A transcript for
The Silicon Valley Leadership Group
Seventh Annual CEO Summit: Business Climate 2010
Panel Discussion One of Three
George Sampson, Program Director, KLIV, Moderator
Held at the Rosewood Sand Hill Road, Menlo Park, California
April 19, 2010

Panel members in the order listed in program:

- Tom Campbell, former Congressman
- Lane Bess, CEO, Palo Alto Networks
- Beverly Huss, CEO, Vibrynt
- Alex Karp, CEO, Palantir Technologies
- Vlad Shmunis, CEO, RingCentral
- Ken Wilcox, CEO, SVB Financial Group

Mr. Guardino:
My name is Carl Guardino. I'm president and CEO of the Silicon Valley Leadership Group, and welcome to our seventh annual CEO Business Climate Summit here at the Rosewood. We are honored that you're investing a half day to join us today.

This morning's summit could not have been possible without our host CEO and his team at SVB Financial, Silicon Valley Bank. Will you join me in thanking Ken Wilcox? (applause)

We're also honored by the other sponsors of today, Synopsis, represented by their CEO, Aart de Geus. Thank you, Aart. Kaiser Permanente, represented by their CEO for Santa Clara, Chris Boyd. Chris, thank you.

McAfee, represented by their CEO today, David DeWalt. Virgin America. Represented by their CEO, David Cush. And there's one other.…We will thank that mystery guest later.

We also want to thank numerous and select local elected officials who have carved out the time to join us today. Their names are on the screen. Many are already here. Some of them are fighting the traffic on 85 and 280, and will be here shortly; but if you're one of the elected officials, or a candidate for elective office, who are carving out the time this morning to join us on how we can strengthen Silicon Valley with solutions, would you please stand up, and stay standing, so that we can thank you? Please. (applause)

We have had a change that you may have heard about on the news or as you came in. It's a three-part change. I want to commend my team for their flexibility over the last 36 hours. The bad news is what we will start with. Speaker Pelosi has been pulled away on national business, and had to fly out this morning, back to D.C. We…are thrilled, however, that she, in making that clear to us, has let us know she will be hosting us in just two weeks in D.C. when we take back 50 CEOs and senior officers so that she opens up her facility to *us*. If you have not yet signed up for that May 4th through 6th advocacy trip, we want to encourage you to do so. There is more information in your packet in order to do so, and she is going to host us and have that conversation we would have had this morning.

Second, we immediately reached out to the White House. They were 24/7 on it. For those of us who are passionate about clean and green tech, national security around energy security, environmental issues like climate change and global warming, they…have flown out this morning Matt Rogers, who is the senior advisor to the Secretary for Energy. He is also known as the owner of the green checkbook, responsible for the billions of dollars of stimulus funds going to anything [that is] clean and green tech. So he will have a robust conversation onstage for that U.S. competitiveness panel that is in your program.

With that, two items that are housekeeping. If you share my addiction to this device, we are offering a 12-step program, and we're here to help. The first thing I would ask you to do, not just out of respect for our…speakers and your colleagues, for yourself. Let's take a few hours and not multitask. Let's focus and celebrate our Valley and determine how we can strengthen our Valley together. So please pull this out now. We will not have ushers collect them. We will ask, at a minimum, that you turn it down so it does not ring during the conference. We've all been there when that's happened. We all feel embarrassed. Let's prevent that.

Second, let's not be tweeting or emailing during our conference. If you do, I'll be real gentle. I'll come over. I'll give you a little shoulder massage, make you feel better, and encourage you to turn that off.

The last item that we will be mentioning in…just a moment is for both our special guests, Governor Arnold Schwarzenegger and for Matt Rogers, senior advisor at the Department of Energy, staying within the legal gift rules of the state and federal governments, we are going to provide them with small gifts today of a book. Well, we're in Silicon Valley, the land that celebrates geeks. So the book that we will be giving them is the Complete 20-year Works of Dilbert. They're big, bound books. In just a little while, starting with the front row, we're going to Post-It-note the first pages of that book. We're going to ask you to just open it up and sign a note. The book to Governor Schwarzenegger will be clear. The book to Matt Rogers will be clear. Pen them a note. Be nice. Pen them a note, sign your name, and pass it on, so that we can present to each of them at the appropriate time at the conclusion of their respective panels. Please don't let the books get held up. And, with that, it is my please again to welcome you to our seventh annual CEO Business Climate Summit.

I'm going to ask to come forward Mary Dent, vice president and general counsel of SVB Financial and Silicon Valley Bank, because, as you know, at your seat, are two surveys. The red one is our seventh annual CEO survey of 153 CEOs. We're so excited about the addition of the blue survey, thanks to the creativity and connections of Silicon Valley Bank of 304 start-up, venture-backed, innovation-economy CEOs. With that, to go through those numbers and analysis, please join me in welcoming Mary Dent.

Ms. Dent:
…And they want the states to do something, to set in place the right kind of regulatory frame work that gives them a backdrop against which they can compete, and they can thrive. Those are our conclusions. We look forward to hearing the discussion today about what we should do with them; and, with that, I'd like to invite up the first panel.

The panel will be moderated by George Sampson, who's the morning news anchor, news and program director of KLIV. It will have Tom Campbell. Many of you probably know Tom Campbell. He was formerly a Member of Congress. He is now running for the Senate here in the State of California; but, most importantly, he was one of *my* law professors back when *I* was in law school.

…We have three of *our* client CEOs, who are really happy to…share their perspectives with you: Lane Best, CEO of Palo Alto Networks; Beverly Huss, CEO of Vibrynt; Alex Karp, CEO of Palantir Technologies; and Vlad Shmunis, …CEO of RingCentral. And then, to round it out, we have our *own* CEO, Ken Wilcox, to join in the discussion. (applause)

Mr. Sampson:
Come on up! Hi. Nice to be here. Thanks for being here. I was so glad that one of the attributes that the survey said that Silicon Valley scores very high in, in our business climate, is the weather. If you enjoyed the weekend, like I did, you…know that that truly is a plus. And just kind of looking back at the history of our Valley, any time we've ever seen success in our Valley, it seems the weather has somehow played into it. If you think back to the Costanoan peoples, who settled the Valley, the agriculture that gave birth to Silicon Valley, the weather always seems to play a role, so that's good. By the way, it's supposed to rain tomorrow! Thanks to our panelists for being here today. We're just going to dive right in.

Q: The first question: The survey shows that CEOs see access to capital as a real problem, as we were just discussing; but the whole question of how much capital is *enough* is really kind of a tricky one. Too little capital can stifle your ability to grow. Too much capital can mean too many companies are competing in the same space, which reduces *everyone's* chance for success. Vlad, what are your views on how we should think about this issue of capital adequacy?

A: (**Mr. Shmunis**) Right. So I've experienced it a little bit both ways, right? So I am the original founder. I bootstrapped the company. We started with zero capital. That was definitely too little. No capital is too little, right! So we were fortunate enough to attract funding from top-tier VCs in the Valley, from Sequoia, and from Khosla Ventures. This was about three years ago.

And one thing we think we did right is we actually did not raise too much to begin with. So you do have to be careful.…You know, I will share my philosophy, for what little it's worth, which is when we raised our first institutional round, the idea was to deploy that money, but to always be able to run the business as if that money were the last money coming in; and after a certain point, we grew substantially, and it was decided by the board that we can raise some more money, and we did exactly the same thing. We raised just enough to be able to sustain ourselves and sustain our growth, but always with the realization that, "You know, if there is no more money coming in, then we're still going to be in business, and we'll still grow, maybe a bit slower." So my answer, "Not too hot, not too cold; just right."

Q: Lane, what are your thoughts on this?

A: (**Mr. Bess**) Well, I still think that the venture model works very well. I think the quality companies that have a strong business plan and good management can raise capital. I think that was the case even in the down economy last year. I think that the [idea] that government should get overly involved in terms of the funding is probably not necessarily a good idea. I think that the venture model works because these people understand how to look at the business, and how to evaluate it. I don't know that that's government's business.

However, on the other side, I think that there are some incentives and things that government can do, from a tax standpoint, that can help considerably. I think there's a lot of things they can do in terms of helping, in terms of employment costs. You know, I'm annoyed every time I see overseas governments contacting me, because we set up our entity in Singapore. I'll get a call from a group that's quite willing to fund R&D, and I know we're going to talk about R&D a little bit later on. You know, to think that there are these [kinds] of incentives available to help offset some of the costs of the early-stage companies that can't come from our own government. *That's* where I think we could see some help.

Mr. Sampson:
Thank you. There is no question venture capital is going through a period of significant change. Perhaps most importantly to start-ups, fundraising and new investment levels are down meaningfully from a few years ago. At the same time, we're seeing a lot of corporate players taking a hard look at how they can effectively work *with* start-ups as investors, through marketing arrangements, through acquisitions, or otherwise.

Q: Beverly, where do you see the innovation system in 10 years? And, as a second part to that question, who will be providing the capital? And what role will venture strategies and others play in nurturing emerging tech companies?

A: (**Ms. Huss**) This is an interesting question for me, especially since I'm fundraising now, so right in the thick of it. You know, it's hard to say, I think, where it will be 10 years from now. It really depends on what our government does with rules and regulations. I think we're already seeing that there is a big contraction in venture-capital investment. Something I read this morning said that we're down 11 percent over the first quarter, or rather up 11 percent over the first quarter of 2009 for venture capital, but still at low levels, and most of that is driven by my industry, med-tech. So what you're starting to see is that venture capitalists are keeping money aside for the companies currently in their portfolio, but holding back on investing in new companies. And what's happening is, more strategic companies, large investors, large medical-device companies in *our* industry, are making venture-capital arms that are investing in small companies, because, after all, we're where the innovation comes from.

So I think…we may have [fewer] venture-capital firms, and I think we'll probably see more investment from larger companies, and we'll have to get creative as entrepreneurs, in how we work those deals and investments.

Mr. Sampson:
Well, let's hear from the banker. Ken?

A: (**Mr. Wilcox**) Sure.…People talk regularly with us about the concept that the venture model is broken, and, of course, that's something that's very important to us, because 90 percent of everything we do at Silicon Valley Bank involves technology companies, either venture-backed, or publicly-traded, once-upon-a-time venture-backed. So that's an important question for us.

Our belief is that the venture model is not "broken," but definitely evolving, and probably at a more rapid pace than at other points in history. Having said that, [I would say] there certainly is no shortage of capital in the world. There is capital in abundance. It may not be in all the right hands at the moment, but it's there, and there is definitely an evolution of…the sources of capital available to technology companies, with more emphasis today coming from "corporates" and sovereign-wealth funds, and this new phenomenon -- or it's actually not so new, but we talk about it a lot – of the "super angels."

There are definitely exits, and I'll get to the statistics in a second, but there are exits today, I would say not perhaps in abundance, but certainly in numbers that are attractive, and there's no…shortage of innovation. We see scores if not hundreds of really, really interesting companies, and it makes sense that there would be no shortage of innovation, because the base, the knowledge base, that people use as a springboard is correspondingly larger than it's ever been in history, and that alone suggests that there should be more potential for innovation than ever before; and, in point of fact, that appears to be the case.

The numbers are good. You already mentioned, them, Beverly. There was $4.7 billion invested, and there was a billion in…IPO money raised, nine venture-backed IPOs, and then 111, which was, I think, perhaps, at least in recent times, a record, of mergers and acquisitions in the first quarter.

So things seem to be turning; and, in general, what we're just seeing is a winnowing among venture-capital firms. You know, I think that the…heyday of venture capital attracted a lot of people. Some were better than others, and there tended to be – we moved in the direction of too much dependence on management fees and not enough on carried interest, but that's changing, and you'd expect that. This is a Darwinistic industry, and…it's good that there is change.

Mr. Sampson:
Thank you. Congressman Campbell, former Congressman Campbell, and perhaps someday Senator [Campbell]. I…should add that – I have to tell this story very quickly, Tom.

A couple years ago, I'm in the OSH store in San Jose on Branham Lane, looking – 'cause I had a busted sink, and I had to do a repair, and I turn around, and here's Tom Campbell in suspenders buying parts for a broken toilet. I don't know if Carly Fiorina can fix her own toilet, but this guy can! This guy can! (loud laughter)

Q: Having said that, Congressman, what is the federal government's role in helping to ensure access to capital, and further ensuring that the credit markets are not frozen?

A: (**Congressman Campbell**) You know, George, whatever I say is not going to top that introductory comment. I think it's a serious question, and I'll try my best. The federal role is twofold. One is on the taxation, obviously, and particularly, the repatriation of profits overseas. That…issue, I want to speak about. And then, secondly, is the investment in a winner, the picking of a winner.

On the taxation side, if you want to have the federal role clarified, it is to make it easier to raise capital, and allow that which is the product of those who take risks to stay with those who took the risk. And, similarly, the responsibility, if the risk goes bad, to stay with the people who took the responsibility, instead of having a bailout. So…I'm most concerned about the expiration of the 15-percent rates on dividends, on capital gains, the prospect that we go up to ordinary income on dividends, which *will* happen unless action is taken, and that we will go up from 15 to 20 on capital gains.

Secondly, on repatriation, it's a real clear contrast between the economics and the politics, isn't it? And so let's be…candid, and do the economics right, and then just hope that the people are responsive in the political environment.

If you look at the…competitors to the United States, with zero capital-gains tax in Singapore, zero in Hong Kong. Or look at the capital-gains tax on corporate capital gains, the investments like an Intel capital group might make. Ten percent in China. Thirty-five percent in the United States. These contrasts are not lost on those with money to invest. Ad then, if the money goes overseas, and stays overseas, of course, the attraction is, you're going to allow it to build up without being taxed as it builds up, which creates the political problem, right? Then that's the political problem.

And so there is a move now, and I strongly, strongly pointed out, and hope that we can stop it, to move the credit to a deduction. I'm not making this up. The notion that if you are paying tax in a foreign jurisdiction, and tax in the United States, that instead of getting the credit, which you would if you're going to be competitive, it would be a deduction. I've only 30 seconds left, so let me simply say that the tax side is huge. We can get it wrong, and the populist trend might be pushing us to get it wrong. There's a lot of folks saying, "Let's blame the folks on Wall Street. Let's blame those for our financial collapse. Let's increase the taxes on capital gains." It will dry up capital.

And then maybe in another round I'll have a word or two, but I'll say, maybe, just for this, for this time, be very careful. Be very careful about picking winners. The private sector picks winners much better. If you leave it to government agencies to pick the winners, they will be industries in the district of the chairman of the Ways and Means Committee.

Mr. Sampson:
All right! One of the interesting things to come out of the survey was that nearly a quarter of all the respondents listed "access to talent" as a challenge. Now this seems rather paradoxical, given today's very high unemployment levels.

Q: Lane, what do you think is going on? And what are *you* seeing in the talent marketplace these days?

A: (**Mr. Bess**) It has been quite a problem. What we've seen is that a lot of good talent, particularly the choice talent that you need to really get a start-up, an early-stage company, off the ground, has a "flee-to-safety"[mentality]. A lot of the larger companies are more comfortable places to stay, and places where they can be assured of a paycheck. And so it's a place for people to go, and make sure they're employed. So the start-up has a real challenge to be able to get that talent to take the risk themselves. So I think this, in particular for us, has been the biggest challenge, and that is getting that talent to break away from a secure feeling.

So I wish there were some way to be able to take this talent and really give it some kind of an incentive to take some risks. Of course, the risk comes in the form of the equity they get with the early-stage company; but when you're in an economy like we were the last year, equity doesn't necessarily put food on the table. So that, I think, is at the core of the talent challenge for some of the early-stage companies.

Q: Vlad, I'm going to ask you the same question, access to talent.

A: (**Mr. Shmunis**) Yes, George. So our experience has been that, and I'll agree here,…very top talent is really hard to get, and we have certainly seen no more increase in any type of a surplus in the last year or two, if you are talking about top U.S. talent, whether it be technical, you know, operational, sales, marketing, what-have-you. Really good people are really hard to find.

As far as the flight to safety, that's a great point. What *we* are finding is maybe there are sort of two types of personalities. There are people who are generally uncomfortable in a start-up, and then there are people who are *only* comfortable in a start-up. So, from that perspective, it's apt to bifurcate itself. Now, we are…still a, you know, fairly small company, but we have operations here in the Valley, in Eastern Europe, in Manila, Philippines. And one of the things that we found is that, globally, we do see better access to top talent in some of these other places. So, for example, in Eastern Europe, it was really hard to get top engineers, even for us, and I am from there. And now that, you know, folks like Motorola, you know, Intel, and so forth, are pulling back a little bit globally, we find it easier to get folks there. Manila isn't very hard, you know, because there's a lot of expansion there.

Q: All right. Ken, you had some thoughts on this.

A: (**Mr. Wilcox**) Yes. We talk with the companies we work across the United States, and outside the United States, about this problem constantly; and access to talent, actually, at both ends of the spectrum, continues to be an issue for companies, and I think the…best approach that we could take in the United States would be to recognize that we're now operating in a global talent pool, and we have to think of talent as a global phenomenon, which would imply, in my view, anyway, increased education levels here in the United States, open borders, allowing for the free flow of talent, and doing everything we can to make the United States an attractive place for people to be and to work.

Mr. Sampson:
Thank you.

Q: When you think about where to hire people, and where to establish new facilities for your companies, what factors are most important to you? Do you think about your company's long-term growth? What do you see it doing in the U.S. when you think about the long-term growth? And…what do you see it doing outside the U.S., the old question of domestic v. foreign? Alex, let's start with you on that.

A: (**Dr. Karp**) Well, I personally see…all these hiring issues as more of a societal issue. We've done very well. We do extremely well against big companies. There's not much upside there. We're at 250 people. We're doubling every year. I think what makes the Valley special is we have a compelling idea, and you can back it with market traction. You can disrupt both the talent pool of large companies and other entities, and then you really have to focus on the top universities – Stanford, University of Illinois, others.

I think, as a society, we run the risk of not educating the kind of people that *I* need. We exclusively hire engineers. We have 250 people; 210 of them have engineering backgrounds. It's almost impossible to get a job with us if you went to business school. I'm sorry. (laughter) And it's just what makes the Valley special is our ability to build something that is not better by a linear standard, but is clearly better in exponential terms, and you can only do that by having technological dominance.…And the way it really works is the top 10 percent is not what you want. It's the top 0.1 percent. Everybody wants them. They…want to come here, and as a society, we're very focused on…teaching people talents that are, at least for my business, not very valuable, you know, and we have to change that.

And that's a much larger issue than whether *I* succeed, because I obviously have a structural advantage against a big company. I mean…there's very little growth in a big company. The ideas may not be as compelling,…and we do very well in doubling our company, but what happens to the other companies? And…this is the single thing we offer in the Valley. It's not that we're slightly better, because then you need a marketing department. We don't even *have* salespeople. It's like we are much better, and if you can't make that argument, there is no reason to have a valley, and, as a society, we're very focused on kind of non-math-related qualitative skills. I mean I have a Ph.D. in philosophy. I think those things are valuable, but that's not what we need to be focused on. If we don't this right, obviously, immigration is an issue [which], as a non-political person, I don't want to touch; but I mean, come on!…It really borders on self-destructive, and we have this gem in the Valley, and we endanger it by not focusing on that.

Q: Vlad, can we have your thoughts about doing business inside the U.S. versus outside the U.S.?

A: (**Mr. Shmunis**) Well, I don't know. Not to use overly-big words, but it is a single-world economy, right? We *have* to be in the U.S. The weather is nicer here, you know. I've tried elsewhere; but, you know, you also have to, you know, take advantage of whatever inefficiency we have as far as, you know, really good people, being able to do real good work outside of, you know, U.S., or even California, in particular.

So, again, as I already mentioned, we are already in California, you know, in Eastern Europe, in Manila. We are growing in all three locations. We have just launched the service in China, you know, and guess what our own application is going to be, right? So, you know, as far as the type of talent that you get, you know, obviously, you know, certain sorts of geographies tend to be known, or tend to concentrate, in certain areas, right? So I would not necessarily think of hiring,…you know, a top-tier marketing or a revenue person anywhere but here, right?

On the other hand, you know, as we all know, access to top-tier engineering talent is very much worldwide, you know? You have Eastern Europe. You have India, you know,…other places. So, again, wasn't that net here.…Yes, it would be absolutely great if we could go out and staff an entire company within, you know, 10 square miles. It probably would make my life easier. I'd fly less, you know? But…that's not the reality, and what we *are* finding, and, you know, I've been sort of in this off-shoring situation for many years, right, even prior to this company; in my prior startup, we did the same thing.

Generally speaking, we find that you *can* get people you want, right? Again, you do have to offer an attractive environment for them, and, you know, whether or not this means hiring somebody from offshore, bringing them over here, maybe to train them, get them all out there. You know, all of those things work; but, you know, obviously, you can build a, you know, pretty nice company in this environment…

Mr. Sampson:
Thank you. And Tom, I hope you taught the business-school grads how to do plumbing, just in case.

Q: Lane, respondents listed R&D funding and grants as their number-one policy issue. What role do you think the government should play in R&D funding? What should it avoid doing?

A: (**Mr. Bess**) I would like to see it play a greater role. I think I alluded…a little bit earlier [to the fact] that it's a pretty regular thing for us to be approached to set up operations for R&D overseas. Singapore is a great example. No sooner did we set up our Asia Pacific entity there, that there was a nice continuity, and a contact by somebody, to suggest to us that we could get tax incentives as well as R&D funding. Literally, they would send engineers over to learn our technology for six months, at their expense, and then give us tax incentives to set up operations overseas. So these are pretty progressive, but I think it really shows how…government, if they are thinking about business, can, you know, operate, to some degree, like a business. I always say when I visit countries like Singapore and Hong Kong, and you mentioned this, as well, I feel like it's a…government run like a business, and I compliment that.

Now I'm not advocating, you know, that as a major shift, but I think if we create a better tie between the thinking of the two here in the U.S., I think we can come closer to what I think other…countries are doing.

Q: Congressman Campbell, much has been said about the federal government expanding and making permanent the R&D tax credit. What's your view? And why or why not this is important to the innovation economy's success?

A: (**Congressman Campbell**) I want to respond to that, and then move just a second to the education issue, too, that you just discussed.…

The key is to make it reliable. Plan it. Tell me what it is. Then I can make a business decision on it. And so it's not even as important as to the level, as that it be permanent. So the R&D, the federal research and development tax credit, to be made permanent is fundamental to our competitive structure.

On the issue of getting adequate personnel, that's a two-pronged problem. Keeping the world's best who come to our country, and making sure that Americans are in that country who would get jobs at these fantastic companies. And, on the first, the H-1B visa is absurdly low in its cap. We should expand the H-1B visas, and we should also expand the access to green cards.

Think of the alternative. It doesn't take much to figure out that, if the alternative is we bring somebody, particularly when we help train somebody at one of the greatest engineering schools in the world, U.C. Berkeley (laughter),…at taxpayer expense, and then they go back to Taiwan, or go back to Pakistan, or go back to Ireland.…That is clearly wrong. So it's not just the H-1B, the temporary assistance, but also the permanent green card.

And then the other question.…I did a little research preparatory to our gathering here today, and it's phenomenal. In 1960, 9 percent of the holders of bachelor's degrees in the State of California were foreign-born. Today, [it's] 28 percent. So what we have seen is a substantial change from how many folks [who are] eligible [and] qualify for these jobs are home-grown, and that number is dropping and dropping. So perhaps at another time in our conversation, we can speak about fixing education in California. But let me just put a marker down. It's just so essential, I'm going to repeat it.

We have no future if we continue to shortchange education, particularly K through 12, and that must figure in our state political process in a way that it hasn't. Otherwise, we are going to continue to grow, and we're going to continue to grow by bringing the best from other parts of the world, and hopefully, getting them to stay here. (applause)

Mr. Sampson:
Thank you.

Q: Well, let's talk about healthcare. Healthcare was the number-two policy issue identified by respondents in the survey. Beverly, how does healthcare affect *your* company? And do you think things are going to be better or worse, now that a healthcare bill has passed?

A: (**Ms. Huss**) Well, first let me start by…congratulating Speaker Pelosi and the President and Congress for expanding healthcare to 32 million more Americans. That is, I think, a bill that has some ways to provide more care and reduce costs. This…bill, and some issues with FDA, obviously, are something that is very much affecting the medical-device industry.

…Most medical-device companies are under $50 to $100 million in sales, and there's a tax provision on revenues, not profits, in the bill, at 2.3 percent. So there is no provision for a small company. So, from dollar one, that small company is going to pay 2.3 percent. That causes venture capitalists to sit on the sidelines, and there were many people in Congress who supported eliminating the tax for companies under $100 million in sales, and then $100 to $150 [million] at half the rate, and we really need to change that, in that bill, and I urge Speaker Pelosi and Congress to do that.

Really, these small companies are the centers of innovation. The Bay Area, Silicon Valley, certain areas in Southern California, Minneapolis, Boston, are where many of these medical-device companies get started; and, quite often, they get acquired by large companies. So, really, that is a big issue for us.

The other issue is this whole concept of FDA transparency and predictability. That's another issue that's causing venture capitalists to sit on the sidelines, and everyone wants a thorough review process, but we want it open, transparent, high-quality, and with an interaction with FDA, and that's really sort of fallen by the wayside, and it's something that we also have to work as an industry to change.

Q: Alex, how is healthcare affecting *your* business?

A: (**Dr. Karp**) Well, we're very involved. Many of you may not know our company, but we do large-scale data integration, where…there's a need to block data so you can protect civil liberties. We're very famous for helping the Dalai Lama and others, and work across the intelligence community, and in finance. We're very involved in waste, fraud, and abuse; but as an issue larger than my own myopic interests, I think to the extent we can ever build a consensus around healthcare, there has to be a consensus that there's very little fraud, waste, and abuse. I think we in the Valley, again, independent of my own interests, have to be focused on things that work now, not things that are built for a billion dollars that may work in five years after you pay another billion dollars, and building a consensus around things that, you know, that this, whether you want it or not, that we're not going to waste the money. There's not going to be fraud. It's really important, and it's something –

I think, one of the secrets, again, of the Valley, is we basically play fair here. I mean, you know, things tend to be structured in ways that are simple. We like fairness. We like working together basically. Of course we like winning, but I think things that come out of Washington have to also kind of be more centered around, you know, is there waste? Is there abuse? Who's getting something? How are they getting it? Just this massive issue of transparency. I mean who really knows what's going on?

You know, it's like one of the reasons people push back on these things is, Can you really get access to the data? Who's getting what? How are they getting it? What does an abuse look like? When does abuse happen? What are the rules of engagement in the finance, healthcare? And these are like questions you have to have an understanding of if you're going to support or not support something, and we don't have those answers. Obviously, the kind of ethos of the Valley, of kind of transparency, and competence, and something that works before you deploy it, is something we need to bring to all these initiatives.

Mr. Sampson:
Thank you.

Q: Congressman Campbell, with healthcare consuming 16 percent of the U.S. GDP, what are the best steps the U.S. government can take to contain costs for healthcare?

A: (**Congressman Campbell**) Picking up on two things: First of all, what Alex just said. In the bill, there is an enhanced whistle-blower provision, so I was glad to see that. Obviously, you want to harness individual folks who are in the healthcare industry, knowledgeable, and give them an economic incentive. So that was a good step.

Secondly, the biggest change. Now this is a failing of the healthcare bill. It did not deal—I think it intended to, but it didn't, at the end, deal—with the cost of delivered healthcare in the private sector. It dealt with the public sector, or the coverage of those who don't presently have insurance.

For those who do, to try to keep the costs down, there is no single improvement more important than to move the tax deduction from the employer to the employee, and to sponsor the medical-savings account, so that the individual is making judgments on her or his own behalf. Why do pharmaceutical companies advertise on television? "Try XYZ. Ask your doctor, 'Is XYZ good for you?'" Because they know that the doctor doesn't care [what] the cost [is]. You don't care [what] the cost [is], if it's picked up by the third party. If you move to the MSA model, the medical savings-account model, the person who makes the choice becomes the same person who benefits from the savings, and, obviously, all…healthcare economists will tell you, that's the fundamental reason for the acceleration of costs in healthcare – that, and the high cost of getting pharmaceuticals to market.

A third: Pricewaterhouse did a very useful study. I think they came in with the number that's low, but their number was 10 percent of the cost of delivered medicine in private plans is due to defensive medicine. The physician and the healthcare professional will be worried about a litigation consequence if I fail to prescribe X, Y, and Z, when the patient says, "Prescribe X, Y, and Z." And so some reasonable litigation reform.

The President, again, deserves credit for putting it forward. He put it forward in his first speech to the Congress. Regrettably, it didn't make it into the final bill. And that litigation reform would apply in the private sector as well as in the areas of…the public sector.…So those are the elements that I think we're missing in this bill, so there's plenty of work still to be done by the Congress in this area.

Mr. Sampson:
Thank you.

Q: President Obama recently announced an initiative to double U.S. exports in five years. Tech companies, typically, are strong exporters, and expand internationally relatively early. How do exports fit into your company's future, Vlad? And do you plan to grow internationally? How will that affect your activities here in the U.S.? I think we've already sort of touched on this a little. And to what extent will exports affect job growth, do you think, here in the U.S.?

A: (**Mr. Shmunis**) Great! We are a cloud-based phone system, so we deliver no physical goods. So I will use the term "exports" in a broader sense, right?…If we define "exports" as to where does a company like ours deliver services, and where do we derive revenues from, then, you know, the answer is, "Okay. Here in the U.S., U.K., Canada, as of late, China, and we are, you know, planning Australia, and a number of other countries."

So, yes, fairly early in our cycle, we have recognized that there is absolutely a market for a service like ours outside of the U.S. We have built our system from day one to be able to do (unintelligible) services worldwide, not unlike—you know, on a smaller scale [than] here, but not unlike—you know, what Salesforce does, or Google, or any of the companies that are household names. It is a huge part of our strategy. We are seeing that, you know, in many cases—not always, but in many cases—and ways, U.S. is leading the way, and is a leading indicator of what the rest of the world will do; but the rest…of the world is not that far behind, right?

So, yeah, we are continuing to grow, you know, domestically and internationally, and, you know, our biggest issue with international expansion is, you know, government regulation, or over-regulation, and when you're talking, you know, to places like, you know, (unintelligible) and other places, but not U.S., you know, there is a lot of government oversight that basically just stifles creativity, right? We cannot roll [out] a service like ours in, you know, many of the places where we would like to. For example, you know, I happen to be from Russia, so, in Russia, there is no way to allow the service like ours. That's a little bit discouraging.

Q: Alex, how do exports fit in *your* company's future?

A: (**Dr. Karp**) Just to go back from the larger point, I think, you know, we're a kind of enterprise-software company.…At the risk of making a generalization, which, obviously, can't be completely true, I don't think there's any place in the world that builds enterprise software even remotely as well as the Valley,…and the difference is very, very large, so, you know, we tell our customers, again, without a sales force, that we charge 5 percent of the cost and 1 percent of the time, and you don't have to buy our product. You can buy something else. And so we see a tsunami of interest abroad.

Now we have two sides: a financial product, where we don't restrict where we're going to sell it; and then…our government product, which protects civil liberties, is very involved in cyber, where we…self-impose certain civil-liberties norms on [whom] we'd be willing to work with; but, going to the original point, because the difference of, between—the delta between—what *we* can build in the Valley, and what's built by people outside the Valley is so large, we're also very focused on kind of IP, IP protection. These things are very, very important to us, and also this issue of, you know, cyber. You know, it's like, "We want to sell legally. We want to have our IP protected, and we don't want to have it stolen."

You know, we're on the cutting edge on some of these cyber things, and a lot of them – obviously, most of them, we can't talk about, but a lot of it's not just violating privacy by countries that don't particularly protect privacy; it's actually stealing things that are germane to what the Valley does, and…that's something the government *has* to be involved in. There's also a civil-liberties overhead because of the governments involved. We want to make sure they're not just getting data that they then use to prosecute people. So there are some very complicated issues; but, you know, if you presuppose that the reason you're in this room is because we're actually much better at something, not because we're much handsomer, though some of us are, or more articulate, it's that…we're much better at something.

Well, that means that something has to be protected. We need fairness abroad. We need standards we understand. The human-rights aspect? We'll leave that to the political client, but we also need to make sure that that IP isn't stolen, and there's a lot of that going on, and we see that, because we're involved in…protecting people against that, but that's going to be a very big issue for the Valley. You know, how do we protect what we own, if you presuppose that other people can't build it? And that's something that people like you are going to have to be very involved in.

Q: Congressman Campbell, how can the U.S. best facilitate an environment in which U.S. companies can be successful to meet the President's goal of doubling U.S. exports in five years?

A: (**Congressman Campbell**) I'd like just to talk [specifically] about access to the Chinese market. Obviously, the single-largest opportunity for growth, and a very dicey question of currency manipulation. So I'll tell you what I believe is right, and then we'll see if the President can make it happen or not, because the President has more than one item in front of him.

We need China right now to put pressure on Iran relative to Iran's nuclear weapon that threatens our ally, Israel, and the United States' interests throughout the world. So if the President can't do it, it's not as though *I* know everything he does. I don't; but the area I do know is that the WTO has a huge lacuna. The World Trade Organization, following the General Agreement on Tariffs and Trade, the GATT, dealt explicitly with governments that subsidized exports, and thereby destroyed the fairness of the international trading regime. If China were to compete with us in a third-world, in a third market, or in the United States, by subsidizing into the United States, it would be offset by…tariffs. That would be the way the World Trade Organization would work.

But if it China does the same thing by making its exports cheaper in the United States, and ours more expensive in China, simply by adjusting the renminbi-dollar relationship artificially, they get away with it. They are not technically breaking the WTO, because it's not in the WTO. The Bretton Woods agreements in [1944] were originally planned to have a world trade organization, GATT, and an IMF, and the IMF was going to handle this. So the world is a much different place now. Currency manipulation has to be put on the trade agenda next trade round as much as an export subsidy, and that's the biggest step the President can take.

Secondly, I'm completely with…Alex on the issue of IP protection. Every President has items of negotiation on bilateral, and on negotiations with Korea, particularly – [With] South Korea, particularly, I think, we need to up the level of IP protection. I'll end just by saying the experience I had. I was on the board of Form Factor for seven years. The first CEO,…American, from Russia; second CEO, an American from France. We benefit from international competition, and we have tremendous issues with IP protection in Korea and other parts of the world. You're not going to export if you're going to have your best ideas reinvented and then sold to a third party out from under you.

Mr. Sampson:
Thank you.

Q: Beverly, one of the interesting things in the survey was [that responses] from the life-science sector were *less* optimistic than those from the hardware and software sectors .What do you think explains that difference?

A: (**Ms. Huss**) Well, I really think it's the two things that I spoke about earlier; that is, that venture capitalists are kind of sitting by the sidelines until some of the aspects of the healthcare-reform bill get worked out, particularly the tax on revenues. And I think, secondly, you know, again, this whole issue with FDA transparency and predictability. If you think it's going to take, you know, two years to get your product to market after you do a clinical study in the U.S., and it's an unpredictable process that could be three, four, or five, certainly, VCs and other investors or going to sit by the sidelines. So I think that's really driving some of the sentiment that is a little bit less positive than, maybe, the IT sector.

Q: What do you think might turn that around?

A: (**Ms. Huss**) I think if we can get some of these things worked out, if we can start to see predictable reviews by FDA, that will be much better. A lot of medical-device companies that are very innovative and driving great therapies that reduce costs and increase quality of care are forced to go overseas, and some are even making the decision not to launch products here, and that's a…real shame. I've talked to CEOs who are moving their businesses completely overseas. So I think if we can, you know, modify this bill, get this bill modified that just passed, if we can continue to work with FDA, and make people aware that we want, obviously, thorough FDA review processes, but they've got to be predictable and transparent, that will regenerate investment in our sector.

Q: Ken, I'm going to put you on the spot here and ask you to, maybe, talk about, as you see it, some of the challenges in funding life sciences.

A: (**Mr. Wilcox**) Happy to do that, but I'm not sure that I can add a lot to what Beverly just said. As we travel around and visit with our life-science companies around the country, we hear – it's almost like a litany -- exactly what Beverly just referred to. And the FDA, in *my* estimation, seems to be the larger of the two problems.

Ms. Huss: That's right.

A: (**Mr. Wilcox**) And we just hear constantly that the FDA is a major stumbling block – lack of predictability, lack of cooperation, and the extended periods of time that it takes.

Q: Well, since we're bringing it to the FDA, let's talk to Congressman Campbell here. What are *your* thoughts on that?

A: (**Congressman Campbell**) The Standard of Review of Safety and Effectiveness needs to be reevaluated. If a product or a device is safe, I wonder how much emphasis we should put on proving effectiveness, as opposed to letting the market be the test of it. You must ask yourself, I think, in every issue of public policy, "What's the role of government that, yes, is necessary, that the private sector doesn't provide." Because, if the private sector provides it, you don't need government.

Safety, I understood. You can't be selling products and devices that are unsafe; but effectiveness? I think there could be a very sensible alteration, adjustment, in that standard. I've been advocating that for some time. And, obviously, you don't want to abolish that criterion, but you want to apply it in a different way than you apply the safety criterion.

Mr. Sampson:
Thank you. When Carl does his CEO Show on KLIV, he always ends the show with what he calls his "lightning round," where he asks – It's sort of a Rorschach test question, you know.…Of course, they have to give immediate answers. So, panelists, this is your lightning-round question. You have 30 seconds to answer this question, but it's a soft ball, okay?

Q: The question to each of you, and, Ken, we're going to start with you, What makes you optimistic about this Valley's future?

Mr. Wilcox:
The –

Mr. Sampson:
This long pause has really got me worried!… (laughter) '

A: (**Mr. Wilcox)** It's because there are so many things, that I'm trying to pick them out!…I think just simply the level of innovation that we see taking place around us. Contrary to what venture capitalists have been saying to each other for as long as I've been in this industry, which is almost 30 years now, that being, "too much money chasing too few ideas," we see virtually unlimited numbers of fundable ideas out in the market. There may be too much money, and some of it may be confused, and it's chasing wrong ideas, but there is absolutely no dearth of innovation in this Valley, or, for that matter, in any of the other look-alikes across the United States.

Q: Vlad, what makes you optimistic?

A: (**Mr. Shmunis**) Who says I am? No, no, no. Hey, you know what? In discussions of resource, there is only one valley, right? We're all here. Vast majority of worldwide venture capital, from what I understand, is right here, literally within, you know, couple of blocks of this facility. You know, it's the greatest place to be, right? I mean there is talent, even though it's hard to get, but there *is* talent right here, you know, on the peninsula, you know, Bay Area, what-have-you, and, you know, I don't know – You know, I've traveled the world a little bit. I don't know. I can't think of a single person who doesn't want to be here, you know? So I think it's a great place to be.…

Q: Lane, what makes you optimistic?

A: (**Mr. Bess**) I agree with much of what's been said already, and some of the points that Alex made earlier about the Valley here. But I think the single-most, I think, compelling issue is that we've survived probably the toughest economy in most of our lifetimes, probably maybe all of our lifetimes, and I see great improvement. While it was a little tough over the last year for many companies, we have survived, and it can only get better from here, and I think all of what's been said, combined with that, makes it longstanding.

Q: Very good! Alex, you seem like an optimistic guy!

A: (**Dr. Karp**) That's true. But so there are other places in the world with comparable technical talent. There are other places in the world with comparable or maybe better venture talent. There is no place in the world where people go after a big idea and the big idea is not linked to the monetization of it; And then they *solve* the big idea, and *then* you figure out the monetization, and that's the reason why this is the only place in the world that consistently builds companies that are over a billion, 2 billion, 5 billion, sometimes more, in value. It's the ability to go after a big, non-utilitarian-generated idea, and then figure out the monetization second. And you need capital to do that, although I tend to think that's not as important as others, and, in our case, that worked out fairly well. It's *that* ability to…go after a big idea, iterate, not being afraid of being wrong.

Like, on the East Coast, you can't tell someone your…business idea was stupid. In the Valley, you say, "Oh, that was stupid, so we did something else."…And I don't think, if you look at other places in the world, they're trying to build a valuable company first, and then kind of sew (sow?) in that big idea into it, because that's what they do in the Valley. Whereas we find big ideas, and then find a way to own the market, and that is not done anywhere else in the world, for lots of very complicated reasons, and this is the reason why I think the Valley will do very, very well.

Q: Beverly, what fuels your sense of…optimism?

A: (**Ms. Huss**) Well, I think it's—most of it's—been said. I would say that, you know, there's just such a unique mix of skills, access to capital, and I think it's all encapsulated by saying there is an ever-resilient entrepreneurial spirit here that really, as Alex said, really drives people to go after the “big idea,” and because there are so many successful companies that have come out of the Valley, this belief that it can be done again and again,…you know, this belief that it *will* succeed. It won’t fail.

Q: And Congressman Campbell?

A: (**Congressman Campbell**) Higher education. The blessing we have here of our institutions of higher education. There’s a couple that may claim they’re close: Route 128, the Research Triangle, but they’re not. (laughter) And it’s really the truth. Whether we’re speaking of private universities, or public universities, San José State, U.C. Berkeley, our community-college system, Evergreen, De Anza, Foothill.

And…I’ll conclude with a suggestion, because we can make it better, and here’s…how. On the public side, think about this for a minute. If you innovate, you should be working with your graduate students to commercialize, and that’s true in the private universities. It’s not allowed in the public universities because of a very outdated notion that if you created it on government time, it has to be owned 100 percent by the government.

That’s crazy, because you should have your professors in engineering, in bioscience, in…chemistry, working with their graduate students to commercialize what’s been created. Better jobs for the graduate students, more relevance to the research, and give the government a flat percentage. That, I think, was a model that Carl Djerassi pioneered at Stanford University [that] I think could be done very effectively at our public universities, particularly here, San José State and U.C. Berkeley.

Mr. Sampson:
Thank you, and thank you for your kind attention. (applause)

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