ROCKET

Marc Tarpenning

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FOREWORD

Marc is living proof that you don't have to be a jerk to succeed in Silicon Valley. He's an engineer & serial entrepreneur who co-founded Tesla Motors with Martin Eberhard in 2003 (even before Elon Musk joined the team). Marc has often told the story of Tesla's early days, and you can find some of his videos at *marctarpenning.com*.

Those lucky enough to know Marc personally can confirm that he's as upbeat, friendly, and humble as he seems in those videos. He's one of the kindest & wisest people we've ever met.

ROCKET is the untold story of Marc's first company, NuvoMedia, which he co-founded with Martin Eberhard in 1997. Their product was one of the world's first e-readers. Marc and Martin called it the Rocket eBook as a tribute to their shared love of sci-fi and space exploration. They sold NuvoMedia for $187 million in 2000.

We asked Marc to share this story because we thought it could be inspirational, not only to entrepreneurs & technologists, but to all forward-thinking people. What you're about to read is a transcribed interview—it's edited, but only lightly, to evoke Marc's voice and storytelling cadence. The cover art is a faithful reproduction of the original Rocket eBook design.

Since the start of his career, Marc has always followed one rule: "Find an interesting problem and come up with a solution that makes the world a better place." We hope *ROCKET* helps more people follow suit. Enjoy!

—Ellen Fishbein & Shripriya Mahesh

P.S. Visit marctarpenning.com/ROCKET to see all formats of this book.

THE INTERVIEW

What were the rules at NuvoMedia?

The only rule we had was that there was a flexible time window when you had to be in the office. We had what we called “core hours”—you had to be there between 10 and 3. So you could get there as late as 10, and the assumption was that you’d stay later. Or maybe you got there really early—as long as you got there early enough, if you wanted to leave at 3, you could.

That worked pretty well because we had certain people who'd get there super early and then go pick up their kids after work. And we had other people—a lot of our younger engineers—who would get there really late. They would just eke in right before 10:00 a.m. But then they'd be there until six, seven, or whatever it was. So that was our one rule. We didn't have many formalized rules.

There was another one that was more of a convention: the exec staff would meet every Monday and set the course for the week, and that tended to trickle down to the other teams. The team leaders of the other groups would all meet on Mondays too.

The other thing is that we were always big believers in holidays. So I think the norm is 11 or something, but we ended up with more like 14. We'd always take both Thursday and Friday off at Thanksgiving, we'd always take New Year's Eve and New Year's day, and the same with Christmas. We'd always try to maximize those holidays.

Was there another company that had a similar culture to you guys? Or maybe, how was NuvoMedia's culture different from other companies around you at the same time?

At that time, I think we were part of the mainstream thing that was going on in the '90s. But what we didn't have was unlimited money, like many of the other companies did. Some of the companies would throw these *insane* parties. They'd get famous musicians to come in and play at their company parties. We never could afford any of that.

The only thing we did do was, when we were shipping our product and celebrating that, right at the end—actually, right before we were acquired—we took the whole company to North Star and went skiing because it was a great ski year. That was big for us, but at that particular time, it was nothing compared to what some of our hugely money-losing contemporaries were doing right before 2000.

That was 1999, and it was an insane time in Silicon Valley. It was common for startup companies that were just hemorrhaging money to spend half a million dollars on a party. We spent like $20,000, and it was a big deal.

That's why you guys were still around after the crash!

Exactly.

How did you and Martin meet?

My friend from high school, who was also my college roommate, got hired by a company where Martin was his boss. At some point Martin went off to do a new startup, and my friend went with him. I met Martin at the new startup.

I'd been traveling around the world at the time, and I was visiting Silicon Valley and checking out the new company, and I met Martin there. And then we started running into each other at parties, because every time

I was in Silicon Valley, I would go to a party that my friend was part of, and Martin was always there too.

How did you decide to start NuvoMedia together?

It was a time when there was so much startup action around, and so much excitement. Martin, at the time, was on the founding team of a company that made network computing devices. It was successful, IPOed, and did really well for years.

Once that company became kind of grown up, he left, and I knew him, so I asked him, "What are you going to do next?"

He wasn't sure yet, but he was looking around, and I was looking around too because

I was coming back from spending some time in the Middle East. And at this point we had done some consulting work together—at disk drive companies, weirdly enough. So we said, "Wait, why don't we do something together? And you know, it's going to be a startup because we're ready for that, and it's the right time."

And we were in this culture that was incredibly supportive of startups—I mean, insanely supportive, here in Silicon Valley. It was time to go do a startup. So we came up with Nuvo-Media.

Did you say "no" to any other cool opportunities?

We did. We looked at a bunch of different things. Our thesis, if you will, was looking for products that didn't exist, that the technology was just getting good enough to enable.

So we looked at a bunch of different things. We looked at some things which became massive in parallel, like multiplayer video gaming over the internet; none of that existed yet because the internet was still largely a dialup modem experience, but that was going to change. Compute was getting better and better, so we came up with several different gameplay ideas... but neither of us really played a lot of games. So it didn't feel like we might be the right people to do that. But we did a lot of research into it, which was great fun.

Then, since we had this disk drive background, we realized that if you wanted to record video on a disk drive, you needed a way of encoding that video in real time. New chips were just coming out that could do that—

compress the video into digital format in real time. In the past, you could play back things that had been compressed, but to actually do the compression was much more computationally intensive. That couldn't be done in real time. So if you took an hour-long segment, it might take four hours to compress it, and then you could play it back. But new chips were just coming out that could keep up in real time. And at the same time, the very next turn of the disk drive crank was a much faster interface standard, which meant the data coming off the discs would be fast enough to keep up with a video.

So we thought, that's interesting! We have these chips that are coming out, we've got this disk drive thing that we know about because we're in the disk drive industry, and we could make what would later be called DVRs.

Nobody had ever done that before, because the technology was too expensive.

But then we thought, "Wait, neither of us own TVs." So we thought that wouldn't be a good fit. And then TiVo ended up getting founded about six months later. It turned out that other people were thinking the same thing.

Then we had this idea about books. We had a whole bunch of different ideas. And we had some friends who ended up being part of the founding team at NuvoMedia who were also chiming in from time to time. We thought of e-books, because we believed that the display technology was just getting good enough, and the battery technology was just barely good enough. And the compute—you could do it over the internet, because books were small. Even with the existing internet, you could transmit a book within about a minute, because they're so tiny.

So we thought, "Okay, everything has come together." The display was the biggest thing, in that there were no displays that were good enough to read on yet. But we knew that that was changing. And we knew that this next turn of the display crank was going to be just good enough. And that's where we wanted to be. We figured if we were there at the very beginning of that, by the time everything got easy, we would have a dominant market position.

So, a truly viable e-reader was still a few years away when you started the company. Did you think that the tech would progress faster than it ultimately did?

Well, it's hard to know. The display that we used was the very first display that you could viably read on in all lighting conditions. It sounds ridiculous now, but the flat panels just didn't work back then. Ours was black and white because no color panel was readable. It wasn't possible yet. We thought displays would get better, and they did—displays kept getting better and cheaper, even in our short time. But I think that it took longer for that industry to take off than we expected.

I think it was also partially the dot-com crash. We were growing, and our sales were pretty good; we were producing more eBooks, we had more readers, we had all the publishers under contract, and more and more authors were making sure that their content was digitally accessible, because we had all this cryptography to make sure the books weren't going to get stolen.

I think that if we hadn't been acquired—but we were acquired, and then eventually the acquiring company killed the project. But years later, Amazon got into the business with the Kindle because they realized, "Oh, shoot, that's actually a thing; we should be doing that." And then Barnes and Noble came out with the Nook.

So I don't know. We probably couldn't have raised enough money to weather the storm. I think it was a little early, for sure. The technology did get better—maybe not quite as quickly as we assumed. The displays got better, and the batteries got better. But we were still a little early.

What about your assumptions about the future of e-books in general? Was your vision close to what you're seeing today?

Besides taking longer than we anticipated, things evolved differently than we expected, but largely because how we consume media changed. In the 90s, you had newspapers, magazines, and books. Those were really the only things that existed for reading. We read even more now, but we read on our devices, and it's not just e-book readers; your phone is good enough to read articles and stuff. In the '90s, we were nowhere close to that. So I think that one of our assumptions was that people really wouldn't read on a small screen. We thought you had to have something at least the size of a paperback for people to actually read on it. I think that's still probably the case for reading fiction and some other things. But so much of our reading now is scrolling our phones—not on a specialty device. We didn't know that would become so ubiquitous.

But otherwise, I think things largely played out as we imagined. You can buy e-books a bunch of different ways. And the publishers are still there, which we knew would happen. As we learned more about the industry, we realized the publishers were still going to be there. We just disintermediated the people who actually printed the book. There was a lot of talk that we were going to disintermediate the publishers themselves, and we loved that idea. But as soon as we got in, as soon as we understood how the industry worked, we knew the publishers were gonna be there. People thought there would be this blossoming of self-publishing, but basically people still only buy things that come from publishers because there's that quality gate; they want that guarantee.

At least when it comes to physical books. People buy a lot of self-published e-books, especially when they're priced differently.

That's true. But they don't command the same respect. It's an interesting thing—back then, the publishers were super concerned about the idea that the big-name authors would simply go direct. You know, if you're already a super famous author, you'd just stop dealing with publishers at all, and just go direct because your brand name is so strong.

But that largely didn't happen—at least so far. Because the publishers are incredibly generous to those big-name authors. It's not even clear sometimes whether they make money from those authors. They're so generous, but they have to be generous, because otherwise the authors could go directly to the public. And the publishers are desperately showing how generous they are, and how they're adding value.

There was a lot of concern in the industry at the time, for the publishers, that we were going to disintermediate them, and we thought that might happen. But it really didn't.

That's really interesting, especially how phones threw a little bit of a wrench into your prediction of what things would look like. At the time, how did people react to the whole e-reader idea?

Many people, when we were pitching the idea or just talking about it, simply said, "I would never read anything on a screen."

That included Rupert Murdoch, who took control of Gemstar TV Guide about six months after they acquired us. They'd bought several e-book companies, but Rupert Murdoch canceled the whole e-book project. And he quite famously said, "This is ridiculous; no one's ever gonna read on a screen."

Many years later, several people sent me a clip of him being asked about that. And he said, "Oh, yeah, I was wrong on that. People read on screens all the time now."

But that was a really common refrain. We would be pitching to VCs or whatever, and they very often said, "Well, this is all great, but no one's ever gonna read on a screen. It's just not going to happen."

They were skeptical that this technology was going to take off. There were niches, though, that were super excited about it—some of which we weren't aware of and had never considered, but they became really strong customers. For example, in the '90s, if your eyesight was poor, you could get these large-print books. But the selection was super terrible, and they rarely came out. It was never first-run authors or new books. But with an e-book, you can just change the font size.

So we got all of these glowing physical letters—typically mailed to us at that time, because email was still an exotic thing—saying, "Oh my gosh, I'm reading Stephen King right after it came out! I got it the same day as my friends, and I can do this for the first time in 10 years."

That was a niche that we didn't anticipate. But it was motivating for us.

Did you know of anybody who was trying to do something similar?

We were in stealth at the beginning, and so were the other e-reader companies. There were several. When we came out of stealth, we revealed our product on the web and did a whole PR thing.

I can't remember who came out first, but in rapid succession, there were two or three competitors that announced their e-readers. We felt that we had the superior product, fortunately. Several of them had made compromises on the screen quality. One of them was really big—more like a folio that you would open up. But we thought the correct form factor was basically the size of a paperback book. That was what we were shooting for. And we had the best screen technology, because we had scoured the world and found it. And we had the exclusive rights to that technology for our e-reader. So we were pretty confident in that. Also, we were the only ones who were distributing content over the internet. With the other ones, you had to dial up to their special servers and use their special modem things. None of the others were using the internet. But we just thought the internet thing was going to turn out to be the answer.

Once all the companies came out of stealth, the reporters went from calling us this weird tech thing to calling us part of “the emerging e-book industry.” And at first, the competition kind of freaked us out. But then we realized the power of the public relations aspect of being part of an emerging industry. It was powerful that there was a name for what we were doing. It fit into a column somewhere and showed up on spreadsheets, and in the *Wall Street Journal* articles about things to watch. It ended up getting all of us much more publicity, because we were now not just this weird one-off company, but we were part of an industry.

Beautiful. So it seems like you were already speaking to a few technical components of how NuvoMedia laid the foundation for Kindle and Nook. I also remember a few weeks ago, you told me that a number of your team members from NuvoMedia later dispersed into those projects.

Yeah, they did.

So some of your biggest technical decisions carried over to Kindle and Nook. How else did NuvoMedia lay the foundation for those e-readers?

One of the things is a strange thing. So, publishing is super old. It's so old that its legal constructs predate the United States. So there are all kinds of weird carve-outs in the legal code in the US because publishing pre-dated the forming of the Republic. So that allows all kinds of monopoly behavior that you can't do anywhere else. If you're an author, the rights that you're selling to the publisher are incredibly finely sliced and diced. So for example, you can say to one publisher: you have the right to publish in English only for the North American market. And you can say to another publisher: I'm going to sell you the English-language rights for the European Union. And you can sell another publisher the English-language rights for the South American market, and sell the Spanish-language rights to yet another publisher, and you can also restrict them based on hardback or paperback, and so on. Those are all separate rights categories that are sold by an author individually, indefinitely. In the 90's "digital" wasn't one of those categories.

So we'd talk to publishers about digital publishing and they would say, "Okay, we're into it. We like this idea." And then we talked about the cryptography, and we got them comfortable with that. But then, the question was: *do they even have the right to sell any of the works*? And their legal teams would come back with different answers. The real answer is no, they didn't have any digital rights. They had to go back and negotiate with their authors to sell the digital rights for e-books.

But one of the publishing houses knew this was coming. I don't remember which one, but it was one of the big ones. They said, "We've been negotiating digital rights for the last two years; we'll have our whole catalog of new authors available."

We said, "Great!"

Then, literally the night before a big release of a big-name title on our e-reader, their lawyers contacted us and said, "Oh my god, stop, you cannot release this; we actually *don't* have the digital rights. We thought we did. We don't."

It turned out that they had negotiated the digital rights, and they had put it into the contract. But in the contract, they had said, "...but we don't really know what 'digital rights' means. So the actual terms of the payment structure will be determined later."

So it took them about two months to sort that out with a bunch of the big-name authors to get to some kind of agreement.

So that framework, that idea of these digital rights being a separate slice of that publishing pie—all the publishers got that around the same time. By the time we had come and gone, every single deal with an author had a digital rights component. And either those publishers bought it or they didn't. But they all created these things based on us, basically. And we spent a lot of money on lawyers in New York to help publishers construct these things, and help the authors come up with these agreements.

So, we did make it much easier for future e-book vendors, because by the time they got there, the publishers were like, "Oh, digital rights—yeah, we have that." And they really did have it then because we had gotten it all ironed out.

And then, of course, when the idea of e-books kind of took off a little bit, we had a bunch of engineers and other people who ended up at the Kindle project and at the Nook project.

Years later, when the Nook was under development, I got a call from one of our former employees. He said, "You won't believe where I am or what I'm doing." He was working for Barnes & Noble on the Nook project, *in the same office* that we had rented six years before, our first office NuvoMedia. It just so happened that they leased the same building.

It was pretty crazy. I went over there, and I was like, "Oh my god, this is such a throwback."

That's totally unbelievable. Thank you for that! So I'm wondering, was NuvoMedia a mission-driven company?

Not in the same way that Tesla was. But at NuvoMedia we began to understand the importance of mission. Almost everyone who worked for us loved books and loved reading. That's why they were drawn to this particular startup, versus the gaming chair startup (or whatever). And that made it all kind of fun. Martin and I got into it because we were interested in publishing and authors and books and everything, and we attracted people who also liked those things, so it was exciting. And then, when it began to have a meaningful impact on the visually impaired population, that made everything even more interesting. In fact, a couple of our engineers later ended up at a longstanding Palo Alto nonprofit that is devoted to books for visually impaired people. Working with us they had become mission-driven around making reading accessible to everybody. That wasn't our original intent, but it happened along the way, and we realized it was important.

How many people ended up working at NuvoMedia in total?

It was not a lot. We were pretty lean, and we had contract manufacturing. So we only had about 50 employees. We had an office in Germany because Bertelsmann was a big investor, and they were the biggest publishing house in the world. So we had a presence in Germany that they facilitated. And we of course had an office in New York City, because all the publishers in the US are in New York City. So we had to have representation there. And then we had everybody else in Silicon Valley. Between all those places there were about 50 people total.

How crucial were the first few hires to your success? And can you tell me a little bit about them?

Yeah, so the first few hires are always important. I'm a software person, and we hired a great set of other software people who made all the difference in the software team. Martin is a great hardware guy. He hired some great, really scrappy hardware people he'd worked with. We had a great VP of manufacturing who knew how to work with contract manufacturers, and that facilitated actually making the product—because remember, there was a physical product there. We also made a few wrong hires along the way. And that was a big learning, as to how to deal with that.

Now, would those same first hires have been right if the company had grown to 1,000 people? Probably not. But they were perfect for the stage that we were at—being very scrappy and driven to get things done. As a company grows up, it's possible that not all those initial people will grow with the company. I mean, it's not clear that WE would have grown with the company if it had reached that size.

Now I want to ask about the biggest challenges—technical or non-technical challenges. Is there anything that stands out?

Well, we had the usual challenges with supply chain and stuff. Beyond that, one challenge was that we had two customer bases. We had the people buying the e-reader and the books. And then we had the publishers which we needed to allow us to have the content available on the platform. That's why we actually had two names. We had the Rocket eBook, which was our consumer-facing brand. And we had NuvoMedia as our publisher-facing brand, because "new media" has a meaning in the publishing industry. If we had been the Rocket eBook in New York with the publishers, that would not have worked. So we learned pretty quickly that we needed to have one brand facing the publishers and another brand facing our end customers, which was kind of an interesting challenge in terms of branding and PR.

The legal thing with the publishers was a challenge just because in some ways, we just didn't expect digital rights to be such a complicated thing. We just assumed the publishers had it. As I said, some of the publishers thought they did too, but they didn't. So that was a big challenge.

Another challenge: A huge company tried to kill us multiple times. The company actually ended up in antitrust litigation later—not specifically because of us, but because they had an incredibly predatory business culture, which tried to kill other companies.

The first time they tried to kill us, it totally screwed up one of our financings. They deceived and cajoled our lead investor to pull out of the round by promising him something on the same night when we were gathering the final signatures. Our lead investor got completely bamboozled—and was later infuriated, when he realized he'd been lied to.

Another time, the same company targeted one of our suppliers: a big manufacturer that was going to make our product for us. While we were setting up the line—literally!—the manufacturer told us that we had to leave because a much bigger customer called. They threatened to terminate *their* manufacturing deal if ours was allowed to continue. Apparently that company had an e-reader team, too. They never produced anything, but they were planning to be in that market.

Is that as low as the lows got?

Yeah, I mean, that was pretty bad. Our Venture Capital partners, though, saved us. I think part of it was that they had seen this behavior before—so, when we were attacked in that way, they were like, “Oh, we’ll float you while you sort this out.” And maybe that was even a good signal to them, that a bigger firm was trying to kill us. Maybe to them, it meant we really had something. I don’t know if they felt that way. But I do wonder, because they were so supportive when it was so clear that a big company was after us.

What was the Yang to that Yin? What was the most exhilarating and awesome thing?

We had a couple of great media hits. One was when Oprah liked our e-reader. That was huge! All the publishers worshiped her, because she had sort of single-handedly stopped the decline of reading in America with her Oprah book club. It wasn't just the books that she promoted; it also spawned all kinds of other book clubs. She liked our Rocket eBook, and that was such a highlight for us.

We also had a funny thing that happened in New York. Martin and I had a bunch of meetings lined up with these New York publishers, and the *New York Times* happened to run a big article—the cover article in the tech section of the *New York Times*—happened to be all about us. We knew we had been interviewed by them, but nothing had come out for weeks, maybe months. Then they decided to run that article on the very same day when we were in New York, meeting with all of these publishers. It was great, because every time we'd walk into the meeting room, they would have the *New*

York Times and they'd say, "We read this! We know all about you."

It was just completely coincidental but it was perfect. That's when you're like, "Oh, this is gonna work, we're gonna rule the world. This is actually good." That was one of the more amusing things.

That's great! I love that. That leads me into a question I wanted to ask you earlier, about you and Martin—what made you a good team?

Well, first off—we've done a blend of hardware and software, and I'm a software guy, and Martin's a hardware guy. So that helps. But also, Martin is much more visionary, frankly, than I am. He believes in these things, typically, before I do, and he has vision. I'm better at all the little things to make that happen. We need the legal agreements, we need to do this, we need to do that—all of that stuff that actually is important to get right. So it's a little bit more operations, I guess. I mean, I'm not a COO really, but because I'm not *that* good at it. But I'm better than Martin at logistics. And that combination works pretty well.

And then we're both relatively optimistic. You have to be optimistic to do any of this stuff, because chances are you're going to fail anyway.

My engineer friend was asking about that, specifically: is naivete a prerequisite for a first-time founder?

A little bit. But, having had kids, I think that it's very much like, if you actually knew everything that goes into having kids and parenting and everything, no one would ever do it, right? I mean there's just so much work. But of course, it's the best thing. But the great thing is that there are examples—you yourself are an example, like your parents decided to have kids, even though it seems daunting. And so when you look around, starting a company seems super, super hard. And it is. But there's lots of examples around you. I mean, all the companies that you see, everything that we do, those are all examples of people who took that plunge, and it worked. So, you know, there are lots of discarded disasters along the way. And yes, you have to be a little naive to want to do it. Because if you knew everything that went into it you'd just go, "Oh my god, there's no way." But on the other hand, there are all these examples of success, so you know that it's possible.

And you did it again anyway! When you didn't have NuvoMedia anymore, you started Tesla. Had you just forgotten how bad it was?

People have multiple kids because they kind of forget the trauma of the first one. And you also believe, whether rightly or wrongly, that next time you're going to do it better—because you've learned, right?

What was something that you learned and carried over from NuvoMedia to Tesla? Maybe it was a mistake, or maybe something you got right the first time that you made sure to repeat.

A couple of things were really important. One was that when you have employees that aren't working out, you need to fire them really soon—as soon as you realize that this isn't a fit. It's better for them, because then they get to go off and be part of something that's a better fit for them. And it's better for you because you just can't afford to have people who aren't performing. And if you have someone who's not performing, it can cause other people who would be performing normally to not perform well. And we didn't really understand that until Tesla. Before Tesla, in reflection, we'd always go, "Oh, I wish we had done this X number of months earlier"—like we knew, we really knew in our heart of hearts and wished we'd done something earlier. We were still learning that lesson at Tesla, but we were much better at it.

The other thing that was really clear to me as a first-time startup founder is that at the beginning, you wear lots and lots of hats. You're everything. I was running accounting and HR and engineering and facilities. And Martin had a similar stack of things he was doing. And there are a handful of things that are relatively time-consuming and easy to hand off. And as soon as possible, it is SO important to hire somebody to do those things, to free up the executive staff to do things that they can add more value on.

So when we started Tesla, one thing I said to Martin is: “Here’s the deal—the moment that we have funding, we’re going to hire an office manager who’s going to take control of logistics and HR, figure out the phones and the internet connection, and all that stuff that consumed us for months and months and months and months of time before we hired people to fill those roles. And we’re going to start there.”

And of course, as the company grew, we had to get an actual HR department, and all that. But at first we just had an office manager. And like magic, we were so much better at the beginning, because we had an amazing, totally incredible office manager at Tesla.

So that was your first hire?

Yes. We interviewed her the first week we had funding. And it was unlikely that we got her, really—she was so obviously overqualified. She even said to us, "I'll do this for a year or whatever, but then, if this works out, I want to have this other job in marketing." So we agreed, and she was terrific about it. She made that transition and was unbelievably terrific in both roles.

That's really valuable information—getting rid of some of the hats you're wearing as soon as possible.

They're taking time. Now when I'm advising a startup, if the CEO is spending a lot of time working on health insurance (which is not uncommon) I'm like, "You need to find somebody else to be talking to these health insurance companies about the 12 employees you have, because you just shouldn't be doing that. I want you talking to the next major customer, not fighting with some health insurance company over someone's claim. You've got to outsource that." So that's something we learned deeply from Nuvo.

Did you and Martin ever have a big disagreement at NuvoMedia?

No. We didn't always agree on little details. And when we decided to go to Germany, I thought that was an error and distraction, while Martin had reasons to do it. But I trusted Martin's judgment enough, so we did it. I think in the end it was a fun move. I don't think it helped us, but it was still good.

What about your board? Did you ever have any major disagreements with your board?

We had one investor who was so caught up in the dot-com bubble thing that even though he invested knowing exactly our plan—we never varied the plan—he believed that once he was on the board, he could completely change the direction of the company. But then he just wasn't able to, because the other board members had signed up for the plan, not something else. So he was a complete pain the entire time. He wasn't aligned with the company's interests at all. In the end I think we were the only portfolio company that made him money.

And the board also helped you when you were having all those problems with that big company that was trying to take you down.

Yeah, that was the big one. We were out of venture funding at that time, and we'd be out of money if we didn't have the manufacturing deal we'd planned out. But our investors bridged us instantly. They could have extracted all kinds of terrible terms and stuff. But they just wrote a check and said, "We're in the round. We know you'll put it back together again." That was unbelievable—they were incredibly supportive investors. As I said, obviously, they saw what happened, and I think it might have reaffirmed their belief that there was something really here—but also, they were just supportive. It wasn't like we had failed to execute. We were on the right track. We were doing everything that we said we would do, and they believed in us, even as the round fell apart 12 hours before we were supposed to get the money. So they just bridged us. It was awesome.

So, within that month, you guys could have totally fizzled out.

We would have cratered. We couldn't have made payroll. We would have literally shut down that week if they hadn't bridged us. And the thing is that it was likely we'd get a bridge—but the VCs could have been really mean about it. And instead, they just wrote a check. They didn't extract any pain.

And ultimately the company was acquired. How'd you decide to sell?

This was in 2000, so the dot-com catastrophe hadn't happened yet. But there were cracks showing up. The public markets were getting a little squirrely. There was a lot of concern going around. We were on track; we had just raised money, so we weren't out looking. And we were approached out of the blue by somebody completely inbound—cold inbound. We didn't know who they were. So we thought it was a joke. I mean, we just didn't even consider it. But the guy kept calling. And then they flew their company jet to Silicon Valley, and then we were like, "Oh, this is actually real!"

Then we took the time to look into it. Google was still nascent; it was Alta Vista; the amount of information available just wasn't very high.

So then we did some research and went, "Oh, this is actually a real public company with billions of dollars of market cap."

The CEO came and gave a presentation on why we should sell to them and how we would fit into their brand empire and what his vision for the future was. And the price was totally fine. It wasn't a homerun for any of the investors, but it was a totally fine return. And we knew we were going to be needing to raise money in about a year, and things were looking a little squirrely, so we thought, "Well, you know, this would just solve that, and they have huge resources." We wouldn't be scrambling for a little bit more money to build more products. They would just place the purchase order. So, we thought it was a way of really getting our eBooks out there in big volume and being more successful. They had marketing channels that we didn't have, and they could afford advertisements—all those things that we couldn't afford, they could. So we thought it was a good deal for the company. And it was obviously fine for the investors. And it was fine for us too. By the time we sold, the founding team didn't own a whole lot of the company, because we'd raised a whole bunch of money, but it was still a very nice return for us.

My last question is: how do you think about startup timing now?

Now is probably a great time to start something because most of the really big companies were founded during downturns of the market, when things weren't so easy. And I think that's still probably true. VCs are still writing checks, especially at the beginning. In the current climate, it's more difficult as you get closer and closer to the public market, and IPOs are so much harder at the moment. But at the beginning, in the early stages, people are still writing checks and are still very hopeful that the economy will do okay, and there'll be innovative companies doing great things.

But I think it's always a good time to start a company. I can always come up with a reason why it's a good time.

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