

Richard Schneider

Interview conducted by

Mark Jones, PhD

1997

SAN DIEGO TECHNOLOGY ARCHIVE



Richard Schneider



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

Source: Bloomberg Businessweek

THE SAN DIEGO TECHNOLOGY ARCHIVE

INTERVIEWEE: Richard Schneider
INTERVIEWER: Mark Jones, PhD
INTERVIEW: Part 1 of 2
DATE: July 9, 1997
LOCATION: San Diego, California

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

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

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

10 **SCHNEIDER:** More than I could ever imagine. This was in 1966, probably before you
11 were born, but certainly a long time ago. At that time, there was a tremendous
12 shortage of academic and PhD level trained scientists in the United States, and the
13 number of jobs in industry was just overwhelming. I thought it would be kind of fun
14 to just cast my net, to put my hand up and talk to some people, and I talked to ten
15 companies and got ten offers. The other reason I changed my mind was that
16 academic research was beginning to undergo a lot of difficulty getting adequate
17 funding. We could just begin to see the tip of the berg, the size of the berg, however,
18 wasn't known, but it's turned out to be monstrous. And as a result, some really high
19 quality potential academic guys were turning toward industry that overall brought
20 the level of industrial science up to a very high level. Industry was then allowing
21 people to publish, allowing people to travel and do good science, at the highest level.

22 And I could see that, with financing being difficult and with the high quality of
23 research being done in industry that the number of opportunities was far greater,
24 and the last was that I was extremely and was always very interested in the
25 application of science to business. I didn't realize what that meant at the time, but
26 when I started interviewing for some of these industrial positions, it didn't take me
27 long to figure out that we were in harmony, more so than I was with academic
28 colleagues. So, much to the chagrin of a number of people at that time...

29 **JONES:** At Wisconsin?

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

46 **JONES:** This was Syva?

47 **SCHNEIDER:** Yes.

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

50 **SCHNEIDER:** Well, remember that I never went to Sandoz. Even though I'd
51 accepted the position, I never reported to work. Did I consider that risky? Knowing

52 what I know now, I consider that insane, but knowing what I knew then, it seemed
53 like an opportunity. I also felt that once I got going, I remember that Syntex and
54 Varian were the two financing founders of this company, that was before there was
55 any venture capital, and I figured, 'Man, if I do a really good job at Syva, somebody at
56 Syntex is going to see that.' I'm a chemist and they were a chemistry company, and I
57 was only twenty-six years old, twenty seven. I thought, 'Man, if I was ever going to
58 take that kind of a risk,' of course, I didn't realize the magnitude of the risk at the
59 time, but that was the time to do it. And I never looked back. It was the best thing I
60 ever did.

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

62 **SCHNEIDER:** Well, that's a long, long time ago, over thirty years now. I was a lab
63 scientist. I mean, there were only three of us, that's pretty incredible. We were
64 managed by the senior managers of Syntex and Varian, the chairmen of their boards,
65 and the Presidents of their operating divisions were on our board at Syva, and I just
66 had opportunities to interact with Nobel-quality people all the time, at Stanford, at
67 Syntex, and at Varian, and I started working on some pretty esoteric projects. The
68 money that was promised us from the two companies was designed to last us about
69 four years, but as things would have it, young scientists being somewhat aggressive,
70 trying to do too many things, we used the money up in three. At the end of three
71 years, we didn't have a product and the economy had changed dramatically by 1970
72 and neither Syntex nor Varian had the extra cash to support us, so it looked like the
73 lights were going out. They didn't. Something happened that caused us to keep them
74 on.

75 **JONES:** And that was?

76 **SCHNEIDER:** Well, at that time, unfortunately the United States had a very massive
77 involvement in Southeast Asia. 500,000 men and women were over there for reasons
78 that we don't have to discuss, because everybody knows the history, but while they
79 were there, they were being exposed to some pretty noxious agents, namely drugs of
80 all kinds, and there was almost a hysteria in this country about bringing drug addicts
81 back to the United States. They, meaning the government, said, 'Look, we've just got
82 to test all of these people. We've got to know what we're going to get into when we
83 bring them back.' One of our scientific advisory board members, actually two of

84 them, were involved in drugs of abuse and were very concerned about this issue, and
85 made a suggestion to us as we were about running out money. They said, 'Look, you
86 guys are so bright, you're working in these very esoteric areas, maybe you could
87 figure out a way to determine whether there's an abused drug, any of twenty, in
88 somebody's urine, and do it quickly.' Because the only way that had been available to
89 science in general at that time was a very labor intensive, very costly method of
90 either thin-layer chromatography or high-pressure liquid chromatography, and
91 imagine extracting 500,000 urine samples, shipping all that chloroform, it weighs a
92 ton as it is, over there, it was just totally impractical. And to make a long story short,
93 we came up with a method that would take one drop of urine, could test for twelve
94 different drugs, took a minute to do it, and require almost nothing, just mix it with a
95 reagent that we had developed and put it in a special instrument that we had
96 developed. And almost overnight, Syva went from as close to the brink of extinction
97 as you could get, to an operating company with sales and shipments, and people in
98 Asia, and airplanes, and we had a massive issue. And then, when these guys came
99 home, we developed some more assays that became useful, and were very generally
100 useful, in prison systems and all hospital emergency rooms. And the Syva broadened
101 into therapeutic assays in blood, serum, and others, for drugs that were being used
102 therapeutically to treat epilepsy, asthma, cardiac disease, what have you. And those
103 assays were extremely precise, very quantitative, and are used today to help
104 physicians determine the correct dosage of drug that an individual should be taking,
105 a child or an adult. And again, to make a very long story short, you know, the
106 company became a \$250 million a year, very profitable, wholly owned subsidiary of
107 Syntex. By 1977, it was already well on its way. I left in 1983, and I've been gone a long
108 time, but that was a very, very successful enterprise.

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

113 **SCHNEIDER:** Well, it was probably happening during all of that time. I was the guy
114 who was leading the group that was developing these products, and we had more to
115 do than we could do, and none of us knew anything about product development,
116 and nothing about medicine, at that time. You know, we were just scratching it out.
117 We were young kids, basically. And talk about opportunity, it was overwhelming.

118 We had to learn quality assurance, we had to learn manufacturing, we had to build a
119 plant, we had to build instruments for these products, we had to build a sale force,
120 and eventually, we had 1,100 people in that company. It became a very, very major
121 enterprise. And being in the right place at the right time, you know, good luck is
122 being prepared for an opportunity, but nonetheless, you have to have your eyes and
123 ears open.

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

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

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

132 **SCHNEIDER:** You know, that's kind of a complicated story. It probably actually
133 begins in 1979, when Syntex sent me to the Advanced Management Program at
134 Stanford Business School for the summer. I left the company and lived at Stanford
135 and went to business school, full- time, seven days a week. I loved it. I was learning
136 formally what I should have been doing, you know, the years before. When I came
137 back, I assumed my old responsibilities, plus I became general manager of a new
138 instrument company that we were starting. So, I really had an opportunity, again, to
139 start something new. It was a wholly owned subsidiary of the company, we were at a
140 \$20 million sales rate, with one customer, internal. Just overnight, we were building
141 instruments of all kind. During the next year or so, they asked me to help start three
142 other divisions, which we did, all of which became reasonably successful, and I
143 realized that what I really liked to do more than anything was to start new things. I
144 was not a very good long-distance runner, but I was a pretty good sprinter. Running
145 large organizations just didn't give me much of a thrill. Sitting in meetings slows me
146 down. I didn't care for that. So, that's really where a lot of the thinking started about
147 leaving the company, because it was just very big. I was just feeling that there were
148 other ways that I could leverage my time. There were other complications at that
149 time, 1981-82. Genentech had just appeared on the scene, and went public in one of

150 the most successful public offerings ever. In 1981, it opened at twenty- five dollars a
151 share and closed at eighty-one. Something clearly was happening in the biology area,
152 and I wanted to be part of it. You know, Cetus had started and then Chiron and
153 Biogen. In 1981-82, Ted Greene, who as you know, is a very prominent member of the
154 San Diego community, and Brook Byers came to see me and asked me to become the
155 VP of R&D at Hybritech, and I said no. I told them that I was perfectly happy at
156 Syntex and Syva, that this was my whole life, that I really loved doing it, and who are
157 you guys anyway? What kind of a crazy, wild-ass idea is that? And I suggested
158 another guy who we all knew, Tom Adams, who at that time was at DuPont. And I
159 said, 'Tom's exactly the guy you need for that job,' and Tom did become the first VP
160 of R&D for Hybritech, and of course, David Kabakoff, who we mentioned before, was
161 the second, an interesting coincidence. One of the poorer mistakes I've made, one of
162 the bigger mistakes of my life, was not to take that one. Obviously, I left a lot on the
163 table. But it began to infect me with the idea that there was a huge amount of
164 opportunity for people who had the ability to implement new ideas and manage and
165 lead people. So, I went to Syntex and I was resigned. I wasn't quite sure what I was
166 going to do. I did that three times. On the third time, I really left. The first two, I was
167 just kidding. On the third, I really did leave and I became president of a company
168 called Liposome Technology, now known as Sequus. It's in the Bay Area. And to tell
169 you the truth, I hated it, absolutely hated it. After nineteen years of one success after
170 another at Syntex, or Syva, whatever, I really hit the mountain on that one. I didn't
171 do my due diligence carefully. I did not fit with the people and the culture. They
172 hired me because somebody was making them seek an outside guy, and the insiders
173 really resented having anybody come in. I was the wrong guy in the wrong place at
174 the wrong time. And nine months later, I left the company, practically shattered, I
175 must add, I mean, I was just disillusioned completely. I didn't do anything for a
176 couple of months. The phone was ringing constantly with people who said, 'Look,
177 why don't you help us this, help us do that,' and I started a company called
178 Biomedical Consulting Associates, which is Dick Schneider. There isn't anybody else.
179 I did that for a number of years and basically, people would come with an idea, and I
180 would help them with a business plan, if I liked the idea, and I would try to get it
181 financed. Trying to get them financed provided the entree to venture capital, which I
182 knew nothing about, but I learned fast. During the years that I had Biomedical
183 Consulting Associates going, I involved in starting five companies.

184 **JONES:** Which were those?

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

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

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

211 **JONES:** How did you evaluate, and maybe I could make this a general question, how
212 do you go about evaluating people and technologies?
213 You don't have enough time to listen to that. I mean, that's what I do for a living. If
214 you can be more specific, I'll be happy to answer your question?

215

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

218 **SCHNEIDER:** You could turn that around and say, 'Look, that was your first
219 investment. How could you have possibly known?' I probably didn't. Sometimes you
220 just get a feeling about things. That's not as quantitative as you'd like, but Harry and
221 Paul, two bright, very articulate, and real sincere young scientists. I liked what they
222 were doing. I understood them perfectly. I mean, on a technical basis, I understood
223 them one for one. I thought I could add a lot of value. We were on the same
224 wavelength in many respects. They had something that looked like it was a
225 proprietary program in an area that was very interesting, in very large markets, a
226 hundred million plus dollars a year markets. As I said, they had good technology,
227 good people. It looked like it was in the realm of the doable, meaning with the
228 resources that one could actually obtain. We thought we could attract good
229 management around them, they were in San Diego, they were very highly regarded.
230 You know, you put all of that together and you say, 'Well, gee, this is what you do for
231 a living,' so you give them a hand and get it started.

232 **JONES:** You were involved in bringing David Hale in?

233 **SCHNEIDER:** Yes.

234 **JONES:** What were the circumstances surrounding that?

235 **SCHNEIDER:** Man, all of this stuff is so interrelated. Remember, I told you that I left
236 Syntex in '83 for a short stint at LTI, and then did Biomedical Consulting Associates.
237 The operative word there is consulting. Hybritech hired me as a consultant, and I
238 worked for David Kabakoff, exactly the guy that used to work for me. So now we'd
239 turned the tables. Now while I was there, I got to meet and know personally Cam
240 Garner, David Hale, Tim Wollaeger, Tom Adams, and a list of guys, Kim Blickenstaff,
241 Gunirs Valkirs, I mean, this whole group, many of the people who are on your list
242 here. I can tell you other stories. You know, when you're as old as I am, sooner or
243 later, you know almost everybody. Cam Garner, for instance, the fellow, who as you
244 know, is the very successful, wonderful guy at Dura, was a sales rep when I first met
245 him. When I was at Syva, I was a customer of his, one of his best customers, but
246 nonetheless, that's where I first met him. He was working for a company out of

247 Oberlin, Ohio called Guilford Instruments that sold spectrophotometers. Imagine
248 now, the circumstances, here we are, investors in his company, Jim's on the Board,
249 and we're investors in Spiros, and here's David Kabakoff running Spiros. I mean, you
250 talk about a spaghetti factory here, we're all connected. And it happens because, it's
251 going to bring you right back to this concept, it's the people. These people. It's the
252 people and their connections and knowing them and trusting them and being
253 friends with them, and having a lot of respect for them that you develop over years
254 and years. It's not a mistake, it's not a surprise, it's not an accident. I don't believe
255 that at all. There's a very good reason why all these people are where they are.
256 Anyway, just to finish that up, that's how met David Hale. He was the CEO of the
257 company that was employing me as a consultant. When I got into the venture capital
258 business, the second deal I did was one, no actually, excuse me, I'll back up on that,
259 was one called Immunetech. Immunetech is the predecessor company of Dura, which
260 is a whole story in itself, in fact, there's a business school case written on
261 Immunetech and Dura.

262 **JONES:** Whose case?

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

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

277 **SCHNEIDER:** Well, I wouldn't exaggerate my role, but I would tell that it seems so
278 incongruous today that Jim Blair, one of the paradigms of virtue of the biotech

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

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

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

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

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

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

296 **SCHNEIDER:** No.

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

298 **SCHNEIDER:** Well, no. I mean, there were other very significant people who played
299 a role in that. 3i had a representative, that was myself. Oxford Bioscience, which at
300 that time was called Fairfield, Ned Olivier, I don't think he was on the board, but he
301 was there, Jerry Benjamin from Advent in the U.K. I'm sure I'm forgetting somebody
302 in the early days, and maybe Paul or Harry, I mean, I don't remember now, but there
303 were other venture groups involved.

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

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

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

324 **SCHNEIDER:** Well, look, I would say that David Hale was recognized as a very
325 successful leader at Hybritech and he brought an aura of a winner, of a leader, to
326 Gensia, and he raised a lot of money, a huge amount of money over multiple times.
327 The stock, as you know, went from four or five dollars to sixty- some odd dollars.
328 They had a full portfolio of very interesting compounds and products. They built
329 other instruments, as well, the Gen-Esa system came out of there. It's an absolutely
330 clever scheme, originally proposed by Ron Tuttle, a very, very clever guy. He
331 recruited a superb board, guys like John Wilkerson joined that board, from the
332 Wilkerson Group, Steve Mandell, the ex-CEO of XOMA, and currently the president
333 of Prizm. These are, you know, wonderful, high-quality people. He recruited a
334 management team that was great, really wonderful people. Another one was the
335 acquisition of McGaw, which has now become Gensia Laboratories. There's a whole
336 lot to talk to you about that, and why that was done, and how it was done, and what

337 the scheme was, and what they were thinking about, all of that. This company was
338 clearly on a rocket ship. I mean, it had over a billion dollar market cap.. It was held
339 up as a paragon to other companies in San Diego and all over California, and all over
340 the U.S., so there were a lot of positive things going on there, but they took a couple
341 of pretty serious torpedoes.

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

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

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

354 **SCHNEIDER:** Sure, certainly.

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

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

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

368 **SCHNEIDER:** Sure, what company doesn't?

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

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

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

372 **SCHNEIDER:** Well, that may be. I don't remember. I would say that it was probably
373 an earlier round where they began to run into problems. One of the issues was that
374 we had to make a change in the president, and that was a pretty uncomfortable time.
375 Anytime you have to go in and change the senior management of a company, you
376 run the risk of losing the support of your existing investors, and you clearly damage
377 the possibility of getting any new ones until you get things settled down. We went
378 without a CEO for some period of time. That was a very precarious time for Viagene.

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

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

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

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

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

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

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

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

425 what I underestimated was the ability of Gunars and Kim and the other people that
426 they had with them, one in particular, I can't think of his name right now, but I will
427 in a minute, I underestimated how smart they were and how dedicated they were to
428 getting it done, and it really taught me a lot about people and their will. They
429 literally made it happen. They are really good people. I don't mind, they can tell that
430 story all they want

INTERVIEWEE: Richard Schneider

INTERVIEWER: Mark Jones, PhD

INTERVIEW: Part 2 of 2

DATE: September 24, 1997

LOCATION: San Diego, California

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

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

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

453 **SCHNEIDER:** Well, one of them is. My old partner, Mike Heenos left 3i about the
454 same time I did, and he's now general partner of a new fund in the South, in Atlanta,
455 called Alliance Technology Ventures. He's done extremely well. He's a very well-

456 known guy. Fred is more in the consulting business today than in the venture capital
457 business, but he's still very involved in companies.

458 **JONES:** What were some of the companies that you reviewed and invested in with
459 3i? Gensia was the first one.

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

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

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

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

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

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

480 **SCHNEIDER:** Sure, I remember it very well. Drew and Brook and I looked at that
481 technology, the early technology, that Henry Niman had, that didn't work very well,
482 although we didn't know it at the time. It was a very interesting concept. Henry was
483 from Scripps and he had this idea, if I remember it right, people that had, normal

484 people produce a whole series of proteins in the blood all the time, enzymes and
485 non-enzymes, cytokines, factors of all kinds, many of which we don't even know
486 what they're all for. We just know what a few of them are for. But his view was that
487 you didn't need to know what they were all for, you just needed to understand that if
488 you had malignant disease, the cells that were transformed would produce those
489 proteins and a whole other set of proteins. And you didn't need to know what they
490 were, either, this was his view, you would eventually find out what they were all for,
491 but some of them would be markers of disease, that these cells were throwing, and
492 in fact, that's true, I mean, that's the basis for a number of biochemical assays that
493 people use to detect and monitor malignant disease. But his approach to how he was
494 going to do it turned out to be unworkable, and we brought in some really good
495 people who had good analytical biochemical expertise and they really couldn't
496 reduce it to practice. They just couldn't make it work. They tried and they tried and
497 they tried, and eventually we concluded that the technology may have just preceded
498 out ability to master it. You know, it may be brilliant, but we couldn't convert it into
499 anything useful. So, I remember very well that Howard Birndorf was brought into
500 the company, kind of as the business development guy, and of course, he was a good
501 personal friend of Brook's, and so, there was a natural connection, and Howard and
502 some of the other people there concluded that it wasn't going to work. There were
503 still two million dollars in the till. We had the choice, the Board was basically the
504 three venture capitalists, and well, we could just return the money, just say, 'Good
505 try,' but Howard said, 'Well, before you do that, I've got this guy, I know this other
506 guy over at the Salk and he's got this sensational technology for intracellular
507 communication and you can use it for drug screening and what have you, and I think
508 that this is the basis for a whole new company. So, I guess in a moment of extreme
509 weakness, we decided that we had already poured the money in, we certainly could
510 take it back, but Howard was very credible and the new technology from Evans was
511 very credible as well. He's a Howard Hughes Fellow, he's a very well-known guy. It
512 was a reasonable risk, a lot, but we had worked together before, we all knew each
513 other, Drew and Brook and I. We decided to, you know, roll the dice. So basically,
514 Ligand got started on the rebound out of, the original company was called Progenx,
515 by the way. Before it was called Ligand, it was called Progenx. And we sat around,
516 and one thing led to another, we recruited some more board members, we did
517 another round of financing, and before you know it, Ligand was born. So, that was a
518 case of venture capitalists working together with entrepreneurs, again there was a lot
519 of connection to Hybritech, a spin-off there, but that was neat.

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

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

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

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

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

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

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

543 **SCHNEIDER:** Right, so I knew Ken Widder and Drew from the time they started
544 that company. And then Drew went back to school and finished his medical degree,
545 and in the course of doing that he was a resident here in Irvine, I think at UC-Irvine,
546 in Orange. I don't remember how it came about, but he ended up doing some
547 consulting work for us at 3i, and one thing led to another and before long, he was

548 doing a lot of consulting work for us. We were working very closely with him. I think
549 we started a company together called Adiza Biomedical [?], if I remember right, up
550 in the Bay Area, a women's health care diagnostics company. Gosh, this was so long
551 ago, and everybody's connected, so I don't remember all of this stuff anymore,
552 there's just too many of them. But, then he went on to join Chuck Martin and
553 Enterprise Partners, here in Irvine at the time, and we were social friends as well as
554 business colleagues. And he's a very smart guy, great background, and I've worked
555 with him personally, I have a lot of respect for him. So, he called, and Brook called,
556 and I said, 'Sure.'

557

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

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

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

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

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

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

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

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

604 **SCHNEIDER:** I think there was some of that. You know, you have to have a vision. I
605 think that many of these companies, you're selling a concept, and you've got to
606 believe it down to your socks and you have to understand it before you can believe
607 it. You'll look right through somebody who tries to sell you an empty sack of
608 bananas. You know, it's just not a business where you can do that. Bullshit just
609 doesn't go very far. You really have to have a great inner intensity, a great desire, and
610 a great understanding of what you're talking about to look some guy in the eye and
611 tell him what you're going to do for him, in terms of providing some cutting-edge

612 science. Greg was not that kind of guy. He was a very, very fine man, but that wasn't
613 his thing. He wasn't as technical.

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

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

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

627 **SCHNEIDER:** Do I remember? Sure, he was my guy. Yeah, I was the one who was
628 the champion for Bob Abbott. I knew him because he had been with a company
629 called NeoRx in Seattle, and I had done some consulting work for them, so I knew
630 him quite well from that, as well as his other colleagues. But even before NeoRx, I
631 was involved in recruiting him to come to Seattle to work at a company called
632 Oncogene, which is a spin-out of Genetic Systems, which, when I was at Syntex, we
633 funded Genetic Systems, and then with the spin-out of Oncogene, I was on the
634 Board of Oncogene. So, I recruited him to come to Seattle in the first place. I'd know
635 him for years before that. And he went on to NeoRx, and NeoRx had its issues, it
636 wasn't as successful as it might have been. Bob was blamed for some of that. My
637 belief was he was, not entirely blameless, but he certainly didn't carry the full
638 burden. I felt that there were a lot of mitigating circumstances. The guy was just a
639 really good leader. He was scientifically very competent and capable, and I believed
640 that he had that vision. He could sell it, and he understood it, and he would be a
641 great addition to Viagene. The other Board members, all they could see was NeoRx
642 and its fall from grace. It was what was called a fallen angel. It was a company that
643 had done very well in the market, the public market, and it kind of frittered away to

644 a very low market cap. There was some debt, there were some structuring issues that
645 the Board got them into, a lot of issues. But nonetheless, there was some objection,
646 but anyway, we got him sold, and I don't think there is any question, he was the
647 right guy for the job.

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

650 **SCHNEIDER:** Well, Bob is a technically-oriented guy, and it was a case of serving it
651 up on the right plate, and giving him enough of a challenge. He needed an
652 opportunity, another opportunity to prove himself, and I told him that I had full
653 faith and confidence in him, and that I was going to be in that position, to give him
654 an opportunity to show that he was really a lot better than a lot of people really
655 thought he ever could have been because of this other thing, and I knew I was right.
656 And he was, and he is. He's gone on to do very good things since. Well, he went to
657 Canada to help start a company in Vancouver, and he did very well there, and now
658 he's really on his own. He's in the middle of starting another company here, he's
659 going on to another one. He's done real well.

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

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

674 **JONES:** Had Jim Blair known him?

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

679 **JONES:** Did Ted Greene call you?

680 **SCHNEIDER:** Who called who? Beats the hell out of me. I just don't know. I don't
681 know if Jim called me and said, 'Hey, I just found out about this new science. I just
682 met this guy Garth Cooper and Ted.' I just don't remember. Things moved on pretty
683 fast. But that was a lot of fun to do. Again, from the beginning, right at the
684 beginning, when there was nothing. The first employee that we hired was Marjorie
685 Tillman, the CFO, and she's still super, just brilliant. Some of the other things that I
686 was doing or had done at the time, boy, I've got to go back to look. I don't mean to, I
687 just didn't prepare myself for that. We've just done so many companies over such a
688 long period of time. A couple of device deals that we were working on at the time
689 were Camino Laboratories, a kind of interesting little medical device company that
690 was measuring intracranial pressures. Following brain surgery, your brain tends to
691 swell, and when it does, that's bad. Sounds bad, doesn't it? They had a neat way of
692 measuring the pressure, the pressure inside your skull. It was much better than what
693 other people were doing and ultimately we sold the company to a much larger
694 company that was selling those kinds of products. I was certainly involved in that. A
695 bunch in the Bay Area, but you're only interested in San Diego, right? Right here in
696 Newport Beach.

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

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

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

705 **SCHNEIDER:** Yeah, I think the answer to that is yes. It's always qualified. You know,
706 you can't rely on other people unless you really know them well, or you shouldn't.
707 Or, you kind of get what you deserve. I mean, if you trust the wrong guy -- I said guy,
708 but I mean guy or gal, person -- but over the years, you develop a working
709 relationship with these people where you develop a lot of trust, and you also learn
710 how they do their due diligence. I used to do it all by myself on every deal, and after
711 a while, I found that they would do the same thing I did. They would call the same
712 people, they'd ask the same kinds of questions, they came to the same kind of
713 conclusion. So, after a while, we would just kind of divide it up and I would trust
714 their judgment, and they would trust my judgment, and we would share due
715 diligence. It's kind of a survival mechanism because there's so much work that you
716 could do on any given deal, so you tend to share the load and make it a little bit
717 easier. That's kind of why venture capital firms tend to work with other venture
718 capital firms. The same ones seem to come together in syndicates all the time. It's
719 probably because of those kind of, I don't what you would you call them, but just
720 say, established relationships.

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

724 **SCHNEIDER:** Well, I think, probably 80% of the time -- I just made up a number -- I
725 wouldn't call anybody, OK? I'd try to figure it out myself. I might talk to a couple of
726 people, but I wouldn't hire anybody to do the technical due diligence. I try to do that
727 myself. I consider that so important, that and the people. I've always made my own
728 reference calls, and I've always called my own network of people. I still do. But for
729 the other 20%, the stuff becomes very esoteric, very focused, very complex, cutting-
730 edge science, very hard for an old guy to understand all of that stuff. You don't trust
731 necessarily your own intuition, you want someone else to validate it, or question
732 what you're doing. Then usually what I do is call around and try to find somebody
733 who's a world-class expert in the field, who knows someone I know, so I have an
734 entree. I may have mentioned, one of my sons, he's a physician, and during all of this
735 time he was going to medical school, and you just can't imagine the entree that
736 provided me, other people that I met through him at the medical school, faculty
737 level, plus students who were quite expert themselves in many of the cutting edge
738 technologies, and I still use those contacts.

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

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

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

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

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

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

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

762 **SCHNEIDER:** I think I established a reputation as being a value-added investor, a
763 guy with integrity, and a guy who tried really hard to help the companies that he
764 invested in, and the rest takes care of itself. I made some money for 3i, all that was
765 fine. I mean, I went to school on their money, that's the way I look at it. I needed
766 that time to get educated. And I learned from Brook Byers, Drew Senyei, from Don
767 Milder, from Bob Hall, from Chuck Martin, from Jim Blair, that's who I learned from,

768 from Mike Heenos, the guys I was working with. I just, you know, now that I look
769 back on it, I think maybe at the end of my life as a venture capitalist, I will have
770 probably done better because of what I learned during that time.

771 **JONES:** Any particular lessons stand out in your mind?

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

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

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

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

797 **SCHNEIDER:** Yeah, right. Absolutely. They were what you would call a non-focused
798 fund. They were a general fund. They did everything. They spent a long time in
799 meetings, and wrote a lot of reports. I just got tired of it. So, I don't remember how
800 the conversation started, probably with Jesse and I, or Jim and I, or Jim and Jesse. It
801 didn't make any difference. They said, 'Hey, you know, we're going to do another
802 fund.' They had just finished their first fund and they were getting ready to start
803 another. They said, 'Look, we need to open an office in California. We won't find
804 anyone else. There's nobody else who would take the damned job. Why don't you
805 rethink it?' And I said, 'Well, OK, I'll take it.' I mean, I didn't have to think about it
806 for five minutes. I made the decision in thirty seconds. I mean, I knew I wanted to do
807 that. These guys were the best in the business that I knew. They were focused in an
808 area that I thought was what I wanted to do. We understood each other right from
809 the get-go. We just had a lot of communication, we thought the same way, we had
810 the same kind of background. We were all about the same age. We knew each other
811 and each other's families. It was an easy decision, really easy. So, within about a
812 week, a deal was put together. I went to the people at zi and told them what I was
813 going to do, and they said, 'OK.' What were they going to say? I didn't have a
814 contract with them, and I had fulfilled my obligation in time, and they certainly had
815 a thriving business. But they asked whether I would transition over a year's period of
816 time and manage their investments in the area that I was responsible for, and I had
817 about nine at that time, eight, ten, whatever. And I said, 'Sure, I'd be happy to.' I
818 mean, I was doing them anyway. You have to understand, many of these were
819 common to Domain, of the same group. Not all, but many. So, I moved out of my
820 office in Newport Beach and I moved into one here in Center Tower, and the
821 coincidence there was I ended up sharing an office with Ned Olivier, who was a
822 partner of Oxford Bioscience Partners, on the eighth floor, another guy that I knew
823 well, and he had an empty office. He said, 'Look, you're making this transition. Why
824 don't you just come over and camp for a few months until you figure out what you
825 want to do and where you want to go.' Well, a few months turned into five years. I
826 just didn't move. It was like fish, you know, it started to smell after a while. So, I just
827 stayed and we shared an office, and then his fund grew, and I had cleared some plans
828 to expand our presence in California, so we separated our geographic location. They
829 stayed down on the eighth floor, and we moved up here and expanded into all this
830 space.

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

832 **SCHNEIDER:** Yes.

833 **JONES:** But now you've got other people.

834 **SCHNEIDER:** Quite a few.

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

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

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

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

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

850 **SCHNEIDER:** Well, I do recall, but remember this is a public company, so I have to
851 be much more circumspect about specific details about what happened or didn't
852 happen. But I would just say, in general, the Board, namely Sam Coella, Jim Blair,
853 etc. felt that the company ought to develop a strategy going in one direction and the
854 company's management felt it should go in another direction. When that happens,
855 and there's diversity or a division in opinion about the direction in which to go, and
856 the Board member cannot be constructive in terms of the role that they're playing
857 with management, then they shouldn't be on the Board. I mean, you either change
858 the management or change the Board, but the Board should support the

859 management. And if, for whatever reason, they can't do that, rather than sit there
860 and tear each other apart, which is not constructive, not helping, you may be right,
861 but it doesn't make any difference. You either get with the program or get off of the
862 program. And I think Jim is a very seasoned venture capitalist and he recognized
863 that he couldn't move the train, so he got off.

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

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

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

875 **SCHNEIDER:** Well, everybody's different. Every case is different. Generalizations
876 are dangerous. I would say probably most, an awful lot of people don't really
877 understand the venture capital business at all, don't really understand what I need to
878 try to accomplish and why. They don't really understand some of the behavior that
879 they see. They just see the behavior and they don't understand why I'm doing that.
880 Generally, I think we try to spend a lot of time developing trust between us and an
881 entrepreneur or a management team, so that they do understand what our business
882 is and what we're trying to accomplish in a pretty forthright manner. We tell them,
883 which sometimes make it a lot easier to understand why we might suggest that we
884 do it this way instead of that way, instead of just coming in and saying, 'This is the
885 way it's going to be.' There is a huge fear of loss of control. You hear it all the time,
886 young entrepreneurs and scientists say, 'Those guys have to own 51% of the business,
887 they will control it.' My answer to that is, 'Bologna.' Even if I own 99% of the
888 business, where venture capitalists own 99%, they still don't control it. The reason is
889 we're not there every day. They are. If the incentives aren't right in their hands, and
890 they're not turned on to what's going on, they're not going to be successful, no

891 matter what. And likewise, if they own 99% and you own 1%, that's not where it's at,
892 control is not the issue at all. Control lies with the people who are there every day.
893 So, that takes a lot of understanding.

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

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

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

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

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

908 **SCHNEIDER:** There's always conflict there. Our view is that you build a lot of value
909 in a company before the fifteen year cycle. That is, you build a lot of value in long
910 before a product ever finds its way to the market, and there are steps that you take to
911 try to do that. It's not a cookie cutter by any means. On the other hand, there are so
912 many common elements that I think it can certainly be analyzed in terms of steps 1,
913 2, 3, 4, 5. You can make step 3, step 9, and then step 4, but it's the same. The order
914 may change a little bit, but you're going to try to do the same general thing.
915 Domain's general philosophy has been from the beginning, and is today, that it takes
916 a lot of work and energy to build a company, and becoming a public company is not
917 so much a liquidity event for us, but a financing event for the company. It's one step
918 along the road, and just because a company goes public doesn't mean that we aren't
919 involved, that we can't still play an important role. And that's why we're still
920 involved on the Boards of many of our public companies, Dura, Amylin, Genisa, just

921 to name three. They've been public for years. We're still very involved. The job's not
922 done.

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

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

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

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

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

949 **SCHNEIDER:** Well, Ted is one of the most natural, dynamic leaders, as I told you
950 before, that you'll ever meet. He's a one of a kind guy. He's about as challenging as

951 you'll ever find anyone to deal with. He comes up with so many ideas, some of them
952 are nuts, but they deserve attention. You've got to listen to them. They make sense
953 in a funny sort of way. In his mind, they do. So, he's just a bundle of energy. He's
954 constantly coming up with new things, and he's just a lot of fun to work with. People
955 are really attracted to a guy like that. He's just a special case, I think. Just a special
956 case.

957 **JONES:** Anything else I should know?

958 **SCHNEIDER:** The fact is that we're all here, most of the players are alive and well.
959 They live and breathe and walk on that street. And when they get together, and they
960 do from time to time, just call it a great convergence, there's some meeting and all of
961 them show up, you know, it's electric. It really is. There is a certain spark when some
962 of these people get together. I've often sat there and had a glass of wine or a beer
963 with some of these guys, and some wild idea comes out and gets tossed around, and
964 an hour later, by the end of the day, three or four of them are saying, 'Let's start a
965 company to do that.' That's electric, whether they actually do it or not, you can see
966 the excitement and the juices flowing from these guys. And that's just an awful lot of
967 fun. And then the new people that come in, the new scientists who break out and get
968 swept into this stream. They kind of get tossed around for a while until they realize
969 the direction in which they're heading, going upstream is tough, but it's really fun.
970 They're good people. So, I'm happy to help you out if you want to chat again or
971 check some facts or whatever. I'll be happy to talk to you about it. I have never sat
972 down and made a list of all the deals I've been involved in. IDEC, there's another
973 one. We IDEC at 3I.

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

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

978 **END INTERVIEW**

Recommended Citation:

Schneider, Richard. Interview conducted by Mark Jones, 1997.
The San Diego Technology Archive (SDTA), UC San Diego Library, La Jolla, CA.



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