

Never Underestimate Thom Weisel

The great pleasure in life is doing what people say you cannot do.

—Walter Bagehot

It was December 1998, and the famed Internet bubble was growing like a virus at the peak of flu season. I was editor in chief of a technology business magazine called *Upside*, chronicling the evolution of the business world into what we thought would be a New Economy rife with new possibilities, exciting new companies, and seemingly limitless growth.

Late one afternoon, I sent an e-mail to one of my sources, a research analyst named David Readerman, who worked at a San Francisco investment bank called NationsBanc Montgomery Securities. It was a routine query. Research analysts probably talk to reporters more than they talk to their own spouses. The main use (and overuse) of investment banks by journalists is to contact the banks' research analysts for comments, quotes, and insight on the companies they cover. The main job of the analyst is to evaluate companies and their stock prices, primarily for their firm's investment clients. But they like talking to the press in order to see their name in print or their face on the air, theoretically adding prestige to their firm at the same time. A

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clever and lazy daily beat reporter could get an entire story by calling a favorite analyst and asking, “What’s new?”

I no longer recall what I had contacted Readerman about (other than to ask, “What’s new?”), but the response I found on my computer the next morning was unexpected, terse, and enigmatic: “Can’t talk now. There’s something going on here. Call me in a couple weeks.”

Now that sounded intriguing! It might turn out to be nothing more than another defection in the investment banking business—another analyst scooping up an absurdly rich offer from a competing firm. That was common enough at that time. In the late 1990s, everyone wanted in on the technology feast. Bright young people with expertise in technology (and some without it) were flocking to new opportunities like ants to a picnic after a watermelon fight, and there were plenty of very ritzy picnics to choose from.

MBA students were starting dot-coms out of their dorm rooms. Top executives at blue-chip firms were trading six-figure salaries for stock options from tech start-ups. Day traders were speculating more wildly than the most addicted Las Vegas gamblers. And Silicon Valley start-up companies were rushing to go public, cashing in on the frenzy as though this incredible bubble were about to burst. The standard three- to five-year time period for a Silicon Valley company to go from start-up to public offering had been reduced to as little as one year.

The investment banks are the firms that take those companies public, and they were thriving. It had become the new glamour field. It wasn’t as legendary as the high-profile venture capital business, but it was (and is) no less critical a component of the Silicon Valley financial machine. Some of the technology analysts at the investment banking firms, like Mary Meeker at Morgan Stanley, Jack Grubman, formerly at Salomon Smith Barney, or Henry Blodget, formerly at Merrill Lynch, had become media stars for

recommending (often to reporters calling to ask, “What’s up?”) technology stocks that seemed to have invented a cure for gravity.

Montgomery, a San Francisco “boutique” investment bank, was much smaller than the New York–based giants of the industry like Merrill Lynch or Goldman Sachs. It took companies public and helped them issue stock after the IPO, but it did not have a brokerage business to help individuals speculate in stocks, focusing instead on acting as a broker for institutions such as money management firms and pension funds, the professionals of the investment business. It was also firmly nestled in the industry’s hot spot. Montgomery, like its San Francisco rivals Robertson Stephens & Co. and Hambrecht & Quist, specialized in just a few fast-growing markets, and technology was the fastest in the world. Although relatively small (with revenues of roughly \$1 billion, compared to Merrill’s revenues of nearly \$18 billion in 1998), Montgomery had very cozy relationships with the entrepreneurs and venture capitalists of Silicon Valley.

Those connections were giving the company unprecedented new clout. Montgomery’s annual investment conference in San Francisco, for example, was famous for bringing together the CEOs of some of the most promising technology companies, who made their pitch to institutional investors that controlled trillions of dollars of assets. Stock prices of presenting companies often jumped during these conferences.

Thus, just as tech start-ups like Amazon.com and Yahoo! were threatening “Old Age” companies, perhaps the tech-focused investment banks—entrepreneurial organizations themselves—began to look like a threat to the Old Age investment banks. No bank could afford to miss out.

Add to that the fact that the federal government was now rapidly deregulating the banking business, and merger mania in banking began to resemble nothing so much as a great white shark feeding frenzy. Most of the New York (and international)

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banks had always been something like pelagic sharks, feeding across the entire ocean of industries, specializing nowhere. They had now decided to settle into Northern California for an extended meal.

The major banks were as wild-eyed and free with their money as any day trader. While stock speculators were buying up shares of any company with a name that ended in the phrase *dot-com*, the great financial institutions of the world were buying up any investment bank whose executives could spell the word *silicon* without an e.

That had already happened to Montgomery Securities. Just a year earlier, in 1997, NationsBank Corp. of North Carolina had announced a \$1.3 billion acquisition of Montgomery, giving the southern bank a key trade route to the hip young companies of Silicon Valley. That same year, BankAmerica Corp. bought Robertson for \$540 million. Hambrecht held out until September 1999, when Chase Manhattan (after buying Chemical Bank and Manufacturer's Hanover but before merging with J.P. Morgan) snapped it up for \$1.35 billion.

Things got really interesting when NationsBank bought BankAmerica Corp. (the legal name), commonly known as Bank of America, in 1998 for \$60 billion. (NationsBank later changed its own name to a slightly altered version of the name of its acquired bank, taking *Bank of America Corp.* as its legal name. It must have decided that spelling out which nation made for a better name.) That meant NationsBank owned two rival San Francisco-based, technology-focused investment banks—Montgomery and Robertson. So it sold Robertson to BankBoston Corp. for \$800 million—a nice profit in one year. Fleet Bank Corp. later bought BankBoston, while Chase merged into J.P. Morgan.

The leading technology specialists, independent for decades, were now suddenly tiny subsidiaries of enormous conglomerates. It wasn't unusual for executives to jump ship in this environment.

But when I finally talked to David Readerman a couple of weeks later, it turned out the news was much more interesting than I had imagined. His boss, Thomas W. Weisel (pronounced WIZE-ell), the powerful and mercurial CEO who had headed Montgomery for nearly 20 years before orchestrating its sale to NationsBank, had walked out the previous September and was now creating a new bank.

It was a full-fledged coup against NationsBank CEO Hugh McColl. Not only had Weisel left after a dispute over control; many of his top executives and partners were now bailing out to join him, including Readerman. Even more incredible, the defectors were not being sued by their former employer—usually the immediate response when high-level defectors leave a company for a competitor. (Bank of America, nee NationsBank, did end up filing a lawsuit later, however, as the flow of talent continued.)

And not only that, the defectors were being allowed to cash their checks from the sale of Montgomery much sooner than they had expected. When the original deal was announced, \$360 million of it was in the form of “golden handcuffs”—stock to be paid out to Weisel and his partners over three years, as long as they were still with the firm. But instead, BofA was forced to hand the final \$240 million over to Weisel and his co-defectors immediately, in one lump payment. Most astounding of all, some of that money would be used to help launch a brand-new company that would directly compete with their old one. (These last two occurrences are definitely *not* common at any time.)

The coup became a big story in the banking business and in Silicon Valley. It turned out that McColl was apparently very fond of telling executives at companies he bought that they would play key roles in the new organization, only to replace them all with his own loyal team. It happened to the original BankAmerica. Although McColl adopted the name, it was soon clear that Bank of America was being run from North Carolina. At the time of the merger, the press reported widely that McColl had assured

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BankAmerica's former CEO, David Coulter, that he would be next in line to head up the merged conglomerate. Coulter lasted but a few months before being pushed out. (One observant publication later noted that Coulter's contract only said that he was *expected* to become CEO, not that he *would* become CEO.) One by one, other BankAmerica executives also left, replaced by folks from North Carolina. I believe some of the old BankAmerica tellers still have their jobs.

Usually, displaced executives in this situation find themselves in early and unexpected retirement. Most of them are wealthier, to be sure (Weisel himself reportedly netted \$120 million when he sold out to NationsBank), and a few executives decide, and manage, to find new jobs elsewhere.

But if negotiating transactions like these can be considered duels, Weisel had thoroughly skewered McColl. Weisel, his partners, and other senior executives at the firm were \$1.3 billion richer, and a critical core had regrouped to start over. They once again had an entrepreneurial company with all its old contacts in Silicon Valley, Manhattan, and places in between. For his money, McColl ended up with a gutted, demoralized, and leaderless group of employees, a ghost of the former Montgomery. It wasn't one of his best investments.

In one bold move, Weisel had opened a fissure in the shifting landscape of the Silicon Valley financial scene. This was not just a split between two headstrong CEOs: It was a huge reshuffling of business relationships.

The process of funding a start-up company depends on an intricate web of relationships. The venture capitalists (VCs) start the process by throwing in the high-risk early money. The VCs also maintain strong relationships with several law firms, marketing experts, consultants of all sorts, and investment banks, and call on them for help as a start-up works its way along the path to an initial public stock offering.

The investment banks are deal makers. They introduce companies that need or want cash to investors with money to spend, and help to negotiate the terms. They also negotiate, and sometimes initiate, mergers between firms. They play a key role in setting the initial price of a stock when a company goes public, and in determining who gets to buy stock at the IPO price.

Each investment bank maintains its own critical list of industry contacts—both institutional investors, such as pension fund and mutual fund managers, and companies that at least have the potential to become great investments. The San Francisco investment banks, plus a very few others, had spent decades cultivating these relationships with Silicon Valley entrepreneurs, VCs, and institutional investors mesmerized by the visionary magic of the likes of Bill Gates, Steve Jobs, and Jeff Bezos.

The entrepreneurs preparing to go public will often employ one of the large New York banks in order to add name-brand prestige to their deals. But many are very fond of bringing in the specialty banks as well, either to take charge of the offering or to help out as the secondary bank, because of their proximity, deep knowledge, and experience in the industries in which they play.

Now, with all the buyouts, these relationships were splitting apart, walking out the door with important executives of the *nouveau grand* banks, who were jumping from one firm to another to find the best postmerger place to work.

Weisel, the consummate deal maker, was creating a brand new bank built partly with executives from his old firm and partly with executives who might not like their new bosses after their own firms were acquired. He was trying to consolidate the best talent, the best technology connections, and the best investors he could find into one new specialty bank.

The result: Thomas Weisel Partners, one of the few independent investment banks of its size in the world. Two other surviving San Francisco start-up investment banks, Wit Capital (now Wit

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Soundview after its own acquisition by, unsurprisingly, Soundview Corp.) and W.R. Hambrecht, have been trying to make names for themselves by pioneering new techniques for taking companies public. Wit wants to take companies public by offering shares over the Internet, while W.R. Hambrecht has pioneered a method of “dutch auctions” for IPOs, which allows average investors in on the IPO process for the first time. The concepts, however, have been slow to catch on and will likely continue at that pace for years.

It was a bold move for Weisel, yes, but that wasn't unusual for the investment banker. He had long been a controversial figure. Some people describe him as ruthless and cold. Others say he's passionate and possessed of the highest integrity. He had taken over Montgomery after a famous battle for control with one of the company's founders, Sanford (Sandy) Robertson, two decades before. Robertson had then gone on to start a competing investment bank, Robertson Stephens, setting up a bitter San Francisco rivalry that outlasted the banks themselves.

Weisel was also an astounding athlete. He had just missed making the U.S. Olympic Team as a speed skater in 1960. He's known for having hired many Olympic medal winners to work at his firm, whether or not they had any financial experience. He used to be in charge of the U.S. Olympic Ski Team, and, most famously, had created the U.S. Postal Service cycling team and helped save the career of Lance Armstrong, the incredible cyclist and cancer survivor who keeps winning the Tour de France. Plus, Weisel loves modern art, and is on the boards of the Museums of Modern Art in both San Francisco and New York. Weisel began to look like a bookworthy character to me.

Still, I had to wonder: Could anyone really build a new investment bank in this environment, when everybody else was moving the opposite direction, toward bigger and increasingly more ambitious mergers? The question became particularly compelling as

the tech balloon deflated, bringing on recession and rapidly contracting business for all investment banks. Just who was this Thomas Weisel anyway?

So in January, 1999, the month that Thomas Weisel Partners was officially launched, I began asking my own sources in Silicon Valley this question. What did they think of Weisel's odds of success? Could he really pull this off?

I got an impressively consistent answer. Several people reacted with almost exactly the same words: "I wouldn't want to underestimate Thom Weisel."

