Kevin Kinsella

Interview conducted by

Mark Jones

June 9, 2014

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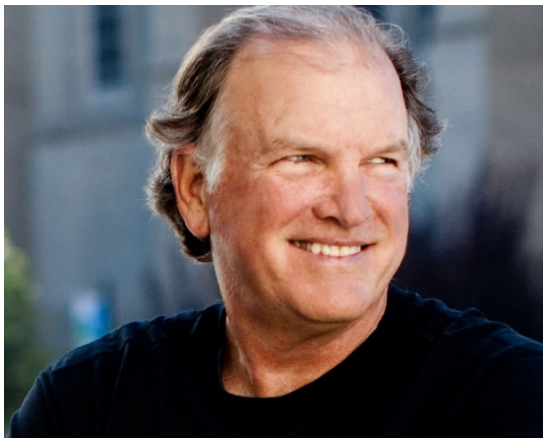
Kevin J. Kinsella



Mr. Kevin J. Kinsella is the Founder and Managing Director at Avalon Ventures, LLC. He founded the firm in March 1983. He has specialized in the formation, financing and development of more than 125 early-stage companies, including: Athena Neurosciences Onyx Pharmaceuticals, Sequana, Vertex Pharmaceuticals, Synaptics, Vocera Communications, Amira Pharmaceuticals, JNANA, and Juliet Marine Systems. Mr. Kinsella was the founding chairman of Athena Neurosciences, Aurora Biosciences, Landmark Graphics, NeoRx, Onyx Pharmaceuticals, Synaptics, Vertex Pharmaceuticals, X-Ceptor and Sequana Therapeutics.

Prior to founding Avalon, Mr. Kinsella worked for Solar Turbines International (Caterpillar Tractor), where he was in charge of all international joint ventures, barter and counter-trade. Previously, he was a nutrition advisor to the Peruvian government where he became a world expert in the cultivation and marketing of quinoa. He ran a technology exchange program between the U.S. and Latin America based in Mexico City, and taught algebra at the American High School in Beirut, Lebanon. He was also a guest op-ed columnist for the Boston Herald American.

Mr. Kinsella is a graduate of the Massachusetts Institute of Technology ("MIT") with a Bachelor of Science degree in management, with minors in electrical engineering and political science. He holds a Master of Arts degree in international relations from the Johns Hopkins School of Advanced International Studies ("SAIS") and conducted post-graduate work in political economy on a Rotary International Fellowship at the University of Stockholm, Sweden. He is a member of the Circumnavigators Club, an elite group of explorers who have gone around the world in a continuous trip using multiple modes of transport.

Mr. Kinsella is a Life Sustaining Fellow at MIT and a member of the Dean's Advisory Council at SAIS. He won the Tony Award for producing the mega-hit Broadway musical, Jersey Boys, and partnered with Rhino Records (Time Warner) in producing

the Grammy Award-winning Jersey Boys Original Broadway Cast Recording, which has gone Double Platinum (selling over 2 million copies). In 2012, Mr. Kinsella also received a second Tony nomination for Best Revival of a Musical for Jesus Christ Superstar.

Mr. Kinsella is a member of the Board of Directors of JNANA and Juliet Marine Systems. He is a member of the Council on Foreign Relations. Kinsella Estates Winery (Healdsburg, California), produces the highest rated premium Dry Creek Valley cabernet sauvignon, receiving 96 and 95 point ratings from The Wine Advocate and Wine Spectator. His collection of California Plein Air art, housed at the Kinsella Library in La Jolla, is among the best in the world.

Source: www.avalon-ventures.com

THE SAN DIEGO TECHNOLOGY ARCHIVE

INTERVIEWEE: **Kinsella, Kevin**

INTERVIEWER: **Mark Jones, Ph.D.**

DATE: **June 6, 2014**

LOCATION: **La Jolla, California**

Jones: Let's start at the beginning. Where were you born?

Kinsella: Oh God, we're not going back that far, are we?

Jones: Yes, we are, a little bit.

Kinsella: I was born in New York on December 23rd, 1945.

Jones: Tell me a little bit about your family, growing up.

Kinsella: My father was an actor. He started in vaudeville, and then was in radio, television, cinema, and on Broadway. My mother was quite a prominent model in New York City, which is how they met. We lived in the suburbs. My sister and I were born in the city and then we moved out to the suburbs.

Jones: Were you encouraged to excel at school?

Kinsella: Yes, it was important. We went to Catholic schools growing up. It was spare the rod and spoil the child, that kind of thing. Academic excellence, and getting good grades were always part of the family culture I grew up with.

Jones: Did you take to it personally?

Kinsella: I did. I was a successful student and I enjoyed learning, so it was fine. Some people don't take to it, it's like mixing oil and water, but for me it was quite interesting. I skipped kindergarten and went straight to first grade and kept going from there. I was a little bit young for my class.

Jones: Did you have an affinity for particular subjects?

Kinsella: Early on I found myself particularly adept at mathematics and that tilted me toward science and technology, rather than the humanities, although I loved reading. We would go to the library in the summer and I would take six books out and read them and bring them back and get six more, that kind of thing. I enjoyed reading from an early age.

Jones: Did your father's career in show business, have any influence on you? You returned to it as a producer.

Kinsella: Not really. My parents divorced when I was young, and my mother remarried an attorney. So my father and the show business influence in my life became somewhat more remote. My sister and I would see him half a dozen times a year, but he wasn't a presence in the house anymore. He wasn't a role model in that sense.

Jones: You became involved in athletics.

Kinsella: Yes, I did. I played football, baseball, and basketball, the traditional sports when I was young. And then as you grow older you need to specialize. It narrows down when you get to high school. I played only basketball in high school. And then I played basketball in college. That was my college sport, although I rowed crew my freshman year. But I didn't like going out on the Charles River in March, when your gloved hands would freeze to the oars. That wasn't fun. Basketball is played in a nice, warm gym, so I liked that.

The turning point came in the summer of '66 when I got to go on a trip to Europe with the MIT basketball team. I think there were eight or nine of us on the trip. There were eleven people in all, including the coach and an assistant who was there to keep the coach in good humor. He was in charge of finding the liquor in town.

Jones: During high school, were you looking ahead and thinking about college? Had you set your sights on MIT?

Kinsella: Yes, I did. I became enamored of MIT. It had a great reputation and seemed to fit the bill. It was the only college I applied to. I got in early – even though they didn't have a formal early admissions program – so I never went through the

angst that many kids do in April when they're waiting to find out whether they got into their school of choice.

Jones: Did you have teachers in high school or earlier who influenced you?

Kinsella: Yes, some science and math teachers were fairly influential, but not social studies teachers – that never seemed to work out. I enjoyed the crispness of the hard sciences, and being able to identify the right answer as opposed to giving opinions in essays.

Jones: Did you have a plan regarding what you would do at MIT, or did you show up and sample the offerings?

Kinsella: Originally, I was going to be an aeronautical engineer.

Jones: Why did you want to do that?

Kinsella: I just liked the idea of flying machines, stuff like that. But when I got there and started taking the basic engineering courses for aero it just seemed to be boring. So I gravitated away from that toward electrical engineering, and also political science.

Jones: So electrical engineering wasn't boring for you?

Kinsella: No. It employs the best bits of math and science together in a way that's pretty straightforward. So I enjoy that. *[Off mic conversation]*.

Jones: At some point, then, you switched to business, right?

Kinsella: I did. That was when I was a junior at MIT. I took a class from Professor, Jay W. Forrester, who originally discovered or developed what is called random access memory. About the time I was a freshman, I think, was when MIT filed a successful lawsuit against IBM for violating Forrester's patents. IBM lost, and there was a huge judgment. I think the typical division of the proceeds of a university invention is: a third go to the inventor, a third go to the institution, and a third go to his lab. So Jay got a third of the settlement, his lab got a third, and MIT got a third. MIT made out fine.

But Jay was migrating away from physics and computers to the whole sense of management of organizations and institutions. We were his disciples in each class at

MIT's Sloan School. [The Forrester group at Sloan] was called the Undergraduate Systems program, and we learned at his elbow, so to speak. We were in that program for two years. There were only ten of us in each class. It was very intimate, very focused. There was a great selection of other students; they were really first rate. It was a big feeding ground for intellectual ferment, back in those days. That's why my official degree from MIT is from the management school.

Jones: So it was [Forrester's] idea that once you have [an understanding of the relationships among the elements of a complex system, one can analyze out into the future how the system will respond to perturbations – which is very often not intuitive?]

Kinsella: Yes. It had to do with these computer programs and ways of looking at problems that he developed. In many respects he was codifying self-fulfilling prophecies and vicious cycles and that sort of thing. And that was interesting just in and of itself to see how he did that. And it was applicable across a broad range of other fields, and had a lot to do with behavioral economics and so forth. *[Off mic conversation]*

Jones: During this period, Route 128 has gone like gangbusters, right? Did that make any impression?

Kinsella: Yes. When I was an undergraduate I had a – what did you call it back in those days?

Jones: An internship?

Kinsella: No, it wasn't an internship; it was some other name. We'd spend time with one of the scientific labs in and around Cambridge, and I spent some time with Draper Laboratories, which was named after Charles Stark Draper, who was involved in developing many if not most of the original inertial guidance systems for our space program.

Jones: So you found all of this stimulating, I assume?

Kinsella: I did.

Jones: Then there's this political science piece; how does that fit in?

Kinsella: Because I became politically aware during that period of time. I took a couple of courses by Noam Chomsky and Louis Kampf – because Chomsky was one of the early advocates against the war in Vietnam.

Jones: And when you say politically aware, I mean Noam Chomsky, that's pretty radical politics. How far to the left did you go?

Kinsella: It wasn't that radical, really, at the time. He was a very calm and incisive intellectual, so he wasn't a flag waver *[crosstalk]*.

Jones: Wasn't a flag burner, right.

Kinsella: That's right. You sit and listen to his ideas, which developed into his political opposition to a variety of things, you know, it's fairly interesting. Louis Kampf was the other guy, who taught this course called Intellectuals and Social Change, which I found to be quite interesting.

And then I went with some colleagues over to Harvard Business School to see what members of the Class of '66 were doing. This is the fall, maybe, of my senior year and we're trying to figure out what to do come June. I knew many of the class before us [MIT '66] because there was an Undergraduate Systems program class that year and we were integrated through the courses we were taking within the USP program. And we got to be personal friends even though they were one year more advanced. Half a dozen of them were at Harvard. So I asked, "All right, what's it like there?"

So I went over and sat in some classes, *[laughter]* I found it hideously boring. But they were working on it and I'm like, "Oh my God. I can't do this." At the same time, because the coming of age of political consciousness during the Vietnam War, I became aware of grand political movements, things like that. And I decided I wanted to kick around and do that.

So I decided to apply for graduate school, instead of doing something in management or engineering, to break with that. I applied to the School of Advanced International Studies at Johns Hopkins. [Xerox] actually had a fellowship available for someone who came out of a technical background, to bring a technical person into the world of diplomacy. That's what I had, and so I qualified. It was a nice scholarship for two years.

Jones: Well, that's interesting that they had this fellowship. Is that the notion that the future is science and engineering is going to be increasingly part of the political sphere?

Kinsella: That's a level of abstraction I never got to in my own thinking. I just felt the political and international relations aspect of things were interesting so I decided to pursue that. And so I got my master's degree in two years.

Jones: How did you like that program? What did you study there?

Kinsella: My concentration was in international economics.

Jones: What brand of economics?

Kinsella: Well it was really sort of the big issue of – no one had heard of supply side economics at the time so it was just really market forces and supply and demand and foreign currency exchange, the dynamism of world markets.

In 1969 I graduated. You may remember in 1971 we went off the gold [standard] for good. Connelly was the treasury secretary under Nixon.

Jones: So he was from Johns Hopkins?

Kinsella: No, he wasn't. I'm just saying that I was conscious of all of this going on. I was conscious of a lot of things since SAIS hosted a lot of speakers because they were in Washington which is the diplomatic host for many nations. You would be exposed to things and try on different viewpoints that you would not have otherwise thought about.

Jones: Well you come to the end of those two years and then you are back in the same place, right? You have another decision to make.

Kinsella: Right. I had received a Rotary International fellowship to study overseas in Sweden. I graduated with my master's in May, and this didn't start until the following September. So there's this big 15-month hiatus. And I thought it was a cool opportunity not to get a regular job – because how far could you go in 15 months? The employer would be irritated that I would be leaving from the get-go.

I decided to do something interesting and I got a job teaching algebra at the American High School in Beirut, Lebanon.

Jones: That's interesting. What motivated that? Lebanon at that time –after the '67 war– is a pretty dicey area at that time.

Kinsella: It got even dicier after '75, when their own civil war broke out. [Lebanon] was a lovely place after the Six Day War and before they decided to seek another path, so to speak.

Jones: Well, for you is this part sightseeing?

Kinsella: Yes, living in the Middle East, traveling all over the Middle East, you know, was something on the bucket list.

Jones: Where did you go?

Kinsella: Well, Lebanon, Syria, Israel. I wanted to go to Iraq but I never did. I wish I had. That was long before Saddam Hussein, of course. And I went over to Egypt, during Christmas, explored a bit of the Sinai and went up the Nile and all that. It was a busy time of hopping around the Middle East.

Jones: What were your impressions of that part of the world?

Kinsella: Backward, certainly, even if they had a lot of money they were backwards politically. They were fanatical to a certain extent – but this was long before jihadism had evolved. And you know, I formed a certain sense of sympathy with the Palestinians who populated the refugee camps in Lebanon. Because of the conflict they had been driven out of their homes and now were trying to get back and reclaim them.

Jones: Right. So you did that for something like 15 months?

Kinsella: Probably something like that, because I had language study classes in advance.

Jones: Did you approach fluency or did enough to get by?

Kinsella: In Swedish.

Jones: Oh, you were studying Swedish? Yes. Swedish, that's a difficult language.

Kinsella: No, it's easy actually.

Jones: Is it? Sounds hard.

Kinsella: Well it's not really. For example, let's conjugate "to be" in the present tense.

Jones: In English it's complicated, right.

Kinsella: Yes, but in Swedish it's easy. It's like saying, "I be", "You be," He be", as opposed to, "I am," "You are," "They are". So it's actually quite easy grammatically. I learned that. And I actually served as a translator for the guy who was the editor of a newspaper called *Dagens Nyheter*, which means "The Day's News." His name was Olof Lagercrantz. So I translated a book or two of his from Swedish to English.

Jones: You must have developed real fluency.

Kinsella: I did, but it's far easier to do that than it would be to translate something from English into Swedish and have it completely grammatically and au courant with the vernacular expressions that people have. It was quite straightforward to go the other way –

Jones: The course of study there, was this in Swedish or English?

Kinsella: No, the classes were in Swedish. So I just had to learn.

Jones: You did okay with that?

Kinsella: Yes.

Jones: Again, this was, political economy?

Kinsella: Right. And that's the study – in Swedish it's called statskunskap, or the study of the state. Kunskap is the study of or science of, or something, and stat is the state, so statskunskap. So that's what I studied. It was a non-degree program. And then I finished that up and then I moved back to the States for – oh boy, probably nine months or less, looking to see what I would be able to do. It was a recession then, so I couldn't find any really super interesting opportunities. But I had the travel bug and there was an opportunity that opened up to run the Latin American headquarters of the outfit based at Tufts University call the Latin American Teaching Fellowship program.

Jones: Prior to this were you doing any kind of really long-range thinking?

Kinsella: Not really.

Jones: At Tufts they had a Latin American program?

Kinsella: It was USAID [United States Agency for International Development] a separate organization that was run, in effect, off campus, but it had an affiliation with Tufts, with the Fletcher School. We had to be responsible for our own finances, and it was very entrepreneurial. I was sent to Mexico City to open up the office there. And so I had to not only arrange for these fellowships for Americans coming down to teach in universities in Mexico, but I also had to figure out how to finance them. So I did it in one of two ways: one, outright eleemosynary [charitable] contributions particularly from the multinational corporations—US corporations that had significant operations in Mexico. So I raised money from them on an eleemosynary basis. A lot of them wanted technical people to work for them on an internship basis, and they would pay $600, $800, $1,000 a month– I mean not much by today's standards but it wasn't too mean a stipend back then.

I would arrange these things that, "Oh, we've got this electrical engineer over here and he would be great doing that," and we put things together. I think by the time I left there were more than 30 academics who were doing both this internship work and teaching at the local university.

Jones: Was that good training for later when you had to raise money for startup companies, investing in companies?

Kinsella: Oh yes. It's always good training.

Jones: You did that for how long?

Kinsella: In Mexico City, I was there for two years.

Jones: Then you end up in Peru at some point?

Kinsella: Yes, after that I became an advisor to the Peruvian government through the Agency for International Development [USAID] on, of all things, national nutrition planning. So I became, in effect, the first world's expert on quinoa, which is completely weird. What's funny now is back then you couldn't even give it away,

right? And I was designing a support program for the Altiplano in Peru. Quinoa is used in pastas and breads or whatever. You can do that because you can substitute ten percent of quinoa flour to wheat flour without taste detection. Once it gets above that then it tastes a little odd. So for pastas, breads and so forth you can do that, just less than ten percent and you're good to go.

Jones: Yes, how did you become the person for that position?

Kinsella: Just one of those things that became available because they needed a person. There was a consulting organization called TransCentury Corporation for which I directly worked and they had a contract with USAID. So there were a variety of roles to fill and one of them was figuring out how to harness this crop that grew in the Altiplano. It's quite prized by the locals but it was finicky. You know, the plants that are growing out of the lichen up near the tree line are very fragile, as things in that environment can be – they never figured that into the comp package, I suppose. Anyway, it was fun.

Jones: So you're having a good time, moving around and getting involved in interesting projects. But then we come to 1975 – what happens after you conclude this? You're in Peru and you advise them and set something up?

Kinsella: Right. So then I made a recommendation to my authorities at the embassy who basically were the USAID people there. It was a three-part program that would save 10 percent of the import bill for wheat because it's [import] substitution. It would raise the dietary protein in the diet of poor people in Peru because quinoa is 17 percent protein by weight. The highest form of any type of wheat protein is only 7 percent. So there's a huge difference.

So we could raise the consumption of protein by the poor people. It also started to form the basis of an agricultural support program where you have guaranteed sales to the local people through some community intermediary, or even a government organization. So there were great reasons to do this. Except my first lesson about power politics, so to speak, was that this was in everyone's interest except the guy who had the license to import the wheat, because substituting or cutting down his wheat imports by ten percent was not his idea of a good time.

I didn't really interfere. They just said, "Oh, thank you very much," and put it in the circular file. So much for that. But it was a great learning experience, and who knew

that years later I could go out to dinner by telling people I was the first world's expert on quinoa production.

Now everybody's paranoid about gluten free and so forth. And today quinoa is so expensive that the people down there can't afford to eat it—kind of what happened to corn, right, because of the biofuels. Crazy.

Jones: So that didn't go anywhere, didn't get implemented.

Kinsella: No. [Not right away.]

Jones: Okay, it's time to do something else? What came next?

Kinsella: Let's see, so we're back in '75. MIT was about to announce a major capital campaign to raise $225 million to add to the endowment, which in today's dollars seems a rather paltry capital campaign, right, you wouldn't even do a capital campaign unless [the goal] was north of a billion dollars. MIT was about to initiate one. And, because I was an alumnus and I was pretty well-known because I was a big man on campus back then, they asked me to head up the fundraising in the western part of the United States. That was a great opportunity because, as I described, it was Aspen and west was my territory. So it was a great opportunity to travel from my base in Cambridge and to put together the fundraising [in the western states].

Jones: You hadn't spent much time in the West before?

Kinsella: No, I'd been – let's see, in the summer of '70 I flew into northern California and then got a car and drove it across the country. From arrival to departure, it was a matter of five days.

Jones: So there's still a bit of travel aspect in this, right?

Kinsella: Even back then?

Jones: Yes, for you to take this position and go around asking for money?

Kinsella: Oh yes, I had to get out and press the flesh with all these wealthy alumni and so forth who were, for the most part, in the western part of the US.

Jones: So you were successful with this?

Kinsella: Yes, my group raised $48 million in the course of the campaign. And I met a lot of people who were in the venture capital business who were MIT graduates. So Tom Perkins of Kleiner Perkins and Burgess Jamieson at – it's now called the Sigma Group or I think TVI, Technology Venture Investors was its prior name.

Jones: You talked to them about their businesses?

Kinsella: Yes. I thought to myself, "This is fascinating, this venture capital business. All I need is a little capital." Anyway, with that sort of implanted in my brain, I ended up starting two companies, one in Houston and the other in San Diego.

Jones: Well where did the money come from?

Kinsella: It was founder's stock, was walking around money, if you will. So I created the company, I took a share of founder's stock for myself.

Jones: What were the companies?

Kinsella: Spectragraphics, which is here in San Diego, and Landmark Graphics Corporation in Houston.

Jones: How did you decide where you're putting them – San Diego, Houston– why San Diego? Why Houston?

Kinsella: Well, San Diego because I lived there, and Houston because it was more specifically an application of the first program that we had done with Spectragraphics that was specialized for the oil patch.

Jones: So this is Landmark Graphics?

Kinsella: That's right.

Jones: Well let's back up just a little bit – you lived here in San Diego? How did that come about?

Kinsella: Well, when I decided to leave Boston – because Boston is really too parochial and you always get the sense anyone you're dealing with there is trying to peek inside your pocket to see if you have your return train ticket to New York

because they're very paranoid and xenophobic. I got tired of that and decided to move out to the West Coast. I had some relatives, an aunt and uncle who lived in La Jolla. I'd been here in 1970; it was a really neat sort of area. They provided an anchor where I could put up for a couple weeks with no hassle, so that was great. Then I found an apartment and moved in.

Jones: And Spectragraphics was the San Diego company? What did it do?

Kinsella: Spectragraphics made a high-resolution color monitor that operated with IBM's equipment for CAD-CAM.

Jones: Where did that technology come from?

Kinsella: It came from the internal group that we had assembled from other MIT graduates to found the company.

Jones: So you had the idea: "I want to start a company," then you went back to MIT looking for people?

Kinsella: Well they were really MIT people I'd met locally, and I identified this opportunity, it sounded really good and we decided to exploit it.

Jones: So you are an entrepreneur at this point?

Kinsella: By default, yes.

Jones: And how involved were you in running these companies?

Kinsella: Not very involved. Once I got started and we had a CEO I wouldn't stick my nose in. I enjoyed starting the companies; I didn't necessarily want to run them. And the second one would be impossible to run since it was in Houston anyway. It's called Landmark Graphics Corporation and it went public and was acquired by Halliburton, Dick Cheney's company, which was acquired by someone else.

Jones: So what was your idea, if you go back to that time and looking ahead, "What's my plan?" To keep starting companies?

Kinsella: I liked it. It appealed to my intellectual curiosity and it was just enough dilettantism involved that it wasn't too stressful, and they didn't have other people who were willing to do it; so a match made in heaven.

Jones: So this is you making yourself into a venture capitalist but it is West Coast style, very hands on kind of approach?

Kinsella: Well to the extent of how we got famous at Avalon, it is actually creating companies from scratch: figuring out, what's the story line; what's going to happen here? And then lining up with the people behind the scenes and so forth. So it was enjoyable starting the companies, which has been the Avalon brand and how we do things here. I've basically always done that as opposed to trying to fit my ambitions into some other company that got started by strangers.

Jones: So '81-'82, this period is Spectragraphics and Landmark Graphics, and then shortly thereafter comes Avalon?

Kinsella: Right, Avalon started in '83.

Jones: So how did that come about and who was it in the beginning? It was you and –?

Kinsella: It was just me by myself. What we were able to do, then, was raise money from individuals, which I don't like to do now because individuals are a pain in the ass.

Jones: Because they want to know what's going on, and you have a personal connection with them so they're calling you on the phone? Is that what you mean by "pain in the ass" or is it raising money?

Kinsella: When you go out and actually start a fund from scratch, getting limited partners when you don't have a track record is difficult – in particular institutional investors, who are pains in the ass themselves. So it was better to exploit people I knew who knew that I had the talent to start the companies and who wanted the investment opportunities I created by starting these companies.

The first Avalon funds, like I, II, III and IV, were creatures of the limited partners who were basically the partners of Kleiner Perkins, Sequoia, IVP and so forth. They would just peel off money from the management fee to fund me. I would start a company, I would take founder's stock in it, and then they would take it over from there. So the serious financing money came from them but I had stake in the founder's stock going forward. And that worked out very nicely in my first fund,

Avalon One. One company, it turned out to be a 10X, which was a great return, so it started with $400,000 and it turned into $4 million.

Kinsella: NeoRx was the first biotech I started.

Jones: Is that in Seattle?

Kinsella: Yes.

Jones: So how did you get up to Seattle? Tell me about the first fund, okay? You raised this money and then you went out and –?

Kinsella: I had to have walking around money. So the first one actually came from an MIT graduate who was a year ahead of me in the Undergraduate Systems program. So I knew him pretty well.

Jones: This is John Freeman?

Kinsella: That's John Freeman. He had a colleague, Bill Rosenberg. They met in the government, working at HUD [Housing and Urban Development], and they decided to go out on their own and develop Section 8 housing – it's subsidized housing. And so they did that. They were successful and made a lot of money, had great cash flow. They were looking to diversify and I had an opportunity to soak up some of that cash. They liked the high tech aspect of what I was doing, so my first limited partners were those guys. Again, that's an MIT connection because John Freeman was a year ahead of me in the Class of '66.

Jones: Right. And this is a good time to be getting into this stuff, right, the early Eighties?

Kinsella: Genentech went public in October of 1980, and like wow—it was like gold rush day: recombinant DNA, and then a year later monoclonal antibodies became hot, and all of that. So it was a great time to be starting biotech companies, not only because of the technology per se, but also because there was a retail investor base that was very interested in these kinds of things, had a great tolerance for risk. That's completely disappeared, in my opinion, today. You don't find those kinds of people. I often say that it was really great being in the investing side of the golden age of venture capital, which I defined as 1980 through 2000. That 20-year period is when you could make 10 to 100 times your money on the company that you

started and your molecule, if you even had a molecule, had not yet seen the inside of a rodent. So those were the days.

Jones: Well it's changed a lot. Is that because the investors have become more sophisticated, or just more risk averse?

Kinsella: I think all of the above. There was what was called the Gartner curve. There's initial over-weaning excitement about something, so lots of startups, ridiculously high valuations, everyone's in on the deal, the sky's the limit. Then reality sets in, "Well no, it's not going to happen that way," which crashes the valuation scenario. Then gradually, as they're sorting out things like overpriced real estate, the enthusiasm starts to rebuild along with a more sober realization of how one creates value.

And that would go on after the initial euphoria, then the descent into the depths of despair, and then getting back to the real world and starting to climb out of it. Now fortunately I was there for that sort of swing, many times.

Jones: Was there this air of excitement?

Kinsella: Oh yes.

Jones: Yes? And this curve you see for different technological platforms, right?

Kinsella: What do you mean?

Jones: Not just biotech.

Kinsella: No it's true, the Gartner curve of wild expectation, crash to Earth and then crawl back to a market value – that pertains for lots of different technologies, not just biotech.

Jones: But even within biotech, I mean recombinant DNA, monoclonal antibodies, genomics, whatever it is, all follow this –

Kinsella: All of those, and we were able to make money in all of them: rational drug design and combinatorial chemistry, GenPharm made a lot of money –

Jones: Transgenics?

Kinsella: Yes, Transgenics, mouse models and so forth. It was fun being around and being a creative force in the platform companies at the time. But as people have gotten more sophisticated, starting a platform company has become a lot more difficult. Costs more money and you've got to figure out what's your exit strategy and all of that, stuff that we just kind of rope-a-doped along back in the day. Fortunately we were right enough times to make it easy enough to come back.

Jones: Well not everybody was – there were a few people that were right enough times to carry it along. You didn't have a background in biology but you educated yourself pretty quickly?

Kinsella: Yes.

Jones: You definitely had a sense – you weren't doing exclusively biotech?

Kinsella: No, I was doing lots of different things. It's interesting because I've gotten a reputation as being a health care only investor and that's never been true. There are always opportunities in biotech and tech; I was always trying to figure out what's the scarce resource. What should I be doing that everyone else can't do?

And it became quite clear early on from the tech standpoint that everyone in the Valley understood RAM and bits and computer chips and all the rest of that. So to distinguish yourself you have really got to do something else, and I found that there wasn't a great sophistication about biotechnology, particularly as you got into more complex aspects of it. So that's what I did for a number of years, and that was great.

Jones: Well how did you evaluate companies? First, is NeoRx – how did you get hooked up with those folks, find out about them? And then how did you evaluate?

Kinsella: There was this Russian scientist at the NIH named Dorfman and he told me about these people – there were quite a few of them, actually – not in the hundreds, but there were a number of them. They were all at the cutting edge of the NCI in Frederick, Maryland. We ended up recruiting 13 of those people. So on the day the moving trucks came to Frederick –

Jones: You moved them from Washington to Seattle?

Kinsella: Yes, from one Washington to the other Washington. And the moving vans would go down the street, move one group and then the next and then the

next. And so they trucked them all out to Seattle. I think 13 employees were moved that way. I think the total hire was 18 people that we actually hired out of the NCI.

Jones: Well the obvious question is why not do it in Washington, in DC?

Kinsella: Because the CEO of the company lived in Seattle and wanted the company to be there. I preferred to be in Seattle because I'm West Coast tolerant, so that was easy.

Jones: Who was the CEO?

Kinsella: Bob Abbott. He's gone on serially to do some things. I think he may be retired now, but every once in a while I plug-in and catch up and there'll always be some new biotech deal that he'd be into.

Jones: So the first fund $400,000, NeoRx is a big hit, 10X – any other notable successes?

Kinsella: ANSA Software, which was acquired by Borland, was a nice score; and Network Switching Systems, which was one of the companies that was exploiting the breakup of AT&T. In the old days if you had to plug anything in to the telephone line, it had to be manufactured by Western Electric, which was the AT&T manufacturing brand. Well, when the government broke up the AT&T monopoly and said that, "Well no, it doesn't have to be an integrated chain, and the fact that you're going to plug something into it from a third party doesn't necessarily mean lines are going to blow up or anything like that.

So once that happened, it just opened up an explosion of possibilities of things that you could do. And so hardware became more sophisticated, software just exploded.

Jones: Did you see that coming?

Kinsella: Yes. Whenever there's vast regulatory change that can mean great business opportunities. Just to make an obvious statement: if AT&T were still running the telephone industry, there wouldn't be an iPhone. I can guarantee you that *[laughing]*. It would be a little phone like this – it would have a cradle on it...So it was great for innovation.

Jones: Where were those companies located, in California?

Kinsella: Network Switching Systems was in the Bay Area and NeoRx was in Seattle. And ANSA was in Mountain View.

Jones: So those are three successes and you're making a name for yourself and people are much more willing to take a chance with you, right?

Kinsella: Yes. So then in the next fund, the first two guys that backed me, one of them was a MIT colleague of mine. We added actually the first – let's see, or was it the second venture fund? I think they were the sole first backers then in Avalon II. In Avalon II we added two venture funds and then in Avalon III and IV we brought in Kleiner Perkins and Sequoia Capital and IVP and TVI and brand name firms. By the end of Avalon IV – and Larry Bock had joined I think for Avalon IV – right and then he was there, obviously, for V. Up and through Avalon IV, we did everything tech—biotech or high tech or whatever. When Larry joined from another venture fund called Fairfield Venture Partners, we set about preparing to go out and raise Avalon V, which would not be a feeder fund. Up to then, I suppose by definition, we were a feeder fund, creating opportunities for the larger venture capital funds to invest in. And then to keep us in Wheaties they would peel off cash from their management fee and they would pay us a set amount of money and we would start companies. We had virtually no capital but we got founder's stock just for the effort of organizing the company. And then they would invest in the company's Series A and so forth.

Jones: Were you happy with that business model? Did that seem like something sustainable for you over time?

Kinsella: No, because the problem was you were in the thrall of the other venture partnerships. And you always had to take deals to them; that was what your raison d'être was. And then there was a maximum limit to how you could grow because they, in effect, didn't want to keep raising the ante with you because that money, to avoid the double carry, was coming out of their management fee.

Jones: So they weren't willing to say, "Okay, well, you did great. Let's double up next year"?

Kinsella: So you were reaching a plateau of gravitas, and you couldn't grow anything beyond that. And therefore we had to break away and go out and raise a fund.

Jones: *[Crosstalk]* From institutionals, right?

Kinsella: Yes. So we did that. *[Off mic conversation]*

Kinsella: So then in the fall or spring – I think it was spring of '91 Larry and I headed to New York.

Jones: Is that before or after V? This is V in the making?

Kinsella: This is V in the making. So we're off, about to raise our first independent fund. I think we were thinking $50 million or something like that.

Jones: And had Larry done this before?

Kinsella: By himself? No. He had come from Fairfield Venture Partners where they were a legitimate institutional fund – I can't remember how large they were at the time. Everything seems small looking back, of course.

Jones: Did you feel like you had a track record?

Kinsella: Yes. I mean relatively speaking. So I remember at one of our first meetings – it was with Abbott Capital. There was this guy who started this publication *Venture Economics*, which is like the tracking service for the venture capital industry. His name was Stanley Abbott. I think he sold his publication to Dow Jones. And then he decided that (after he had looked at venture capital through the frosty pane of glass on the outside) he was qualified to raise a fund and apparently people thought he was. So he got an institution to fund the fund – I can't remember the size, it was a lot of capital.

So Larry and I were meeting with one of the associates there, a wet-behind-the-ears Harvard Business School graduate. He sat there – this was long before laptops or iPads or anything. He had a long legal yellow pad and he's taking notes about what we did and what our deal flow was and all that sort of stuff.

So we explained the whole thing to him, how we'd been founding these companies and working for the man and we wanted to break out. He looks at us and then puts his pencil down, scratches his head and says, "I just don't understand how you're going to get deal flow." You idiot. We create the companies ourselves. That's what we've been doing. And this was just completely orthogonal to the way he was

thinking. It was like, "Well how are you going to get all of these great deals to show up in your inbox?" or something. Anyway, we were shaking our heads.

Our next meeting was with the Swiss pharmaceutical company. And at the time it was known as Sandoz, and later it merged with Ciba-Geigy.

Jones: Novartis –

Kinsella: Yes, it became Novartis. And the Swiss shared an office suite in Rockefeller Center, where when they were in town to do business they would have access to administrative services and fax machines and conference rooms, whatever. So that's where we met.

We were supposed to meet with lower level people – not grunts, but not senior people at Sandoz. And lo and behold we walk into the room and it's the CEO, Max Link, and the senior VP of research, Stephan Guttmann, who is an Auschwitz survivor. I remember it was hot, it was summer, so we were wearing short sleeves, and you could see the tattoo of his [concentration camp] number on his arm. He's a really tough, tough guy.

Anyway, we loved the guy, we really liked him – Max Link was an interesting character as well. So basically, we made our pitch. And there was another guy named David Schnell who worked for Max Link. (A little later Schnell became the founding – well he worked for me, and then he became the founding principal of Prospect Venture Partners in the Bay Area, along with Alex Barkas, who died. There were four people, so it's David Schnell and Alex Barkas, both of them used to be at KP until they came and spun out. Then Russell Hirsch who had been at Mayfield and Jim Tannenbaum, who had been at Sierra Venture. [The four of them] started Prospect Venture Partners. Right out of the chute, [they got a] $100 million commitment from CalPERS. So their first fund was using that as a launch base, and [they raised] $500 million.)

Anyway – getting too far ahead of the story – so David Schnell was CEO Max Link's assistant because he was an MD with an MBA. They listened to our pitch, and they went outside the room. They said, "Could we consult on our own?" So we waited there.

When they came back in, they said, "Well what about this? We don't really want to be just a limited partner," -- because that's what we were pitching them – "but if you will agree to just do the type of deals that are specifically therapeutic companies, not diagnostic, not devices, then we would very much like to consider being your sole limited partner." Wow, that sounded good because –

Jones: And how had you framed it, how big? What did you decide to do?

Kinsella: What were we going to do?

Jones: Yes.

Kinsella: Well, we were going to raise as much as we could get but we were sort of targeting $50 million and if it became really successful we could probably get $75 million. And so we had had some initial contacts on the West Coast, then we had made this trip to New York and we had seen this guy at Abbott Capital to whom we had explained everything and he didn't get it, and so on.

So then we were thinking, "Geez, we cut a deal with [Sandoz], and we're done. We can start doing deals, the fundraising is over." And then we had to obviously negotiate what the terms were.

The standard venture terms are 80/20 after re-payment of capital. You split the profits 80% to the limited [partner] and 20 to the general partners. And the deal was that we were able to come up with Novartis [Sandoz] – because it was the deal that we'd had before. So when these Kleiner Perkins and Sequoia were peeling off money from their management fee to give us walking around money the deal was we could keep half of the profits because that really incented us. They didn't really care because they were looking for the opportunity to put a lot of money to work. They weren't that interested in cutting into our share of the founder's side, although it cut into half of it.

So we got the other half, we established this deal structure where we got a 50 percent carry. We just told Sandoz, "Well that's our historical deal" even though we were transitioning away from the old model to a new model. And they agreed, so that was fine because they were not financially motivated; they were motivated to –

Jones: To find technologies.

Kinsella: Right, molecules and so forth. So they agreed and ended up putting up $10 million, and I think half of it was to pay salaries and office and travel and so forth and the other half, $5 million, was for investing in the deal, so $500,000 per deal that we would start. Okay, still pretty small potatoes.

Shortly after we got started IVP said, "Hey, we'd like to do a side-by-side fund with you so that you can have another $500,000 per deal. But we don't pay any of the management overhead; we just put the $500 K in – that was fine with Sandoz. So now we disposed of a million dollars [per deal] to invest and that was great for us because at the end of that day what we were trying to do is break out of the scheme where even though our relative rate of return from our founder's stock might have looked great, the absolute rate of return was bupkis compared to the people who had been able to pump real dollars into [a start-up].

So that's where we were going and that's what attracted us to the Sandoz [Novartis] opportunity. And we were off and running. So IVP committed, over time, two funds each of $3 million to match [the Novartis money]. Therefore we had $10, $3, and $3 or a total of $16 million riding on the investments we made in the course of Avalon V. That turned out to be a spectacular partnership. We ended up financing twelve companies, one of which was an early write-off, so a million dollars went down the tubes. But every one of the others was a success. We had eight IPOs and three acquisitions out of the remaining eleven.

It ended up becoming an 11X fund of which we had half the carry. So that was very nice for me and Larry and John Hendrick, our chief financial officer. Basically we retired after that. Well, John did go back to work for a bit in Washington doing something different. But that was only for five years and then he came back and now he's been retired for 15 years, although he keeps an office with us because he likes hanging with the old guys.

Larry Bock tried a stint with another venture capital fund but he's just a very clever guy. He's not the type of guy who likes to sit around in partner meetings and put up with all this political bullshit stuff. He actually had joined Channing-Weinberg Associates – well, the partner who brought him in ended in up dying. And the other two partners were quite odd. So Larry spun out of there and then just did some deals on his own primarily because of the [financial stability from the] ultimate liquidations from Avalon V.

[Larry] had a big score with a company called Caliper, which is an Avalon V company. And he's been doing a lot of eleemosynary stuff. And then Larry had – probably since the beginning of Avalon V—his Stargardt's disease [to deal with], which is basically an early onset form of macular degeneration, it's genetic, so that affected him and over time his vision became much more difficult. Now he doesn't drive; he has a Seeing Eye dog. He had a Kurzweil reading machine, so he could put down a copy of *Science* on it and it would scan and read the thing – obviously in that funny artificial computer voice, which would drive me crazy, but you know, it's gotten better. So that's how Larry would stay in touch technically with things.

And I think he's got some massive [Macintosh] screen – so I sent an email – I guess when it's that high, you can read it and respond to it; I just exchanged email with him today about getting together.

Larry's been sort of fine, raising his daughters, both of whom are now out of college. He has pursued a number of things, including the Science & Engineering Festival in Washington, which is biennial –

Jones: We just did a thing for that with Larry. We got Francis Collins to show up and talk genomics, personalized medicine.

Kinsella: By himself or with Craig Venter?

Jones: Well it was Francis Collins, there were four people on the panel, not Venter.

Kinsella: All right, so you've already dealt with Larry, that's fine. So we all had gone off. I was retired for two weeks and was driven stir crazy so I started to make individual investments.

Jones: Let me ask you – this fund I have nine out of ten are successful –

Kinsella: Twelve out of thirteen.

Jones: So it's phenomenal. Do you know of anybody who's had a fund like that?

Kinsella: Well you know who did very well? And I don't know exactly what his stats are—it's Biovest, which Tim Wollaeger did with Ted Greene.

Jones: And it was much smaller and they just did one.

Kinsella: No, they did a bunch of companies.

Jones: They did a bunch of companies, but they –

Kinsella: Oh, they just did one fund.

Jones: And it wasn't – well I don't know how big it was. I forget.

Kinsella: I think it was $5 million. Well the biggest win was Amylin. But they had some other ones too that were not mean returns at all. But Ted is very difficult. He and Tim, even though they worked in harness at Hybritech, you know, Ted CEO and Tim was the CFO, they just had too many clashes. Anyway, they did well. But of course a lot of this stuff was a function of the time. If the band got back together–my band of me, Larry, and John Hendrick—if we came back together again, would we be able to do it again? I doubt it. I think times have changed and you have to adapt your investment model to that.

So I started making individual investments around 2000 and then by 2001, late in 2000 I met Steve Tomlin, who is one of the partners here. And we would turn up at the same angel pitches in town and we often, if not always, had the same reaction to them: it was either "nah" or, "Well this is halfway interesting but combining technical and market risks in the same deal isn't what we do. You need to wring one of those risks out of it and then come back." Or, "Hey, this is interesting. Let's take a harder look and maybe invest in it."

So we were having the same reaction to these pitches. Then we got to talking one day and he was as frustrated by the investment by Rolodex system as I was and so we decided to throw in together to raise the next fund. And we did that. It was a very difficult time because –

Jones: This is early 2000s?

Kinsella: Yes, so we were very much affected by 9/11. People just slammed their pocketbooks shut at that time. We did have a fund – we raised $20 million and then in order to have enough capital to spread on a risk-adjusted basis, enough companies, we each pledged $2.5 million for a total of $5 million and Andy Viterbi, the co-founder of Qualcomm, threw in a million. That was a $6 million side-by-side fund that was matched with the $20 million, so we had in effect $26 million to invest.

That did reasonably well, and then we raised Avalon VII, VIII, IX, X, and we are just finishing the investment period of X now. And we expanded the partnership about five years ago to include Rich Levandov and Brady Bohrmann who had come out of Masthead Venture Partners in Boston. They had performed spectacularly. So it's been a great partnership, and we're a partners-only fund; we don't have associates or principals or vice presidents or all the bureaucratic nightmare. We all have enough mutual respect for one another that any of us could say, "You know, I want to do this deal," and educate the others on what it is, with a few questions asked.

And we're off and running – it's not, "Well, we've got to go through the tab separated, due diligence binder or all that sort of thing." We have to have a committee and so Rich Levandov once said, "You know the way we do investing, due diligence is what you do when you don't want to do a deal." *[Laughs]*. Which is really great. Anyway, I'm sort of wandering off the story a little bit.

Jones: I would like to ask you about specific companies along the way. You've been involved in a lot of interesting projects and I'd like to hear about how they came together and what you saw in them. One, prior to Avalon V, Vertex is before that, right?

Kinsella: Vertex was Avalon III.

Jones: That turned out to be a big thing and there were a lot of big names associated with that, right? There's Benno Schmidt and William Paley on the board. Do I have that right?

Kinsella: Paley was never – I don't think he was on the board. Benno Schmidt was chairman of the board.

Jones: And then Josh Boger – how did he come to you?

Kinsella: This is a sore point with me because Boger, for 25 years, has tried to obfuscate the fact that he was not the sole founder of the company. In fact he wasn't really even a founder at all. I recruited him out of Merck to come to the company.

Now he was there early enough that I don't mind him referring to himself as a founder. I mean, that's kind of loosely interpreted. But by taking every opportunity to exclude me – notwithstanding the fact that I'm in *The Billion Dollar Molecule* referenced 14 times as the business founder and yet – we had to go into Wikipedia

and change the listing – that [Boger] had put in there – to include my name and so forth. And it's very [damn] irritating, I tell you.

Jones: Did you talk to Barry for that book?

Kinsella: Yes, I spent a lot of time with Barry. But I did not talk to him about the subsequent book that just came out, which doesn't really deal with the founding of the company. I even looked in the index to see if my name was in there and it's not. Fair enough, because it's about the later stages of Vertex, if you will.

But it's interesting. I've got to write the *Wall Street Journal* writer who interviewed me a couple of weeks ago, maybe it was last week. Boger, of course, is referred to as the founder of Vertex and I'm going to write her and say, "Well actually he's the co-founder of Vertex, and this is why."

Anyway, so I had heard of Boger – he was a Senior Director of Medicinal Chemistry at the [Merck] Facility in [Rahway, NJ]. I remember taking the Path train from Manhattan to meet him. He drove his car to whatever the station was near Rahway, or in Rahway itself, picked me up, and we went to lunch at TGIF or something. So then I pitched him this rational drug design deal.

Jones: So were there other rational drug design companies started at that time?

Kinsella: A little vortex forms around ideas that are concepts that you read about in *Nature* or *Science* or *PNAS* or *Cell* -- something like that. So it sounded right. The key to rational drug design was structure, so x-ray crystallography, and that had made some seriously important advances at that period of time. So again, prepped by technological innovation it becomes obvious to do because you have the tools that permit you to do it cheaper and faster than it could otherwise have been done. And that creates the opportunity. All technology is like that, right?

So that was the rational drug design gig, and we put together an advisory board that included Stuart Schreiber who, you know, Boger got into a pissing contest with him later.

Jones: He was on the scientific advisory board?

Kinsella: He was on the original scientific advisory board, along with Jeremy Knowles and Martin Karplus and a guy – he's the x-ray crystallographer who either

committed suicide or got blown off a bridge in Memphis, Tennessee when he sat in on a meeting? – I'll think of it – Don – his first name was Don [Wiley] – I'll think of it in a minute. But anyway—the key group of arguably the best [technologists] involved in all of the aspects that are important for a "rational drug design" company.

Jones: And is that something you're trying to do, any company you're going to get the best people is that –?

Kinsella: No, we try to get the worst people. *[Laughs]*.

Jones: No, do you have to have all the best people before you go forward with it?

Kinsella: I like to do that. But it's different now. Let me just finish this story and then I'll address the best people in forming a new company and all that.

So the first name that we were going to call the company was Veritas Pharmaceuticals, you know, kind of because all of the original SAB were on the Harvard faculty. Jeremy Knowles, who was the dean of science, was appalled. He was British and you know, *[speaking in heavy British accent]*, "That we would presume to adopt the motto of Harvard as the name of this company." He just thought that was just unacceptable. So we had to leave that.

Boger's favorite – looking at Greek mythology – was to name the company Minerva. What are you fucking kidding me? Anyway, I'm the one who decided that it should be Vertex, right—pinnacle. It also begins with a V, and starts with the same three letters as Veritas does. "Minerva" – ick.

Anyway, back to the other thing. I did Onyx in exactly the same way, with Frank McCormick back in '92. Onyx Pharmaceuticals got the best cancer SAB possible, put that together with Frank, whom they all loved.

Jones: And Cetus had been acquired, right? Did he go back to UCSF before...?

Kinsella: No, no, no, no. Chiron acquired Cetus. The entire oncology group of Cetus then became part of Chiron, in Emeryville. And Frank was the head of that group at Cetus and continued at Chiron under Bill Rutter. And I had been talking to

Frank for several years about doing a startup – because he had been referred to me as being a very smart guy and looking to do something entrepreneurial and all that.

He told me about PCR originally. So we tried to license that out of Cetus in the early stages, before they really knew the power of it.

Jones: Who tried to license it?

Kinsella: Frank and I approached them that we would start a company and we would license the PCR technology. We had several bites at the apple and that didn't work. And the reason he knew about it because he was buddies with – who was the guy who won the Nobel Prize?

Jones: Mullis?

Kinsella: Yes, Kary Mullis, right. So he knew Kary and had great stories about him. They were almost two peas in a pod. They were offbeat guys and –

Jones: Frank is too?

Kinsella: Yes, not as much as Kary. Frank is a serious scientist. I don't think Kary is a serious scientist. He just came up with this brilliant idea –

Jones: He had a good idea, right.

Kinsella: – so there you go. And in fact Kary was driving from San Francisco to the Mendocino area with his girlfriend and they were talking. I guess she was a researcher at UCSF too. Frank was familiar with this and talked to Kary about it. Then he was telling me about it. So we try to approach Cetus.

And they just couldn't make a decision, didn't know what to do or whatever. Anyway, it just led nowhere. That was act one of Frank and me. So that didn't work.

But we stayed in touch and I'd see him when I'd go up to the Bay Area and socialize. We liked to go to Stars – do you remember that restaurant?

Jones: No.

Kinsella: No? The chef was one of the first celebrity chefs. It's long since gone out of business. But anyway, we liked to go there. It was hot; it was difficult to get in. That was our dinner place.

Finally we came up with this idea because there'd been some significant advances in molecular oncology. And everyone knew Frank, and so we set about to establish the company. So we're all ready to go and Frank had already informally talked to his group [at Cetus]. They'd heard about it and they had approached him. Thirteen of the people in his molecular oncology group wanted to go with him, and we stitched a deal together.

Finally at a breakfast at the Claremont Resort that Sam Colella – I invited Sam from IVP into the deal. He came over and he went with me, met with Frank and me over breakfast there one day. And we solidified, and finalized the deal. Then Frank goes back and he writes a letter of resignation to Rutter, and Rutter wouldn't accept it. He wouldn't respond to it. It was crazy. In effect we were about to decapitate the entire molecular oncology group.

Jones: Who had the IP?

Kinsella: Well no one had – there wasn't any IP.

Jones: There wasn't?

Kinsella: No. We would just pursue oncological targets with the novel technologies and there was no particular target that we were going to go after. Frank came up with this very clever idea of invading tumor cells with an adenovirus so that when the adenovirus started to grow it would explode the tumor cells. I can't remember but there's a very clever mechanism, how it selectively went in tumor cells but not into normal cells. Anyway, we're trying to get the company started and Rutter is beside himself. He's recently acquired this company – I think he acquired Cetus –

Jones: – for the cancer group.

Kinsella: – for the cancer group and they were about *[laughing]*.

Jones: They let PCR go.

Kinsella: That's right, whether they sold it to DuPont and then DuPont turned around and sold it to Roche, I can't remember what happened to it.

I was a key person on the negotiating team to give Rutter a face-saving way to paper over this defection of the entire fourteen people in molecular oncology. So it was fine.

We let Rutter, the PR people from Chiron actually make the announcement of the formation of this company, and by that time we had gotten Brook Byers of KP involved and I think Jim Blair of Domain and maybe Tony Evnin at that time as well. I can't remember.

Finally we started back and forth negotiation with Rutter on a few issues and I got a few last-minute concessions and then we were good to go. And then it gets announced and picked up by the *New York Times* and they reported it like it was Rutter's idea *[laughs]*.

Jones: Did they buy into it at all, the company? Chiron, Bill Rutter, did he –?

Kinsella: Yes, they put Hollings Renton on the board, or he was an observer or something –then later he became CEO and the company did very well under his leadership. But did he buy in? What kind of rights did they have? I don't think they had any specific rights but they were all plugged into what we were doing.

In terms of partnerships, the first partnership was with Bayer, out of their Connecticut office. And it was actually George Scangos, who may have founded Exelixis?

Jones: Yes, I think he was CEO there at one time. I don't know if he founded it or not.

Kinsella: I don't remember either. Anyway.

Jones: That was Papadopoulos, right?

Kinsella: Costas.

Jones: Stelios.

Kinsella: I mean Stelios, right. So many Greek names. Stelios, right. Yeah, Stelios – you know, we ought to bring the whole gang back together because I had fun with these guys. We would do some great things. I don't know, Stelios used to have some big sort of conclave in the summer, and you know, like on a Greek island or something like that where everyone would come in, they'd all [have a great time]. I don't know if he's still doing that anymore.

Jones: I don't know.

Kinsella: I probably ought to look him up because I enjoyed him. He was a real personality. And he loved to do things with other Greeks, like Scangos and [Kleanthis Xanthopoulos here in San Diego].

Jones: It's not coming to me. I don't know.

Kinsella: He started some company that was involved in toll-like receptors in cell signaling pathways – Larry Fritz ended up being recruited in to replace him as CEO for some stint. Anyway. Just old times. So that's the story of Onyx, and Chiron never really did anything that I can recall specifically [in oncology] because by that time they had gotten hold of the Hep B vaccine and that was a big deal for them. And then they did the –

Jones: Hep C too.

Kinsella: – *[crosstalk]* yeah, non-A, non-B or C – so they did that one. So their focus became a bit off of oncology. So they never did the deal.

But then the company [Onyx] did well and it started to develop its own products and so I think Onyx probably has three or four products of its own on the market today. But Amgen acquired it, right?

Jones: Yes, recently.

Kinsella: Recently, so it's owned by Amgen. Anyway, that was fun.

Jones: How long were you in with Vertex? You were on the board, weren't you?

Kinsella: I was on the board through it going public, and I typically got off boards after that. There's no point – you're not creating more value for your limited partners that way.

Jones: Other companies of note prior to Avalon V?

Kinsella: Of note?

Jones: Biotech companies?

Kinsella: Oh, biotech –

Jones: Or you had a lot of big tech successes?

Kinsella: Oh yes. Landmark Graphics Corporation is a great success, went public, and was acquired by Halliburton. And let's see, GenPharm, that was –

Jones: Tell me about that one.

Kinsella: Well, that again was rounding up the top people in the field, including Mario Capecchi, who later won a Nobel Prize for transgenic animals, basically.

Jones: That was the plan from the beginning, right?

Kinsella: That was the plan from the beginning. Jonathan McQuitty, who was at that subsidiary of Gen –

Jones: Oh, Genencor, he was there.

Kinsella: Genencor, that's right. He had good executive experience and then he got interested in this. Mario Rosati got involved with putting things together. He was at Wilson Sonsini. It's nice having these checks. Mario's got a vineyard property and I need to look him up when I'm back up to the vineyard and stuff like that.

We had already filed our red herring and we were about to go public when Steve Sherwin sued us and it was a bogus lawsuit. He ended up –

Jones: This is the "Mouse Wars" right?

Kinsella: Yes, Mouse Wars. He ended up having to pay us $50 million. But by then the IPO was gone and all that sort of stuff. The company ended up being acquired by Medarex, and my stock ended up becoming Medarex stock and Medarex hit the skids as a stock. You know it fell to four bucks or something. Then this venture fund, Fred Craves' venture fund – and he was involved with Steve Burrill and –

Jones: Bay City. Was that Bay City?

Kinsella: It was prior to Bay City I think. So they made an offer to all of the former GenPharm shareholders who by then had Medarex stock to buy their stock. I remember it was like they were offered to buy it at four bucks a share, and I figured like four bucks a share is not even worth – why sell when you just hold on and if something happens it happens; if it doesn't, you know, I've taken a roll of the dice.

Then I don't know how many, maybe it was two years later, that the biotech market just got screaming red hot after the tech market had started to cool off. And this is a one-time—I absolutely timed the exit perfectly. The former $4 stock had soared to $117 a share, and my feeling was there's utterly no rational reason why this stock is so high – so I sold every share at $117 and then it headed down after that and never recovered, right? So that was a good trade.

I was originally really despairing of what Sherwin had done. He had come out of Genentech, and started Cell Genesys. And they were in the Mouse Wars too and so then he sued GenPharm on this bogus thing and ended up having to pay the company, after a lot of wasted legal fees, as you can imagine. Anyway, I'm not a big fan of Steve Sherwin.

But it all worked out in the end because I got a fabulous price for it, maybe much better than if it had gone public itself.

Jones: And the technology was good, right?

Kinsella: Yes, the technology was great. And still – well I'm sure the patents have expired by now because this was a long time ago. This was prior to Vertex.

Jones: This is '90, or prior –

Kinsella: GenPharm was '88, one year prior. Vertex was '89. So that was that. I started a tech company in '86 called Synaptics that developed the original touch screen for the iPhone and they controlled virtually 60 percent of the market in the touch pads. So that worked out very nicely. I'd started the company with a brain researcher by the name of Gary Lynch at UC Irvine. He had developed some interesting technologies and deciphered from the algorithms from a rat brain that had to do with pattern recognition and LTP, long-term potentiation. Apparently Mitsubishi had gotten wind of this and wanted to do a deal with him and then I

think he had gotten funding from the Office of Naval Research and they decided well no, they didn't want Mitsubishi to have this *[laughter]* technology. So they did a more expanded deal with him. But we had the blessing of the ONR because we were an American company. And this was another of one of these things, so we started the company and we recruited Federico Faggin and Carver Mead into the company. But it wasn't their idea, but of course you read the literature now that they claim they started it and all *[laughing]*. Anyway, that was another Wikipedia we had to correct – you know, the truth squad.

I don't want to take credit for what they did and their contribution they made and so forth. I'm not going to say that I did it all. Maybe I fathered a child and I left town, whatever. But I'm still the father. I don't lose my identity. I don't want any role larger than I have had, but I did have that role, guys, so fess up.

I don't know, thinking of other companies. How are we doing on your two hours' time?

Jones: Well we're coming up to the end. There's probably – maybe could we do this again sometime and maybe talk more about some of these companies?

Kinsella: Sure.

Jones: Why don't we break here and then come back another time?

Kinsella: That'd be fine. Let me just answer this. We could go another ten minutes or so if you wanted to.

Jones: Okay.

Kinsella: All right.

Jones: Well I guess in Avalon V – well how did that come together? You've got this mandate, these have to be –

Kinsella: The Sandoz companies?

Jones: Yes.

Kinsella: We would have quarterly meetings that rotated among the various research sites of Sandoz. Let's see, we always had the December meeting in La Jolla

because we played the weather. So December was here. March was in Switzerland, and then all of us loved to go to Interlaken, to Wengen, to go skiing after the March meeting. We try to have this later in March so it's still, you know, winter—still a lot of snow but the days are getting longer, etc.

The June meeting was always at the Vienna research facility and that was a nice time to be in Austria. And the September meeting was in the East Hanover, New Jersey campus of Sandoz. Then back to La Jolla. The partnership lasted – well, it was originally done for ten years but with the first company that went public, Sequana, I paid back the entire nut to – it was by then Novartis. And then everything was gravy after that because once you paid the nut back, then all we had to do was just divide the stock in half because they had gotten paid out and they just got a half of everything and the general partners got half of everything according to our shares. We were just liquidating the companies after that over a period of three or four years.

Jones: I'd like to hear about the companies.

Kinsella: The companies – let's see if I can rattle off the list of them: Sequana, Pharmacopeia, Microside, Idun – I was thinking of the location of them – Onyx was one of them – so three to go – Argonaut, so two to go – do you know what they are?

Jones: I've got a list of companies but I don't have them by funds, so I don't know –ARIAD, was that one?

Kinsella: ARIAD was in Avalon IV.

Jones: Okay. Athena, that was too late, right?

Kinsella: No, Athena was in Avalon II. That was a long time ago. That was a '84, or '85 company.

Jones: Caliper was one?

Kinsella: Caliper is one.

Jones: What did they do?

Kinsella: Caliper was in microfluidics.

Jones: I thought Sandoz didn't want any diagnostics or anything.

Kinsella: They didn't – so how did it slip through the crack? I think we had to get special permission for that because the technology was so clever – it was like a lab on a chip kind of thing. And so Novartis signed off on it.

We did another company that was backed – because we didn't have the same restrictions for IVP. The fund we did with them, which was side-by-side was called Avalon BioVentures I. When that was used up, it was like $3 million each, they just renewed it so then it was Avalon BioVentures II for another $3 million. So 10, 3, and 3—the entire amount of the corpus of investable funds for Avalon V was $16 million.

And there was a company called River Medical, which ended up becoming involved in the leveraged buyout of IVAC out of Lilly and then remerging it with IMED Corporation here. Greg Sancoff, was the CEO of that company, and he just did a great job. He's now the CEO of this stealth mode company that Avalon IX is an investor in, which is doing great.

[River Medical] was, I think, the company that had the highest ROI per board meeting I'd ever been involved in. The company got turned around from inception to the final liquidation through the final merger between IVAC and IMED. We made 10X on that and I only had to go to four board meetings. Fantastic. So 2-1/2X per board meeting. We've had better than 10X returns before but I don't think we've ever had better than 2.5 ROI per board meeting; that was pretty spectacular. And that was outside of the Novartis deal because that was not pharmaceutical. As you pointed out, neither is Caliper but there was some reason why. Ask Larry because Caliper was his deal, and when you see him tomorrow say we were talking about it and I couldn't remember how it got outside the restriction of all these pharmaceuticals.

That leaves one, I think. I think we've named seven. Oh, Neurocrine.

Jones: Neurocrine? That's here in San Diego.

Kinsella: Right. That's the eight. And then we had – let's see, the write-off was Allopex. There were three acquisitions and what the hell were they? I don't know, one of them was – they were all pretty small but nicely profitable compared to the capital we invested in them. One, was with this guy named Steve Perucca, a mad

biomedical scientist guy, you know, idea a minute, talks a mile a minute. I remember he always carried this briefcase around in the days before MacBook Airs, right? So Glaxo acquired that company, and it was some neuro technology and I don't even remember what it was. And Steve came out of Genentech. But that was one of their acquisitions. And then there were two more fairly small ones but I don't remember what they were. The real winners were the IPOs.

Jones: Well, we're up to six o'clock.

Kinsella: Okay, that sounds good. All right.

Jones: All right. Very good. Thank you

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