a good decision made previously. There's no point in having files, regardless of whether there was a plaintiff law firm out hunting. So everything we do, every investment we make, there's a law firm involved of our choice. The law firm is involved in writing all of the documents. So they're written in a particularly arcane language that only the lawyers can understand, and they memorialize all of this stuff the same way for each IPO. So why would we need a file? The have it in *their* file. We can't read it anyway because they've written it in a code. So my position was keep the paper there; I don't ever want it here. That was one of the other convictions about why not to have files: someone else already had them. Every year we're audited. Well, the law requires the auditor to have a file. So he has our audit record and the supporting statements in *his* file. So we don't need to have any of that stuff.

03-00:36:40
Hughes: Yes, that's true for activities with a strong legal basis. But what about the partners sitting around a table trying to figure whether to invest or not? Is there no documentation of things like that?

03-00:37:02
Valentine: Very, very little. There are papers that are created prior to each investment. At the end of the investment cycle, we say yes or no. In both cases we throw the papers away.

03-00:37:19
Hughes: Really! But at times that must screw you up, right? You're really reliant on the human memory, which we all know is very fallible.

03-00:37:34
Valentine: No, because these things are highly regulated; there are laws governing these things. There's a law firm and an accounting firm that we hire on each transaction; they have the records. In the case of the law firm, we can't read the damn writing anyway! So there's no point in having it.

03-00:37:59
Hughes: How pervasive is this sort of philosophy?

03-00:38:01
Valentine: No idea.

03-00:38:03
Hughes: Yes.

03-00:38:04
Valentine: No idea.

03-00:38:05
Hughes: You think that some venture capital partnerships are still keeping records in the same old-fashioned way?

03-00:38:14
Valentine: I hope not. It's just a waste of money.

03-00:38:20
Hughes: Yes, and, as you're implying, opening yourself up to legal problems. Were you ever sued by Lerach?

03-00:38:32
Valentine: I used to know the answer. I have been sued at least ten times, ten different companies. The lawsuit was the same violation of security rules—whatever that is. Three times I've been sued by Bill Lerach. One time he did the deposition in person, and at one point in time my name and the Sequoia name were on his Web site as examples of people he sued a lot.

03-00:39:25
Hughes: How did that make you feel?

03-00:39:29
Valentine: If I took things like that seriously I'd have felt like, you know, kind of public enemy number 104, or something. It was extortion—my word; I think other people agree that it's an appropriate word. Nobody ever did anything wrong. Ten lawsuits—there was never a trial, because what happens is, the plaintiff lawyers have figured this out. In one of these typical small venture companies, there may be six or eight people on the board: some of the officers who run the company, some of the people like me that finance the company, and some outside directors who bring special expertise. The lawsuit goes on for a while, without the board being involved, because the lawyers are doing what they call discovery. Our lawyer and Lerach are discovering what the facts are.

At some point in time, after they grind up enough hours that you have to pay them for, they hold up their hand and say, "$7 million is what it takes to settle; we want $7 million." And they're representing shareholders. They get 30 percent of the $7 million, so their ask, their *extortion* ask, is $7 million. We of course have had an insurance policy in place all the time, and early on we found out that Lerach, the plaintiff lawyer, and the insurance company—and possibly our lawyer—have been talking about what the extortion number should be: $7 million is the answer. We have a fully paid-up [insurance] policy that says $10 million. So, "Okay, we agree. We'll give you $7 million." And the insurance company says, "Not so fast. If you agree that the damages are $7 million, we will only pay $4.5 million." And you'd say, "Well, wait a minute, we've been paying insurance on a policy for $10 million." "Well, we're not convinced that $7 million in damages have happened, so we'd like to have more lawyering go on, but we're not going to give you $7 million."

So I go from this room, with the insurance company that I thought was on our side, to the next room where our lawyer explains it. Then I go into the next room, which is where Lerach is, and I'd say, "Where'd you come up with $7 million. It's ridiculous." So we have that conversation. And no one's on your side! Everybody's getting paid except me, right? All the lawyers get paid by the hour, all the accountants get paid by the hour, and Bill Lerach wants $7 million to settle, and the insurance company is only going to give a little more than half.

And that's how everything ends—never a trial. Bill Lerach does not want to do trials. He just wants to put a little fear into the directors. He wants to bleed some earnings out in hourly costs, and the company ends up paying $7 million, with partial coverage by the insurance company.

03-00:43:36
Hughes: So you couldn't do any better with the insurance company?

03-00:43:41
Valentine: No, we tried changing insurance companies—

03-00:43:43
Hughes: Because this figure is just pulled out of the air, right?

03-00:43:48
Valentine: Yes.

03-00:43:48
Hughes: So how do you prove or disprove it?

03-00:43:51
Valentine: You have more lawyer hours engaged.

03-00:43:56
Hughes: [chuckling] To say nothing of your time.

03-00:43:57
Valentine: Yes, I'm the only person not getting paid!

03-00:43:59
Hughes: Yes.

03-00:44:01
Valentine: Let's end this!

03-00:44:02
Hughes: This happened ten times to you?

03-00:44:04
Valentine: Ten times.

03-00:44:06
Hughes: Why did Lerach go to prison?

03-00:44:13
Valentine: I have to tell you that in my thirty-odd years of investing, I've come across a lot of very smart people. Unfortunately, Mr. Lerach is one of them.

03-00:44:29
Hughes: Right along with Bob Noyce?

03-00:44:32
Valentine: Well, no not in that class. But Lerach created a business in which he and his firm, and *other* plaintiff law firms, made hundreds of millions of dollars a year in revenue for their law firms. Lerach was a *huge* donor to the Democratic Party, and he used to stay in the White House. He was a guest of the president. So, you know, I'm not dealing with some Podunk lawyer who has no connections. Huge amount of wealth, but he got careless.

The plaintiff lawyers represent the shareholders, and what happens is they have so many complaints they list the plaintiffs alphabetically. Well, your name was first, your name was second, your name was third—in lawsuit after lawsuit after lawsuit after lawsuit. So finally one of our lawyers asked me sort of jokingly, "Do you know any of these people? Are they suing you on purpose, personally?" Well, it turns out they just had a list of people that were professional plaintiffs, and they got careless, and they didn't change the list and didn't tell the people they were plaintiffs. So what our law firm did is they went after the plaintiffs, and they deposed the plaintiffs and found out, "Well, God, I've never heard of this company. I'm not suing them." So the law firms went after Lerach's company because he was now in violation of the security law.

Before I ruin my entire day we have to get off Lerach. But the conclusion of the story, and it's one of those only-in-America possibilities, Lerach and company agree, "We're guilty." Now we'll negotiate the fines and the penalties and the prison time. So they do all of that stuff, and [sighs] it's such a highlight day in my life. I found the record. When he was being sentenced, the judge said, "Mr. Lerach, there are three prisons, and you may choose among the three prisons which one you go to. We'll arrange so you can visit the prisons, meet with the head of the prison, and find out which prison you would, such as you can prefer, to be in." And I thought to myself, Jesus! Where's Wyatt Earp and those kind of guys when I need them? So he goes and visits these prisons, and he makes a choice, and he wanted to be sure his prison suite had a southwest view and— Oh my God! I couldn't believe it. Anyhow, no more on Lerach; that's the end of the Lerach story.

03-00:48:14
Hughes: All right, so where are we in *your* story?

03-00:48:16
Valentine: We're in the mid-sixties, and Fairchild was phenomenally successful and became the fountainhead for spinouts: people leaving; people going to start

their own companies. And this was about the period of time when all kinds of companies were being started. I started financing them personally, making small investments in a small number of companies where I knew what the science was and—

03-00:48:53
Hughes: Just from money that you had saved?

03-00:48:55
Valentine: Yes. So you have a company now, 1965, public, $150 million in sales, huge brand name—one of the biggest brand names in the business. All kinds of companies were starting around us, and I began financing using an approach derived from the way we made engineering decisions. 1967—

03-00:49:29
Hughes: I don't understand what you said just then—a derivative approach?

03-00:49:41
Valentine: Business was so good that we had more opportunities than we had engineers, and we devised a bit of an ad hoc technique for evaluating different companies before we would commit our engineering resources to work with them on a specific project. We had to understand the nature of the application and understand the size of the market. There are a number of highlight kind of things that we did before we committed engineering. Having evolved that system, I used the same system to make small personal investments in companies that were all physically located here and where I understood the science. And it was probably as much a hobby as not, because I would make more money on Fairchild's stock than I would make in any of these investments, because I didn't have enough money to support too many companies at the same time. So it was an interesting, highly useful hobby.

We went on, in 1967, to another semiconductor company—and my last company—somewhat similar to Fairchild Semiconductor, not as good at science as Fairchild Semiconductor, and this was a turn-around. This company *had* existed prior to us. It had been financed incorrectly; it had the wrong management, and the investors didn't understand the semiconductor business. And we went in acquiring this—

03-00:51:42
Hughes: Investors being code for venture capitalists?

03-00:51:51
Valentine: Yes, not all venture capitalists are smart; a lot of them are pretty dumb. Geography matters. This company was financed by venture capitalists in the East, and the company was in Connecticut. I don't know much about Connecticut, and I have no prejudices against Connecticut, but there is nothing happening there. In the immortal words of Gertrude Stein, there's no there there. *Here* is where you do semiconductor companies, *there* is where

you make nutmeg or something different. So we basically took over the company and restarted it using local Silicon Valley people.

03-00:52:49
Hughes: Well, do we have a principle right there in that example? It sounds to me as though your Connecticut people are acting like an investment banker or a Whitney or a Rockefeller. They have a lot of money; they want to make more. But they're not interested in building companies, particularly, so they just put money in, and they're sitting in Connecticut hoping it works out, yes?

03-00:53:19
Valentine: Yes, I think that's a very good summary. One of the strengths that I've personally had, and Sequoia has had, is the benefit of being in the center of the universe at the right time. And the center of the universe was here and not in Connecticut. And one of the principles that we followed at Sequoia since forever, is that we only invested in Silicon Valley; we only invest in the West Coast. We made very few investments in San Diego. We've made no investments in Seattle for the first thirty years. It wasn't that there were bad companies there; it's we had more than we needed here.

03-00:54:11
Hughes: Right.

03-00:54:12
Valentine: And since we're very hands-on in our investing, we needed access. Many other people in the venture business invest everywhere. It doesn't matter to them. I don't know how they do that; I wish them well. If I find a good investment in Lexington, Kentucky, I'll call someone and tell them. "It's all yours." I don't know where Lexington is, and I don't want to learn.

So, National [Semiconductor] experience was the end of my education. I had learned, in my opinion, all there was to learn at Fairchild, in a startup, and I'd learned all I had to learn at National in a turn-around. I'd always run sales and marketing in these companies, so I became fairly proficient at sales and marketing in the creation of different solutions, which were unique at the time but highly advantageous to the specific companies.

All of those experiences made it comfortable for me, when I was approached, to join an effort to raise money and finance startups. If you just take 1970, because it's an easy year, there were very, very, very few dedicated funds for venture capital in the country. It didn't matter where they were. I think that when we raised money by accident—Tom Perkins was raising money at the same time—there was probably less than $50 million dedicated to this category of investing in the whole country. So it was a very embryonic business, very, very few practitioners, and money was hard to raise. [interruption]

[End Audio File 3]

Begin Audio File 4 12-4-2009.mp3

04-00:00:06
Hughes: I've lost track of where we are, to tell you the truth.

04-00:00:14
Valentine: We have gotten through to the beginning of Sequoia.

04-00:00:23
Hughes: All right.

04-00:00:24
Valentine: So in the early seventies, in the first round of raising money, and it was very easy to decide where and what to invest in. Initially, it was difficult to raise money because the money was all controlled by the East, and they had no experience, really, in taking the money from different endowments or pension funds and putting it in these kinds of illiquid investments. So we came up with a sufficiently attractive platform that was successful in getting investors interested.

04-00:01:17
Hughes: This is the first fund?

04-00:01:19
Valentine: Yes.

04-00:01:20
Hughes: How much did you raise?

04-00:01:22
Valentine: Five million dollars. And we were going to invest in technology companies, only on the West Coast, that were addressing big markets. We were interested in building major companies; we were not interested in being in the investment business, which is different than building companies. We wanted the money to come from tax-exempt sources, so we decided never to have individuals.

04-00:02:01
Hughes: Now explain the thinking behind the tax-exempt sources.

04-00:02:08
Valentine: Well, most of the money in North America is tax-exempt money. It's your university or it's a foundation or it's a pension fund. So in going after tax-exempt money, you're going after the majority of the money. They just have some sensitivity about how it's invested, so that their position as being tax exempt is not at all ever threatened. So we were going at what we presumed would be the largest sources.

04-00:02:50
Hughes: I see.

04-00:02:50
Valentine: Having hammered out the concepts that we were going to follow—and one of which was geographically limited. We didn't think we had to go to Texas; we didn't think we had to go to North Carolina. We thought there'd be enough investable opportunities *here* that we could get returns that would be very attractive to them. So the large pools of tax-exempt money were happy returning 10 percent a year. And what we thought we could do was more than twice that. We thought we could deliver 20 to 25 percent compounded annually.

04-00:03:48
Hughes: Now what gave you that confidence?

04-00:03:53
Valentine: In a word? Naïveté. The investments that I had made personally achieved that easily. I was interested in finding a standard which they, first of all, recognized. So 8 to 10 percent was a terrific standard. In your endowment world, the universities normally are limited to taking 5 percent of the endowment annually to run the institution. So they had this goal of 10 percent covering their annual 5 percent need. I just made a value judgment that said if we deliver *twice* their objective, we will have long-term lots and lots of interested people or entities willing to have us finance startups using their money.

04-00:05:09
Hughes: Now, were you going to institutions with which you had a previous connection?

04-00:05:18
Valentine: No.

04-00:05:18
Hughes: Why?

04-00:05:21
Valentine: Because there were no institutions that I had previous connections with. The nature of Fairchild Semiconductor's customers were divisions of giant aerospace companies. And we never did business at the level of the president or the chairman. So it was, initially, without those contacts.

I have to tell one story because I've always enjoyed it. I went to see some people in New York—that's where the money was—who were at a company by the name of Salomon Brothers. And I went there largely because a friend of mine was very convinced—Berkeley graduate—that I could do what I said and that Salomon Brothers should be an investor. This is the investment world of New York, Manhattan. All of my prejudices, I'm sure, were blinking like lights in their face. And we went through a little pitch, and we got to the questions. This one guy—he had all of the documents in front of him—he said, "You didn't go to Harvard Business School." And I said, "Right. I didn't go to Harvard Business School. I went to Fairchild Semiconductor business school." [Hughes laughs] He had no sense of humor, didn't find that at all funny, and said, "We're not going to invest with anybody who didn't go to Harvard Business School."

I said, "You could've saved me a lot of time, because there's no way I'm going to tell you I went to Harvard Business School, because I haven't and, parenthetically, never have had any interest." I said, "You know, I'm from another part of the country, which I think to *you* is like a different planet." And that was the end of the conversation with Salomon Brothers.

04-00:08:06
Hughes: I can imagine that it was!

04-00:08:11
Valentine: There's a lot of preconception in the investment community. This was after I explained to them I'm not in the investment business; I'm in the business of starting great companies. He was not able to make a distinction outside his boundary prejudices.

04-00:08:36
Hughes: I think it was off-tape that you told me last time with some pride that nobody at Sequoia—maybe you qualified it a little—had a Harvard business degree or an MBA, period. Is that more or less correct?

04-00:09:04
Valentine: That is more or less correct historically. We began with the opinion that we wanted to have people who knew how to start and run businesses. There was nothing to be learned at any business school in learning how accounting worked and things like that. Those were things that you hire people to do. You don't hire people to start and run the company; you hire people to do accounting. All people, initially, were like me. No one went to business school. Many of us went to the Fairchild Semiconductor business school or some other technology school. And I suspect that we do have MBAs around here. It's the second greatest crime; the first greatest crime is a lawyer. We don't have any of those around here, because I'd have them nailed up in the lobby.

04-00:10:13
Hughes: [chuckling] You realize that Caroline [who is filming] is married to a lawyer.

04-00:10:19
Valentine: Yes, I just discovered that, based on her response.

04-00:10:22
Crawford: He's a good lawyer!

04-00:10:24
Hughes: [chuckling] Exactly what I was going to say. He's an environmental lawyer.

04-00:10:28
Valentine: Yes, well, not knowing your husband, my next observation obviously isn't personal. But there was once a president in this country, back in the early days, who said, "The only good Indian is a dead Indian." Well, just change the Indian to—

04-00:10:48
Crawford: Got your metaphor.

04-00:10:52
Valentine: So.

04-00:10:56
Hughes: Well, may I ask you something about not having a business degree? I agree, and it seems reasonable that you would hire accountants, et cetera, presumably one has to anyway. Isn't part of the due diligence that you presumably value, doesn't that mean going over the financials?

04-00:11:33
Valentine: No.

04-00:11:34
Hughes: No? So why not?

Valentine: [sigh] Well, let me make a point of clarification. Most of the time we invest in companies that have no sales. So there are no financials.

04-00:11:58
Hughes: Right.

04-00:11:59
Valentine: So going over them—it's a matter of looking at a fantasy that the entrepreneur is trying to persuade you is the future. And it's done by a computer, so the numbers all foot. There aren't any math errors. So what you do is you listen to the man's *vision* of what the future is going to be, knowing after making a couple hundred investments that he's *very* optimistic or he wouldn't be starting a business. So no, we don't spend any time looking at the financials because we know they're wrong. We don't need somebody who's an expert at that since we don't look at them. Now we look at the financials from a couple of points of view, one of which is: what's the gross margin of the product? Very critical. What is the burn rate on cash? So there *are* things that we look at that are forecasts of what's going to happen.

04-00:13:08
Hughes: You mean burn rate that is occurring or *will* occur?

04-00:13:12
Valentine: Will occur. See everything—everything is the future.

04-00:13:13
Hughes: How do you calculate that?

04-00:13:19
Valentine: Numbers. All of the costs in a startup are people, right? So we start a company and we need nine engineers. So we hire nine engineers.

04-00:13:35
Hughes: Well, you need a place to put them.

04-00:13:38
Valentine: Yes, and we know what that costs. And they need some laptops, and we know what that costs. If you do it long enough, you just double the cost of the nine engineers, and you're close enough to what the burn rate will be. The issue is listening to *their* answer, and if it's less than two times the engineers [cost], we know maybe they're a little aggressive with their numbers. If it's *much* more than two times the engineers, well, maybe they're not so good at managing costs. But we don't need anybody to do that for us. We've done that in running companies. So what we have when we start with the format of people's backgrounds that *we* have chosen is, we have people who know how to run businesses. They've run businesses. Let me just ask you a question. I'm trying to remember who else you're interviewing. Pitch?

04-00:14:52
Hughes: Yes.

04-00:14:54
Valentine: Tom [Perkins]?

04-00:14:54
Hughes: Yes.

04-00:14:55
Valentine: Reid [Dennis]?

04-00:14:56
Hughes: Yes. Bill Edwards.

04-00:15:14
Valentine: Three Harvard Business School graduates.

04-00:15:16
Hughes: [chuckling] There are a lot more of them.

04-00:15:18
Valentine: Yes, so I don't want to leave you with the impression that my prejudice is anything more than a prejudice. Are you doing Arthur [Rock?]?

04-00:15:29
Hughes: Yes, I've interviewed him.

04-00:15:30
Valentine: Arthur graduated from Harvard. So you have a predominant number of people that you shared with me that are Harvard graduates, Harvard *Business School*

graduates. So you can conclude a couple of things. One is that it's not a handicap. Graduating from Harvard Business School is not a negative. It may not be a positive either, but it's not a negative, because all of those guys are successful. Is Bill Bowes on your list?

04-00:16:04
Hughes: Yes.

04-00:16:06
Valentine: So you have a ton of Harvard Business School guys and varying degrees of success. Unless there are people on your list I don't know about, I'm an anomaly.

04-00:16:21
Hughes: Yes, you are.

04-00:16:22
Valentine: And I'm *not* from Harvard Business School, so it shows the business is such that it can be *done* by a lot of different people with different backgrounds, including fundamentally different educations. That's my plug for Harvard Business School.

04-00:16:43
Hughes: The way you got to venture capital is very different from the way Tom Perkins—well, he isn't a good example because he did come up through technology.

04-00:17:03
Valentine: Yes, Tom is more similar to me than dissimilar. All the other guys are very dissimilar.

04-00:17:09
Hughes: You spent some time today explaining the prelude to Don Valentine as venture capitalist. It looks to me as though there are many ways of doing this. A lot of it boils down to the native and acquired abilities of the individual.

04-00:17:50
Valentine: I agree. See, venture capital is very reducible to a few words. You have to be interested in managing change, and you have to recognize that change is *necessary*.

04-00:18:39
Hughes: That's an interesting idea that nobody else has talked to me about. So what are you thinking about when you say managing change? What change? What chang*es*—I imagine there are many.

04-00:18:56
Valentine: Today's solution is wrong for tomorrow.

04-00:19:01
Hughes: You mean technology.

04-00:19:02
Valentine: Yes, but it's applicable to a lot of other things. It's just that it's harder to understand because [other] things don't change fast enough. Technology changes rapidly, so you're able to see it very quickly. The evolution of handheld computers has happened in three years, and you have *unbelievably* good products right now that were not conceivable four years ago. People *never* would have agreed that you'd have something like the iPhone.

04-00:19:41
Hughes: When you talk about managing change, in this case managing technology, are you meaning within the company? The company can't just make a good product and sit back. You, the board, whomever, has to be always several jumps ahead, I'm imagining, in order to anticipate how technology is changing or perhaps should be stimulated in this company to change. The iPhone is here. What's next? Who does that?

04-00:20:29
Valentine: People that I find, people that are immigrants, people that are just in school now. Let me work at answering your question from an angle. Ten years ago, there was a product on the market, only one of its kind. They had basically 100 percent market share. Anybody who wanted to listen to music while they were moving had a Walkman. Did you ever have a Walkman?

04-00:21:11
Hughes: All my kids did.

04-00:21:12
Valentine: You ever have a Walkman? [Directed to Caroline Crawford.] Right. So you had a cassette, and it was all there was, so it was spectacular. And Sony owned the market. There were no competitors of any consequence in the *world*. The technology was fairly simple. The biggest part of their success was their distribution system. But just as recently as three-and-a-half or four years ago, a local company by the name of Apple *eliminated* the Walkman forever with a radically different product. So you didn't have one song—you have a thousand songs.

That's what I mean about embracing change. You have to recognize that what you have is not the end; it's not the limit. When you can't do that change from the Walkman to the iPod, you become like General Motors. You *cannot* develop anything new. General Motors, in a very short period of time, lost their role to a Japanese company by the name of Toyota, who *did* embrace change.

[Paragraph Mr. Valentine added during editing]:

Change happens everywhere—only the rate of change differs. The basic energy creating and recognizing change comes from the entrepreneurs exploiting base technology. We financed a shoe company—no technology at all. It was just acquired for $1B. The company's business is selling mostly women's shoes over the internet, no stores—Zappos.

04-00:22:41
Hughes: In many cases you are sitting on the board, right?

04-00:22:50
Valentine: Yes.

04-00:22:50
Hughes: What do you do to stimulate a company if you aren't satisfied with where it is?

04-00:23:10
Valentine: It's a matter of starting with the conviction that that's the right course of action. I don't know what the position is of the dozen people you're interviewing, but it wouldn't surprise me if a small number of them would not wholeheartedly agree with just randomly embracing change, deciding that the past was wrong for the future. And that's why companies lost momentum. Think about why it's very difficult in this country to have a company with $50 billion in sales. They die before they get to $50 billion in sales. They don't have any new products.

04-00:24:09
Hughes: Why?

04-00:24:22
Valentine: Risk.

04-00:24:22
Hughes: One measure of success is the growth of the company, right?

04-00:24:48
Valentine: Yes.

04-00:24:50
Hughes: But the downside of that is the bigger you get, the tendency is to build in inertia. What *really* happens to companies after they've gotten off the ground and have enlarged? Why can't they keep that earlier culture?

04-00:25:27
Valentine: You know, I have an answer that I've developed largely because it's a fun answer. I'm not sure I know the *real* answer. But to me, the most dangerous thing that happens in a company when it starts and it's going along well: you start an HR [human resources] department, and the people in the HR department want to level the playing field. I mean, they are communist at heart. They basically want everybody to have the same medical program, everybody to have the same parking place, everybody has the same, same, same, same, same, same, *same*. Their purpose there—and they're not aware of this— They have binders [of policies] and you suddenly are regimented as a

company into categories of people. They're not interested in change—they're interested in *sameness*. So they legislate by accident, not hiring people who are *strange* and want to make change. They want *obedient* people. And with obedience you get no innovation, because it's *disobedience* that gets you the innovation—someone who doesn't believe what's going on is the limit.

04-00:26:59
Hughes: Do you say this sort of thing in board meetings?

04-00:27:01
Valentine: Fearlessly.

04-00:27:02
Hughes: And how do people react?

04-00:27:04
Valentine: Stunned. Because you're attacking one of the cows that has become, or is in the process of becoming, sacred. All companies are told—God, you've got to have this HR policy and all this great stuff so your employees will love you. I don't want them to *love* me. I want them to work their asses off coming up with new products. [Hughes chuckles] So there are things that unintentionally take all of the momentum out of the company. And the company's agenda becomes defocused. So they're not interested in knocking Sony out of that Walkman socket. They have other agenda, whatever they are, well intentioned, perfectly good agenda, good for the country, good for the state, but it ain't good for the *company*.

Historically we [in venture capital] have always been the effort to *change* things. And that's how you build great companies. You have to do things *differently*. Why does the automotive industry fail? And the simplistic reason seems to be the labor unions. Sounds good to me. All I know is they've failed as an industry to innovate. And I'm very inclined toward a conspiracy theory that was started way back when between the first car manufacturer and the first petroleum supplier. The internal combustion engine was designed to make the world work for those two companies, and it did. And it's wonderful, except we forgot: how do we keep going?

04-00:30:19
Hughes: May I ask you a question?

04-00:30:26
Valentine: I'm done.

04-00:30:26
Hughes: We sort of got into it last time, but I'd like to hear it more explicitly. I believe you said something to the effect that some of your colleagues in venture capital, and successful ones, put a lot of credence in the person, in the entrepreneur. And you said something to the effect that that's not the way you

go about it; that you look at market. Would you expand on that? And where *does* the person come in?

04-00:31:09
Valentine: Well, just to frame the question the way it normally is: for years, largely for entertainment purposes, debates were staged, in significant part, with Arthur Rock and myself. Arthur Rock is the representative of, you find a great entrepreneur and you back him. And my position has always been, you find a great *market* and you build multiple companies in that market. How are they different? Obviously I have to have, in my companies, the same kinds of functions that Arthur has. So I need to have a president, and I need to have a sales manager, and I need to have a head of engineering. I think the difference is that my articulated position recognizes that choosing great people is *very*, *very* hard. All these people who come with great credentials—and I'll talk about one at the end of the story—and often don't work out. So presidents in Silicon Valley are changed 50 percent of the time, five-O, 50 percent of the time.

04-00:32:49
Hughes: Wow.

04-00:32:49
Valentine: And that's by people who start with *great* people. I start with whomever, and statistically we'll replace our presidents less than 50 percent of the time. But what I want is a big market. The expression of a big market is some kind of a problem which when it's solved provides you with a very special opportunity to have massive levels of sales in that solution. [pause] [sigh] I have to think about this for a minute—because this is for posterity.

04-00:33:42
Hughes: [chuckling] Be careful.

04-00:33:45
Valentine: Right. I think his name is [G.] Richard Wagoner, the currently deposed chief executive of General Motors, was in the community within the last several weeks, traveling around Silicon Valley. I was asked if I wanted to see him, and I said, "No, I have no interest in seeing him. Why is he *here*?" I asked. "Well, he's getting acquainted with Silicon Valley, and he wants to see if there are any companies or industries that possibly he could help." And I thought to myself: based on what goddamn experience is he going to help them? [Hughes laughs] I mean he put General Motors out of business! Anyhow.

04-00:34:42
Hughes: So you did not go.

04-00:34:45
Valentine: Why? I'm not an autograph collector. So our view has always, preferably, been give us a technical problem, give us a *big* market when that technical

problem is solved so we can sell lots and lots and lots of stuff. Do I like to do that with terrific people? Sure. Are we unwilling to invest in companies that don't have them? Sure. We invested in Apple when Steve Jobs was about eighteen or nineteen years old— not only didn't he go to Harvard Business School, he didn't go to *any* school.

04-00:35:33
Hughes: [chuckling] He went to Reed for one year.

04-00:35:35
Valentine: It's not relevant. He knew the future of a business that is gigantic. And you can say, retrospectively—well, lots of people knew about the personal computer. That's a bunch of baloney! The product of choice, when Steve was nineteen, cost $250,000 and probably a master's degree in IT [information technology] to operate it!

04-00:36:05
Hughes: [chuckling] I can believe; I can believe. Well, so here's your marketing background coming in again, right? Your marketing background, being able to assess where the need is going to be and how big the market's going to be, right?

04-00:36:25
Valentine: Yes. But why would I want to do that? See? And the answer in marketing is *data*. So you can get independent data and analyze it and slice it and dice it in a lot of different ways and come to any number of conclusions. When you're hiring someone or interviewing someone, it's totally your *instinct* to deal with the answers he provides that live up to his credentials. A lot of people, I'm told, would be delighted to have Mr. Wagoner on their board or something.

04-00:37:15
Hughes: But that's surely just name recognition, isn't it?

04-00:37:20
Valentine: I have no idea. See, I would never do it. There's no amount of money he would have to pay the company to be on one of our boards. So the nuances that surround this easy articulation of a distinction are more important than the obvious gross distinction. I love doing business with bright, smart people. I wouldn't go out of my way to *not* go into business with them. But if the management is a wreck, it's called Cisco [Systems], because when we invested in Cisco we were the only people that would invest in Cisco.

04-00:38:02
Hughes: Because of the management?

04-00:38:04
Valentine: Because of the management. They were difficult; they knew nothing, but they had a solution to a giant problem. So as I've said before, I would do business with the devil, and Cisco was an opportunity because they had a fabulous solution to a gigantic problem.

04-00:38:27
Hughes: And did it continue to be difficult to deal with them?

04-00:38:36
Valentine: No, we got rid of them.

04-00:38:36
Hughes: [chuckling] That's one solution!

04-00:38:39
Valentine: We replaced them.

04-00:38:40
Hughes: Yes, how quickly?

04-00:38:43
Valentine: Not very quickly. The arrangement we made is that we would give them an amount of money: they would have one-third of the company; we would have one-third of the company; and the future employees would have one-third of the company. And the future employees would include new executive management, and we would supply the people to fill those slots. That was the understanding. So over time, we got a new president.

04-00:39:20
Hughes: I think you would agree that you're a strong personality?

04-00:39:31
Valentine: After so many years of listening to other people tell me that, I got the message. I thought at first I knew only all the timid people in the world. [Hughes chuckles]

04-00:39:42
Hughes: Despite the fact that you've told me that it's not *just* about people, you still have to deal with people both within Sequoia and in your dealing with your limited partners, et cetera. Where do the social graces come in, if at all? Just plain being able to get along with people and have them do what you want them to do? So where is personality in this mix?

04-00:40:34
Valentine: I'm thinking about my sort of customary answer to a question like that. Let me say that I almost never have trouble with smart people. I have a lot of trouble with dumb people, and that's a patience issue. So there are things that I do not engage in, aspects of the business that I don't engage in, because of that patience problem. So if I know there are people that don't get it, I just avoid counseling with them.

04-00:41:52
Hughes: [chuckling] I can imagine. So it hasn't been a stumbling block—

04-00:41:59
Valentine: No, it's any—

04-00:42:00
Hughes: I'm thinking of you in a meeting. Don Valentine can't always know everything. So have you been able to bring other people— Well, you must have been able to bring other people into the picture and reach some kind of consensus.

04-00:42:29
Valentine: Yes. Two things are working there. The recognition of the problem is very easy. Providing an environment for the other people to participate in making investment decisions is my *job*. So the first thing that you do is you hire people who are *very* opinionated and very personally *confident* so they can articulate their opinion to everybody around the table. They have enough achievement and skill that the people around the table enjoy what they have to say and put weight behind it. The second thing is just simply extremely tactical. I *never* speak first.

04-00:43:34
Hughes: Is that so?

04-00:43:39
Valentine: I always speak last.

04-00:43:40
Hughes: Because you want to know what's out there?

04-00:43:45
Valentine: I want to know what's out there, and I don't want them to know what *my* position is.

04-00:43:49
Hughes: And while you're listening, does your position tend to change?

04-00:43:55
Valentine: It may very well be moderated by other people's inputs. But once you recognize the problem, it's easy to mechanize around it. But no, I don't want to have people in Sequoia who don't have the confidence to have strong personal opinions public, because we need that. I want as far away from homogeneity as I can get. I would much rather have people that are vastly different, as different as you can get them. We have people here that are not U.S.-born. A lot of the core people around here are born outside the U.S. So from my point of view, you go to the end of the *earth* to get strong opinions. Because you see, every time we make an investment, there are fifty-two reasons to do it and forty-eight reasons *not* to do it. It's never seventy-thirty. So you really need people that are willing to pound the table with their position, and you need to provide the environment in which they can do that.

04-00:45:17
Hughes: Is every investment based on the group's consensus?

04-00:45:24
Valentine: Yes. Some of the people that you're interviewing use what I refer to as the *star* system. The star system is a telephone architecture where all of the hand phones go into a central place to be routed somewhere else. I don't like that system, and we've never used that system. What it does is, it prevents people from emerging, having their own persona and their own confidence. So I don't like that system. We don't use that system.

04-00:46:09
Hughes: Well, you've done a thorough job, I think. Are there gaping holes that we should cover before we wind up?

04-00:46:21
Valentine: I don't know. I can answer that better if you show me something that I can read. I don't know how historians operate.

04-00:46:45
Hughes: [chuckling] Casually. You *will* be getting transcripts to review.

04-00:50:50
Valentine: I've got to get rolling. Thank you.

[End of Interview]