AOL CO-FOUNDER STEVE CASE ENVISIONS NEXT WAVE OF TECHNOLOGY AND INTERNET ADVANCE

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Excerpts from Mr. Case's Remarks

What is the third wave you see coming? The first wave was building the Internet and awareness of the Internet. The second wave is building on top of the Internet with apps and services. The third wave is about to happen. It is integrating the Internet in seamless and pervasive ways really in every aspect of our lives. There's a potential to really change, in a very powerful, impactful way, how we think about health, education, energy, money, food.

What is impact investing? The core idea is there will be a new a class, and beginning to be a new class of companies that, while of course they're focused on profit, they're also focused on purpose, and they're focused on measuring their impact. And there is even a new legal classification. Some folks know about S-corps or C-corps. There's now B-corps, or benefit corporations, where they bake into the charter, you know, the impact they're going to have. Revolution Foods, for example, one of the things they track is job creation, because that's a key kind of factor for them.

And this is attracting now a growing number of potential investors, because the sense is this is the way to have a broader impact on key issues in society while also generating a significant return. And particularly younger people really are resonating with companies that have this broader purpose. And they don't really want to work for a company or do business with a company or invest in a company that's only focused on profit.

So there's ... still some skepticism, particularly on Wall Street, that the Milton Friedman view of the world, which still is the view that a lot of people have, is a company should focus exclusively on profit – maximizing profit, period, and anything else is a distraction. But I think there is a growing recognition that I share – and obviously, we at the [Case] foundation believe in – that this new class of investments is going to end up doing really well. Listen, I think the returns are going to be at least as good, maybe even better, because of the fact that it's able to attract a much more loyal, committed, passionate employee base, customer base, and investor base.

How do investment firms view this concept? Even some of the big firms – I'm sure, you know, you won't announce it today, but I'm sure Carlyle's looking at this. Blackrock's announced something. Bain – Deval Patrick, the former governor of Massachusetts, joined Bain last year. They're launching a Bain impact fund. So it's not just something kind of on the fringes that some people are looking at. It's becoming a more mainstream concept in the financial world.

And I think it will be very positive. I think the dynamic around impact investing – kind of this profit plus purpose; the dynamic around the rise of regional entrepreneurship – this notion of the Rise of the Rest that we've talked about and that's a key focus for us investing at

Revolution; and the rise of this third wave and some of the dynamics around partnerships and policy, those are each separate paths, but my belief is over the next five or 10 years they're actually going to start converging. And all three [waves] will accelerate as a result.

At what audience is your new book, *The Third Wave: An Entrepreneur's Vision of the Future,* aimed? the main message is that this next wave is going to be different. And that it requires a different mindset to be successful and it requires a different playbook. And so that was the main thing.

In terms of the audience – maybe it's we're being overly ambitious – but of course we hope to reach an entrepreneurial audience. We also think that, in the third wave, big companies are going to be more important, and they need to figure out ways to be more flexible and nimble and agile and partner with entrepreneurs. So hopefully some large companies will figure out a way to kind of lean into the future. There obviously is a desire to have it continue to play a role in influencing the dialogue in this town and others around the right policies.

And my real hope is that it will be helpful to a broader range of people, much as that Alvin Toffler *The Third Wave* was to me, because there are a lot of people who are confused with what's happening. The pace of technology is confusing. The nature of jobs and work has changed. Thirty-four percent of people now are part of the freelance economy. That didn't exist 20 years ago. When I grew up, my dad, like, had one job for 60 years. So when I had a few jobs in a few years, they were kind of, like, freaked out. Well, now some people have a few jobs with a few different companies in the same day. You know, how do you think about that gig economy – what some call the flexible economy? So I'm hopeful it will reach a broader audience and help people understand, you know, what's happening out there and how to position themselves in their own families, their own careers, for this future.

So my guess is the core audience will be entrepreneurs, and sort of that is the handbook for the third wave, and that would be great. But I hope it has a broader appeal.

DAVID M. RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, welcome to this, the 10th event of our 29th season, a luncheon event in the Independence Ballroom at the Grand Hyatt Washington, D.C., Hotel. We're very pleased to have as our featured guest Steve Case, who's the chairman and CEO of Revolution LLC, and also the author of *The Third Wave: An Entrepreneur's Vision of the Future*, which was released last week, and you each have a copy at your place. Steve will be available after the interview today to autograph copies, so please stay if you'd like to do that.

Among all the things that Steve Case has accomplished, perhaps the most impressive. is that he's also a member of The Economic Club of Washington. [Laughter, applause.)]

All of you know Steve, but let me give you a little bit of his background. Steve is a native of Hawaii. He went to the Punahou High School there and graduated in 1976, three years before President Obama graduated from that school. Steve then went to Williams College, graduated in 1980. And from Williams College he then went to a great entrepreneurial venture, Procter & Gamble. [Laughter.] Served a few years there, and then joined Pizza Hut, where he had his favorite job title: director of new pizza development. [Laughter.]

From that position, he was told about a small company in the Washington area, CVC, that his brother, Dan Case, who is an investment banker, had thought might be a good fit for Steve. Steve joined this company, CVC. And that became later, as we all know, AOL.

And Steve took that company as the chairman and CEO to one of the most incredible success stories in American business. It started out as a company with virtually no revenue. And when the company went public in 1992 at a market value of $70 million, it then went up to a market value at the year 2000 of $164 billion. And then Steve took that company and merged it with Time Warner and made it a company of $350 billion in market value. Steve became the chairman of that company and then, after a number of years as chairman, decided to focus his energies on more entrepreneurial ventures and started Revolution LLC, which invests in growth-capital companies and venture-capital companies. That company is based here. Steve has made a number of well-known investments in that area, Zipcar being one among others that you've heard of.

And Steve has also been very involved in philanthropic activities. He started in 1997 the Case Foundation, which he's the chairman and his wife, Jean, who's over here, is the president of it. And they've been very involved in trying to revolutionize philanthropy a bit, very involved in civic engagement, and very involved in entrepreneurial activities that they try to foster. In the philanthropic area, Jean and Steve also were among the first 40 people in the United States who signed the Giving Pledge, which basically says you're going to give away half of your entire net worth.

STEVE CASE: As did David. Just a point of record.

MR. RUBENSTEIN: Well – [laughter] – OK, now you lost my –

MR. CASE: Train of thought? [Laughter.] I should have interrupted you earlier.

MR. RUBENSTEIN: OK, all right. So – [laughter] – but in the –

MR. CASE: Earlier, by the way, you said that when we started up, we had very little revenue. Actually, when we started, we had zero revenue. Just as a point of fact, just to clarify that.

MR. RUBENSTEIN: OK. All right, zero. At zero revenue. [Laughter.] Well, revenue is overrated sometimes in the venture-capital world, but OK. [Laughter.]

So Steve also has been very involved in the public space, as well, and the nonprofit area, really fostering entrepreneurship, and he was a person who was appointed by President Obama to serve as Presidential Ambassador for Global Entrepreneurship. He was also asked to head up Startup America, which lead to the JOBS (Jumpstart Our Business Startups) Act. And Steve was also a member of the President's Council on Jobs and Competitiveness.

So he has a full life doing many things in the public area, the philanthropic area, and the business area. And he's also had time to write a new book, *The Third Wave*, which I have read several times. I highly recommend it. Everybody has a copy, as I mentioned, and we're going to talk about that book and Steve's life, which is reflected a bit in this book.

So why don't we start with the obvious, *The Third Wave*. What is the first wave, the second wave, and then what's the third wave? Why don't you describe that for those who haven't yet read it?

MR. CASE: Sure. Well, first of all it's great to be here. I've always enjoyed coming to these luncheons. And David, as you know, is a terrific interviewer. I always joke with him he could be the next Charlie Rose, and he says, well, but it doesn't pay all that well compared to – [laughter] – this Carlyle full-time gig.

And great to see so many friends, including a lot of people working at Revolution, the Case Foundation, a lot of AOL folks. So great to see you. Thanks for coming.

In terms of setting up the book, I first should say I've resisted writing a book for 20 years or so. People say, why don't you write a book about this or that or the other? I just wasn't that interested, because I've always been more interested in what's happening next as opposed to what happened already. So it's more kind of looking forward, not looking back. So the idea of a memoir or something just personally wasn't all that interesting. But a couple years ago, I realized that some of the things that happen in the first wave were going to happen again in the third wave, and they were different from the second wave. So it felt like the right time.

But just to answer your question, the first wave is just building the Internet, and building awareness of the Internet, and building the on-ramps to the Internet, and building the software and the networks and the services to enable people to get connected to the Internet, which of course we now take for granted. But when we started AOL in 1985 – and I should say the other two co-founders, Jim Kimsey and Marc Seriff, were critical. And as most of you know here, we lost Jim last month. And AOL never would have happened without Jim's kind of leadership and the credibility he provided us. That was a big loss. But when we started, only 3 percent of people were online. Those 3 percent were only online one hour a week. And so when we said we wanted to get America online, we were serious. And it took us a decade before we got going. And many other companies – IBM and Microsoft and Sun and HP[1], Cisco – a whole host of companies really, were part of that first wave, just building the Internet and getting everybody connected.

The second wave has been the past 10 or 15 years, and it's been building on top of the Internet. So it's been apps and services on top of the Internet. And the most famous ones are things like Facebook and Twitter and Instagram and Waze and things like that – basically software as apps riding on top of the Internet, mostly riding on top of smartphones. And there's been huge successes there, obviously. There will continue to be.

But I think the third wave is sort of what's about to happen. And it's kind of taking the next level, which is integrating the Internet in seamless and, you know, pervasive ways really in every aspect of our lives. And in the process there's a potential to really change, I think, in a

[1] HP is the Hewlett-Packard Company.

very powerful, impactful way fundamental things like how we stay healthy, or how our kids get educated, or how we think about energy, or how we think about money, or how we think even about things like food, which haven't changed that much in the first or second wave but I think are going to change in the third wave. But it needs a little bit different mindset to be successful and a little bit different playbook. So that was the motivation to say, OK, rather than, maybe it's time now to put pen to paper.

MR. RUBENSTEIN: OK, well, we're going to talk about *The Third Wave* in a moment. Before we get into that, I'd like to talk about your background, because it's quite interesting. When you grew up in Hawaii, did you ever have an interest in entrepreneurial activities? Was that always your bent?

MR. CASE: Kind of. I can't say when I was a kid I even knew what an entrepreneur was, but I kind of liked the idea of starting things and, you know, liked the idea of imagining different ways to do things and liked the idea of making money. Sometimes they worked, sometimes they didn't, but I kind of liked that aspect. So I think I was an entrepreneur early on, but it was really only when I was in college that I really kind of focused.

And particularly I should say that I read a book by Alvin Toffler in 1980 called The *Third Wave*. And I start off the book with that story and kind of paying homage to him because he really was pretty pivotal in terms of my thinking about my future. And he talked about the electronic – talked essentially about what we think of as the Internet years before it was really commercialized. And so that sort of set me on this path saying, that's really interesting; I think that's going to happen. I want to figure out some way to do it. When I graduated in 1980, there weren't really companies to go to do it and there wasn't really the kind of startup culture we have now, where you can basically figure out a way to get going. So that's why I did my Procter & Gamble and Pizza Hut jobs for a little while, while I was kind of figuring out a way to kind of break into this thing.

MR. RUBENSTEIN: But Williams didn't encourage you to do entrepreneurial activities. They didn't offer entrepreneurial courses, I assume?

MR. CASE: Yeah, it's a great school, a great liberal arts school, but there was not anything even remotely related to business or entrepreneurship or marketing or – I used to joke that I ended up majoring – maybe it's not a joke in Washington, but I majored in political science because that was, like, the closest thing to marketing that Williams offered.

MR. RUBENSTEIN: Wow. [Laughter.] You're right, in Washington that's not a joke.

MR. CASE: I'm sorry – I'm sorry to offend you. [Laughter.]

MR. RUBENSTEIN: All right, so tell us, you went to Procter & Gamble for a couple years, and then you went to be in charge of new pizza development at Pizza Hut. What do you do when you're that?

MR. CASE: You travel around the country and you eat pizza. It's actually a really cool gig if you're like 22 years old. [Laughter.]

No, I – the reason I did that was some practical reasons, like, you know, I got a better title and my salary went up substantially. But also Procter & Gamble was a great company and I learned a lot, including the way they sample products, like free shampoo to give you a try. Kind of helped inspire our free trial disc for AOL, which I suspect some of you got at some point in time. [Laughter.] And I learned a lot from them. It was a terrific company. But it's sort of a classic kind of top-down company. Pizza Hut's really run by the franchisees, so it's much more of a bottoms up – the innovation was happening at the periphery. So that's why I did – I was only there for about a year before – then I moved to D.C. in 1983. But they both were interesting experiences – both kind of relatively large companies, but with a very different mindset in terms of how to, you know, organize, particularly around innovation.

MR. RUBENSTEIN: So when you stared in Washington at a company called CVC – I guess your brother had recommended that you might be able to help them, but that company didn't really work and it morphed into another company. And how did it actually come to AOL? Where did that name come from?

MR. CASE: There were several pivots there. When I moved here in 1983, it was to join this company called at the time Control Video. And their product was called GameLine, essentially for Atari game machines. PCs[2] didn't really exist, but a lot of people had Atari game machines. And so the idea was essentially a communication modem masquerading as a game cartridge that you plugged in the Atari game machine, plugged in your phone, and you could download a game – almost like a Netflix for video games, which everybody thought was a great idea when it got announced, but by the time it actually started shipping in the fall of '83, that market had kind of blown up. And I remember going to my first board meeting – like this is my welcome to my world of startups, and Frank Caufield, a venture capitalist – founded the firm Kleiner Perkins Caufield & Byers, one of the top firms – was in that board meeting, and looked at the sales and said, you would have thought they would have shoplifted more than that. [Laughter.] It was terrible. I think we were like 99 percent off-plan. And so suddenly, like, we had to lay off like 80 percent of the company. And it was like, ooh, startups. [Laughter.]

But then we tried to do partnerships with some phone companies and did for a little while. Then we restarted as a new company in 1985 called Quantum Computer Services; did partnerships with Commodore and Tandy and Apple – had a big deal with Apple, first time they licensed their brand name, called AppleLink Personal Edition. And then, in 1989, probably, they decided they didn't want to license their name anymore – didn't like the idea of this partnership, and so they said we want to cancel the deal. That forced us to rename the company. And that became the Internet service America Online, and eventually it became AOL. If that partnership had worked, I'm not sure we ever would have been forced to come up with America Online. So sometimes these crises end up creating opportunities.

[2] PCs are personal computers.

MR. RUBENSTEIN: So you were trying to convince people then that they should get on the Internet. People didn't really know what it was, and they had to dial up on their telephones. How hard was it to convince people to do something on the Internet?

MR. CASE: It was really hard. But again, I recognize that we take it for granted now. But it was really hard, took us a decade before we really got going. You know, you mentioned the IPO[3]. In 1992, we went public. It was the first Internet company to go public. We'd been at it for seven years and we had 184,000 customers. And seven years later we had 20 million customers. So it was slow going, and eventually it took off.

The reason it was slow going? Most people didn't have PCs. The people who had PCs, most of them didn't have a communications modem. Remember, back then you'd have to go to the computer store to the peripheral section to get this wacky thing called a modem. If you did get connected, there was nobody to talk to, because nobody was online. [Laughter.] There was nothing to do, because there was not much content. It cost in many of these services $10 an hour to be connected. So there's a reason why it was slow. But eventually we figured out a way to make it easier to use and more useful and more fun and more affordable. And eventually, you know, all the PCs got modems built in and communication. I mean, everything kind of came together in the mid-'90s. And that's when it finally took off.

But that first decade was tough. Even the IPO roadshow – I still remember it vividly, it was 20 – what, 23, 24 years ago? Most of the meetings were: Why would anybody other than crazy hobbyists and hackers ever want to get online? That was the conventional wisdom of pretty smart, you know, people. I remember watching—when I was working on this book, we looked at some old stuff and there was a PBS[4] interview on the PBS nightly show, and the interviewer asked me – this was 1995 – why would anybody need this? [Laughter.] We'd been at it a decade and they were still asking, why would anybody need this?

So to me the lesson was sometimes revolutions happens in evolutionary ways, and it requires perseverance. And that's one of the themes in this third wave, one reason I wrote the book, that the second wave has been – there have been a lot of overnight successes, that really great, great companies came out of nowhere. I think there will be some of those, but far more of them will be like that AOL's 10-year-in-the-making overnight success.

MR. RUBENSTEIN: So you had a thing at AOL which was "you have mail."

MR. CASE: Right.

MR. RUBENSTEIN: And where did the voice come for that?

MR. CASE: [Laughs, laughter.] It's a great story. We were trying to make the service friendlier – more human, so people would be less threatened by it and more likely to try it. And so one of the ideas we had was to basically add voices to the software. The modem, the narrowband dial-up – that screeching modem sound you might – I fondly recall, maybe – [laughter] – maybe you

[3] IPO is initial public offering of stock.
[4] PBS is Public Broadcasting System.

less so. Basically, it was pretty slow, so transmitting voices and graphics and music was impossible 20 years ago. But we basically decided to store a voice file on the software, and when you first connected it basically triggered that file and it said: "Welcome. You've got mail."

The voice actually came from the husband of a woman who worked in our customer service department, Karen Edwards. Her husband Elwood did, like, voiceover things. So I was talking about this. We were small. We only had a few dozen people at the time talking about, we should add some voices. And she said, my husband does, like, radio work. And I said, OK, why don't you – so I scribbled down, like, "welcome" and "you've got mail" and a few other things and said, why don't you have him record this, figuring it's almost like a demo – we'll see how it worked, and then, like, get somebody – like, somebody else to do it right. And you know, the next morning she brought the tape in and it was perfect. And so we added it to the software and he became one of the most iconic voices of that generation.

MR. RUBENSTEIN: So you decided to make some acquisitions, and one of the companies you bought was run by a guy named Ted Leonsis, Redgate. How did that come about?

MR. CASE: It was the first acquisition we made after we went public, so it must have been 1993. And you know, we were aware of what he was doing, particularly around multimedia and new media. He was based in Florida at the time – Vero Beach, Florida. And so I – as I talk about in the book, the – I had lunch with him – breakfast or lunch with him in Boston. And basically, at the end of – I think it was breakfast – at the end of it, said, we should merge our companies. And Ted looked at me and said, like, can't we date first? I mean, like – [laughter] – but, yeah, it took us a few months. And, then I was just saying, well, while we do this deal, you can stay in Florida and keep running Redgate and, you're going to be the center of what we're doing around multimedia and marketing and stuff like that. And a few months later I called him and I said, well, you could stay there, but seemed like it maybe would be better for you and us if you moved here. And he basically became one of the key executives that drove that growth phase and, you know, thankfully ended up with some of the money he made there buying some sports teams here, as everybody knows, and been a great, great owner. So I'm glad we did that deal because he was helpful at AOL, and I'm glad he agreed to come to D.C. because I think that's been helpful to D.C.

MR. RUBENSTEIN: So at some point, as you were getting more attention, somebody said, well, maybe this is a good company; I should start buying the stock. And Paul Allen, one of the co-founders of Microsoft, started buying your stock. Did you think he was trying to take over your company?

MR. CASE: Initially not. Initially he was very interested in the future and was making a lot of investments. This was now 20-plus years ago, not long after we went public – a year or two after we went public. And initially we thought he'd be a great ally; if he owned part of the company, if I were 10 percent of the company, maybe we could partner together on broadband or other initiatives, because he was doing a lot of investments. And but then it got a little more complicated because he kept buying more stock and, you know – [laughter] – it was a little crazy because our biggest threat then was Microsoft, which we believed would gear up to launch, and he was still on the Microsoft board. And you know, we were having discussions with Microsoft, and so we weren't quite sure what to do with it.

And eventually, when they really accelerated, our board was advised by our lawyers and investment bankers to put a poison pill on – you know, obviously you know what it is, but basically it allows an investor to buy up to a certain percentage, but then it's highly putative if they go over, so people don't. And they say you should put this in at like the 15 percent level, so if he owns 15 percent that's fine, but more than 15 percent not fine. But he blew past that before we kind of were able to approve it, so it ended up being 20 percent. So then we then we didn't really trust him, and we went like this.

MR. RUBENSTEIN: So did anybody actually come along at some point – Microsoft or anybody else – and say, we'd like to buy your entire company? Did that –

MR. CASE: Oh sure, several, several. And I mentioned actually one of our early competitors, a company owned at the time by H&R Block called CompuServe, tried to acquire us just before we went public. And I think they offered $50 million or $60 million, and there were a bunch on the board who wanted to sell. It was sort of like, you know, big competition coming, seemed like we've had a nice run, you know, collectively over seven or eight years we'd raised like $10 million in venture capital, so $50 million, $60 million seemed, like, not bad.

MR. RUBENSTEIN: Want to mention their names, those who wanted to sell, or –

MR. CASE: Nope. [Laughter.

]MR. RUBENSTEIN: No. [Laughs.]

MR. CASE: But they know who they are. [Laughter.]

And then the other was Microsoft, that after we went public that they really did want to – and I have – there's a little bit in the book about some of those meetings with Bill Gates. They basically decided – not surprising – that the Internet was going to be a key part of the, you know, the future and they needed to be a significant player in it. So they kind of said, you know, we'd like to acquire you, or at least invest in you, or we're going to do something that – he didn't use these words, but essentially do something that might crush you. So it was sort of like the – [laughter] – we can play the nice way or we could play the tough way. And we then, again, had a little bit of a kind of a discussion about it, and ultimately decided it would be better to stay the course and kind of told them we were not interested in that path.

MR. RUBENSTEIN: So in those days you dealt with Steve Jobs as well. And how did you compare Steve Jobs and Bill Gates in those days? Did you think they were both uniquely smart, but different? Or how did you compare them?

MR. CASE: Oh, they're very different. And I should say, when we were dealing with AppleLink early, Steve was not there. He'd been fired, and so he was not there in that period.

So when he went back to Apple – probably '98, something like that – you know, I reengaged with him and we worked together on a bunch of different initiatives.

But yeah, they were very different. You know, Bill was and still is very disciplined and he's about getting market share, or now some of the initiatives with the Gates Foundation, which have been, you know, just extraordinary, and – but not as creative. He was more focused on the alliances, the partnerships, the deal side of it. And Steve was – while that part was obviously important – much more focused on sort of the product side of things.

MR. RUBENSTEIN: So your company, growing and growing. As I mentioned, it became around the year 2000 market value of about $160-some billion. You then decided maybe you should buy somebody else. How did you decide to pick Time Warner versus Disney or others? And what were the processes that you went through?

MR. CASE: It was complicated. We spent probably six months thinking about it. But you know, the run had been pretty extraordinary. I think it was two years before we did the merger, our market value was $20 billion. And then, you know, by the time we were, you know, talking about this, it was $160 billion. So, you know, it had been a pretty good run. [Laughter.] And so we were, you know, a little worried about that in terms of what would continue, but also really wanted to make sure we were well-positioned strategically for the future, more of a broadband future. So some of it was defensive in terms of having – believed having a more diversified mix of businesses would be good. And some of it was also trying to, you know, be positioned for where we thought the market was going.

MR. RUBENSTEIN: OK, so you ultimately decided Time Warner. Was it hard to convince Jerry Levin at the time to do this deal?

MR. CASE: Yeah, it took a little while. I did – as I say in the book – it would be hard to do because Time Warner was a much, much larger company; much, much more revenue; much, much more profits; yet, we had a higher market cap. So it was going to be challenging anyway.

But I did say the first time I proposed it to him, and I called him and I said, if we could put these two companies together, I'd be willing to step aside as CEO and let you be the CEO. And I thought that was an important thing to signal early on just because that would increase the odds – and I think it did – of actually getting something done. But it took a few months and, you know, stop-starts, you know, close, not close before we finally came to a deal.

MR. RUBENSTEIN: All right. So you announced the deal in – 2000?

MR. CASE: 2000.

MR. RUBENSTEIN: 2000, or in January 2000, and everybody said this is the biggest deal of all time and so forth. But it didn't quite work out the way you thought. What went wrong?

MR. CASE: Well, I've thought a lot about that, obviously, and there's a whole chapter in the book on it. But the core to me is that it was about people and culture. The idea of the merger

I still think made sense. And some of the things we talked about when we announced the merger – what is that now, 16 years ago? – have happened. And you know, if you look at the innovation, including Apple, which then later launched iPod, and digital music, and YouTube, and you know, a lot of things that have become really – Netflix – popular, most of those things didn't exist at the time or were just, you know, really small things. And this combined company should have been able to do that. But it just wasn't able to get organized with the right people focused on the right things working together with the right kind of spirit of collaboration. There were, you know, a lot of, you know, turf wars and things like that.

So to me it was – and I cite a Thomas Edison quote when I think about the merger, which is: "Vision without execution is hallucination." [Laughter.] Ideas are great, you know? Vision's important. But you got to execute. And that, ultimately, is about people. And you know, it's thinking about how to get people, you know, all on the same page and kind of working together, headed in the same direction, just was difficult. And there were a whole host of reasons why, and I go through some of them. But at the core it was about execution and at the core of that was people.

MR. RUBENSTEIN: So did you get nervous at the announcement of it? You, the high-tech guy, showed up with a coat and tie, and I appreciate your wearing one today –

MR. CASE: Yeah, I'm trying to be respectful of David. I'm in the Club here.

MR. RUBENSTEIN: Right, right. And he, who always wore coats and ties –

MR. CASE: It's a clip-on, by the way.

MR. RUBENSTEIN: Clip-on, that's – mine are, too. [Laughter.]

And Jerry, who was a guy that wore a tie I assume all the time, he showed up with no coat and tie. Did you not coordinate?

MR. CASE: I think that was a – no, we didn't coordinate. That was a signal that we both were trying to signal, you know, that I was trying to signal respect for the legacy of Time Warner. It had been around for nearly a century. And he was trying to signal a welcoming to the younger, entrepreneurial, you know, technology crazies.

MR. RUBENSTEIN: So when the deal didn't work and then the stock was heading down, you were vilified because you were chairman of the board, though you weren't running the company. Was that hurtful that you were being criticized by many people who really didn't realize you weren't running the company, or?

MR. CASE: Yes.

MR. RUBENSTEIN: It was – OK. [Laughter.]

MR. CASE: No, it was. No, I understood some of that just goes with the territory. The idea of the merger was my idea. I was the one who pushed for it. I was the one who proposed it. I was the one who built support within AOL and ultimately with Time Warner. So in that sense, of course I'm responsible for it.

At the same time, you know, there were some disagreements about strategy – we should do this versus do that. And so it was frustrating that we weren't able to get things all headed in the right direction. But after a couple years, actually it wasn't too long, I decided to step aside as the chair because it wasn't really working for anybody, you know? I was frustrated. They were frustrated. So it was just kind of time to move on.

That's when I decided to kind of start making investments here, now 14, 15 years ago, and then over time build up, you know, Revolution.

MR. RUBENSTEIN: So talk about some of the deals you've done at Revolution that you think are revolutionary, and maybe examples of either second-wave or third-wave deals.

MR. CASE: Well, one of the ones we did relatively early on, probably about 12 years ago, was Zipcar – you mentioned it – which was really the very first sharing-economy company. There's now a bunch of companies – Airbnb and others – that have become really important companies. But the idea then that there would be this sharing economy that – it didn't really make sense for most people, particularly most young people living in cities, to own a car. It made sense to share access to a car. That concept was something that really, you know, struck a chord at the time. They weren't in that many cities. They didn't have that many members. It was still relatively early. But they were able to, you know, build it into a broader phenomenon. Now, obviously, there's other things in mobility – Uber being the most visible – that are showing this kind of sea change in terms of how people even think about cars. So that was an example of something that we saw relatively early on and believed in.

We've done a bunch of things. We have, as you said, a venture group and a growth group. We've done a bunch of things, including many things in the D.C. area. We're quite bullish about D.C. We think people don't fully understand or appreciate the momentum in the startup community here. And I think D.C. is uniquely well-positioned for this third wave.

MR. RUBENSTEIN: Part of the sharing economy is you have a company there where you can rent a luxury home or something like that. And how is that done?

MR. CASE: Right, Exclusive Resorts. We did that probably, again, 11, 12 years ago. It's done pretty well. I mean, when the market turned a few years ago, you know, it got a little more difficult. But it's growing again.

MR. RUBENSTEIN: OK. And you have a food company – like a healthy food company in the Washington area.

MR. CASE: Actually, two. We've invested in two – we believe food is one of the areas most ripe for disruption. You know, when investors look at markets, they look at what's called total addressable market, or TAM. For food, it is 100 percent. [Laughter.] Like, everybody eats. And in this country on average it's not three meals a day, by the way; it's 4.6 meals a day. So there's a lot of people eating a lot of stuff, and mostly junk stuff. And so there is an expectation that in the next decade you'll see a whole slew of new brands emerging that are providing healthier options.

Two that we've backed, one was based here. Sweetgreen started in Georgetown. Three Georgetown grads said they were frustrated they didn't have healthier options. That's grown like crazy. They've got D.C. and Boston and Philadelphia and New York and Los Angeles, about to open in San Francisco, looking at some markets in the middle of the country. And they're sort of the next generation, you know, fast-casual business. And fast casual – Chipotle, Sweetgreen, things like that – are eating away at the fast-food business, and the biggest trend there is around healthier options. And so that's one.

The other is Revolution Foods, which is a company based in Oakland that's providing healthier school lunches. That was the core of what they are doing, now doing a couple of meals a week and supporting schools all over the country. Most of the students at most schools in most parts the country, the stuff they get at lunch is not very good. It was two moms who had a teaching background, who said we've got to do something better, and started that company. It's grown rapidly. Now they're expanding into supermarkets with a whole product line. I think they'll be one of the next great food companies. But it was inspired by entrepreneurs who said there is a better way. You know, breaking into the school lunch business would be hard; but eventually, if they can do that, they can build a, you know, a significant company. This year it will do probably $150 million of revenue. So it went from a little idea to a reasonably sized company. And that's a $20 billion business that seems ripe for disruption.

MR. RUBENSTEIN: So Revolution Food, the fact that it had the name "Revolution," that didn't appeal to you particularly? Or that wasn't –

MR. CASE: Well, it was kind of an accident. When we started Revolution, we tried to lock up a lot of brands and domains just, you know, so we had the flexibility. That's not one we locked up. But we've known them from almost the time they started and watched them with admiration. It was only a couple years ago they got to the point where they were at this growth inflection, and that's when we decided to invest. And I also joined the board.

MR. RUBENSTEIN: Now, for those who aren't familiar with the difference, what is a venture-capital investment and what's a growth-capital investment?

MR. CASE: The way we look at it, venture-capital investments are investing in startups and growth is investing in speedups. Startups, for us, we're typically making a $5 million investment at what people think of as sort of the Series A or Series B, pretty – the first money or close to the first money. And on the growth side, we're typically making $30 million, $40 million, $50 million investments when companies have shown some real progress but still have a significant opportunity. So generally, with ventures, the valuations typically are $20 million, $30 million, $40 million. With growths it's typically $200 million or $300 million. So it's clearly advanced, but we believe there's still significant growth ahead.

MR. RUBENSTEIN: So when people invest – you have outside investors, pension funds and wealthy individuals – they're trying to get what kind of rate of return? Or what kind of rate of return are you trying to get for them – two or three times their money and a 20 percent rate of return, annualized?

MR. CASE: A little better than that. We want to be one of the top investment firms focusing on entrepreneurs and be what, as you know, kind of the top decile firms, which for the venture business generally is three times plus. And so that's our kind of target in terms of what we're looking to generate.

MR. RUBENSTEIN: Now, does every deal work out? Or do you have some –

MR. CASE: No, of course not. Of course not. [Laughter.] Now, I know at Carlyle they always work out, but – [laughter] –

MR. RUBENSTEIN: Not always.

MR. CASE: We also do some really early stage. We call these Rise of the Rest investments in different cities. We're making really kind of, you know, kind of angel kind of investments early on, and obviously those are riskier. By the time they're growth, we actually think there's not a lot of risk. The question is, can they capitalize on the opportunity? So, you know, we're pretty cautious there. We want to make sure that the core model and the core team are in place. But sure, the early stage, particularly in the investment business, there's always going to be risk.

MR. RUBENSTEIN: So you, as I said, with your wife signed the Giving Pledge. What did your children say when you said I'm going to give away half my money? Did they say, what about – what's left for me or anything like that? [Laughter.] They didn't say that?

MR. CASE: [Laughs.] No. We were blessed with five great kids. We think they're pretty grounded and off on their own, you know, kind of paths and finding their own way and, you know, kind of doing their own thing. And so, early on, you know, we made it clear that, you know, that that was what we wanted to see happen, and we wanted to encourage them to be independent and do their own thing and, you know, in their own way, and so they should plan accordingly. And so they were not – [laughter] – particularly surprised by the Giving Pledge because we had kind of made – I wouldn't call it a pledge – but we kind of laid down some of the ground rules, or at least our expectation, when they were much, much younger.

MR. RUBENSTEIN: So one of the things you've done through your foundation – and Jean has been a big leader in this – is what's called impact investing. So what is impact investing?

MR. CASE: Well, this is an interesting area, and it's really in the last couple years gotten a lot of traction. And the core idea is there will be a new a class, and beginning to be a new class of companies that, while of course they're focused on profit, they're also focused on purpose, and they're focused on measuring their impact. And there is even a new legal classification. Some folks know about S-corps or C-corps. There's now B-corps, or benefit corporations, where they bake into the charter, you know, the impact they're going to have. Revolution Foods, for example, one of the things they track is job creation, because that's a key, you know, kind of factor for them.

And this is attracting now a growing number of potential investors, because the sense is this is the way to have a broader impact on key issues in society while also generating a significant return. And particularly younger people really are resonating with companies that have this broader purpose. And they don't really want to work for a company or do business with a company or invest in a company that's only focused on profit.

So there's some – particularly a few years ago, when Jean and the Case Foundation team started focusing, there was some skepticism – still is some skepticism, particularly on Wall Street, that the Milton Friedman view of the world, which still is the view that a lot of people have, is a company should focus exclusively on profit – maximizing profit, period, and anything else is a distraction. But I think there is a growing recognition that I share – and obviously, we at the foundation believe in – that this new class of investments is going to end up doing really well. Listen, I think the returns are going to be at least as good, maybe even better, because of the fact that it's able to attract a much more loyal, committed, passionate employee base, customer base, and investor base.

And even some of the big firms – I'm sure, you know, you won't announce it today, but I'm sure Carlyle's looking at this. Blackrock's announced something, Bain – Deval Patrick, the former governor of Massachusetts, joined Bain last year. They're launching a Bain impact fund. So it's not just something kind of on the fringes that some people are looking at. It's becoming a more mainstream concept in the financial world.

And I think it will be very positive. I think the dynamic around impact investing – kind of this profit plus purpose; the dynamic around the rise of regional entrepreneurship – this notion of the Rise of the Rest that we've talked about and that's a key focus for us investing at Revolution; and the rise of this third wave and some of the dynamics around partnerships and policy, those are each separate paths, but my belief is over the next five or 10 years they're actually going to start converging. And all three will accelerate as a result.

MR. RUBENSTEIN: So you have Revolution. You have all your philanthropic activities. So how did you have time for, and how did it come about, that you started to make yourself into a bit of a spokesman for entrepreneurship? Did the President call you and say, can you take the lead in the JOBS Act? How did that come about?

MR. CASE: It evolved over time. Obviously, having – like you, lived in Washington now for more than half my life. In the early days of the Internet, the government actually played a central role in funding it, and the decision by Judge Greene to break up the phone companies, the decision by Congress to pass the Telecom Act to commercialize access to the Internet, and a bunch of decisions around taxation on the Internet and other things. You know, in the '90s, I spent a lot of time on policy working at the time with President Clinton and the Congress. So I was always involved in policy.

It became more of a priority five or six years ago. I was asked to co-chair the National Advisory Council on Innovation and Entrepreneurship. They made a bunch of recommendations, one of which led to the White House launching the Startup America initiative. Another led to essentially a report on access to capital that led to the JOBS Act, which legalized crowdfunding and some other things. And that then led to me leading the Startup America thing and joining this Jobs Council.

And it's just sort of evolved over time, and I was happy to play the role because obviously I'm passionate about it, and particularly passionate about democratizing access to entrepreneurship and democratizing opportunity. Part of what was always exciting for all of us who were part of that early, first-wave AOL journey was democratizing access to information. How do you kind of level the playing field so everybody has access, you know? We're trying to do the same thing around entrepreneurship, and trying to figure out how to make sure entrepreneurs, no matter where they are or no matter what their background, if they have an idea, you know, they get a shot. And there is a role for government to play in sort of setting the table, setting the rules of the road.

MR. RUBENSTEIN: So do you think you've inspired President Obama such that when he leaves office, he might want to be an entrepreneur? Has he ever said that to you?

MR. CASE: [Laughs.] He has not said that to me. But I hope – he actually has been – in the Administration, Jeff Zients and Valerie Jarrett and, you know, a lot of other people have been very, very supportive of this effort around startups and entrepreneurship. And even the language in the last couple years – the language he's used in the State of the Union and other things – you know, I think really signals the importance of startups, the important role they play in innovation, the important role they play in job creation, the important role they play in economic growth. So I'm not sure he will end up being a startup entrepreneur post-presidency. I think he has some other things in mind. But I'm sure he'll figure out a way to continue to support entrepreneurship, and particularly the idea of leveling the playing field, including inclusive entrepreneurship.

Last year – the data is actually not so good – but 75 percent of venture capital went to three states: California, New York, and Massachusetts. Seventy-five percent. So the other 47 states, including us – D.C., Maryland, Virginia – are basically fighting over the other 25 percent. We think in this next wave, this third wave, we'll see a growth of regional entrepreneurship, and that's a big thing.

The other data point that's also troubling is that 90 percent of venture capital – there are different numbers– but roughly 90 percent of venture capital goes to men, only 10 percent to women. But that doesn't really reflect the distribution of good ideas. And the proof of that is you look at crowdfunding sites like, you know, Kickstarter, it's closer to half of the successful projects have women. And it's also, you know, disadvantages, people of color who don't have access to the networks of people who have access to money.

And so this idea of leveling the playing field around place, including different regions, and around purpose, including impact investing, and also around giving everybody an opportunity – not everybody's going to have a good idea. Not everybody is going to be successful. But everybody who has an idea should have the choice or at least the option of making that work.

And I remind people that, you know, Mark Zuckerberg, when he decided to start Facebook, happened to be at Harvard and happened to have a rich friend across the hall. Most people aren't at Harvard, and most people don't have a rich friend. So if they had the idea of Facebook, what would they do? And trying to create an environment all across the country that does allow people to take a shot – does allow, if they're successful, to lift up some of those communities and create more jobs, and growth and things like that – I think is really very important. And I hope it'll be one of his priorities post-presidency.

MR. RUBENSTEIN: But you've pointed out in your book that a large percentage of the jobs in the United States – the new jobs – come from startups. And many people think it's the large companies that create jobs, but you point out that it's actually the startups that are really creating the jobs.

MR. CASE: Yeah, the data on that's pretty compelling. The Kauffman Foundation's[5] been tracking this for a while, and they say that there's really three sectors of the business world: the small businesses – the restaurants, dry cleaners, Main Street kind of businesses, which actually are really important and in aggregate account for a lot of jobs, but don't in aggregate account for a lot of job growth, because generally one restaurant goes out of business, a new restaurant comes in, but it's not net creating a lot of jobs; and the big companies, the large Fortune 500 companies, they generally don't have a lot of net job growth. The Kauffman Foundation data says in the last three decades 40 million jobs have been created by these young, high-growth companies, and they say it accounts for all the net job creation.

So this is what led to the Congress and the White House working together to pass the JOBS Act, even though it was a tough election year four years ago and people said, oh, nothing's going to get done in an election year. It did get done. It got signed into law because people were focused on jobs. Unemployment was a real concern. I think at the time the unemployment rate was 9 percent, something like that. And both parties came together and said, you know, we want to focus on jobs. An important way to focus on jobs is to make it easier for people with ideas, no matter who they are and where they are, to raise capital. And so they updated – for the first time since 1933 – the Securities Act that basically kind of, you know, set in place the rules of the road in terms of raising capital, including using the Internet to raise capital through this idea of crowdfunding. So I – hat's off to, you know, the President and the White House, but also the Republican leadership – particularly, at the time, Eric Cantor – who took that on and said, you know, we're going to figure out a way to – even though everybody said nothing's going to get done, you know, we're going to figure out a way to get this done. And they did get it done.

MR. RUBENSTEIN: You point out in your book that crowdfunding was approved by the JOBS Act, but then the SEC[6] took several years to come up with the regulations. Are the regulations now as such that they can work?

[5] The Ewing Marion Kaufman Foundation.
[6] SEC is Securities and Exchange Commission.

MR. CASE: They were slow. And I understand their concern, because startups are risky and investing in startups is risky, and they wanted to make sure there was sufficient education and kind of a process to make sure that people didn't get taken advantage of. Totally understandable.

But it took a little longer than it should have to put those rules in place. I think Congress required them to do it in, like, a hundred days. It took them three years, and the rules are a little more cumbersome than they need to be. But at least they're there and they'll – you know, I think they'll get tweaked over time. And I think it will unleash a lot of capital, and it will help level the playing field. And as I travel around the country, I run into a lot of entrepreneurs who are now thinking about taking that shot because they do feel it's a little easier now to raise capital than it was before.

MR. RUBENSTEIN: So this book is written for whom? Is it written for entrepreneurs – budding entrepreneurs? Who do you want to read this? And what would you say is the main message you're trying to convey to people?

MR. CASE: Well, the main message is that this next wave is going to be different. And that it requires a different mindset to be successful and it requires a different playbook. And so that was the main thing.

In terms of the audience – maybe it's we're being overly ambitious – but of course we hope to reach an entrepreneurial audience. We also think that, in the third wave, big companies are going to be more important, and they need to figure out ways to be more flexible and nimble and agile and partner with entrepreneurs. So hopefully some large companies will figure out a way to kind of lean into the future. There obviously is a desire to have it continue to play a role in influencing the dialogue in this town and others around the right policies.

And my real hope is that it will be helpful to a broader range of people, much as that Alvin Toffler *The Third Wave* was to me, because there are a lot of people who are confused with what's happening. The pace of technology is confusing. The nature of jobs and work has changed. Thirty-four percent of people now are part of the freelance economy. That didn't exist 20 years ago. When I grew up, my dad, like, had one job for 60 years. So when I had a few jobs in a few years, they were kind of, like, freaked out. Well, now some people have a few jobs with a few different companies in the same day. You know, how do you think about that gig economy – what some call the flexible economy? So I'm hopeful it will reach a broader audience and help people understand, you know, what's happening out there and how to position themselves in their own families, their own careers, for this future.

So my guess is the core audience will be entrepreneurs, and sort of that is the handbook for the third wave, and that would be great. But I hope it has a broader appeal.

MR. RUBENSTEIN: So what would you like to see as your legacy in the business world? I mean, you've obviously built a gigantic company. You did one of the biggest mergers ever. What would you like to see as your legacy – what you're doing now, what you did before?

MR. CASE: Oh, a mix. I mean, I obviously will be proud – and again, many people in this room were key parts of it – of the role that AOL played in making the Internet part of everyday life. And I think that has been a game changer and changed the world in a pretty fundamental way, and I'm proud of that. But I'm also proud of the work we're doing now with Revolution, backing the next generation of entrepreneurs who are trying to disrupt some key aspects of our lives that can be improved, we think, in very significant ways, and build significant companies in the process.

And I also want to, on the more broader level, including what we're doing with the foundation but also some of the work on the policy side, do what I can to make sure we remain the most innovative entrepreneurial Nation, which is not guaranteed. It's not guaranteed. I mean, what's happening around the world as people have kind of figured out that the secret sauce that's powered the American story is entrepreneurship. So I remind people that, 250 years ago, America itself was a startup. It was just an idea. And now we're the leader of the free world because we led the way in the agriculture revolution, and then the industrial revolution, and then the technology revolution. And we can continue to lead the way. Hopefully we will lead the way in the third wave. But it's not guaranteed.

So how do you make sure – and it's all the things we've been talking about. How do you make sure capital's available, the playing field is level, opportunity is available to all – that cities outside of Silicon Valley and New York, like places we've visited like Detroit and Des Moines and Madison and Kansas City and Raleigh-Durham and New Orleans become vibrant startup communities in this third wave, which will create jobs?

Detroit is a great example of this. It's sort of a – 75 years ago, Detroit was Silicon Valley.

MR. RUBENSTEIN: Right.

MR. CASE: Seventy-five years ago, it was the hottest city in the world for the hottest technology at the time, the car. Then it lost its way. It kind of lost its entrepreneurial mojo. A lot of things happened – it's not any one thing – but kind of lost its way. And in the last half-century, Detroit has lost 60 percent of its population and went bankrupt. And it was Silicon Valley. So these things – now they're fighting their way back. What's happening, particularly in downtown areas, really quite exciting.

New Orleans got devastated by Katrina. They're fighting their way back, in part by backing a new generation of entrepreneurs mostly focused on education technology, because they had to reinvent their school system there. They're on the rise.

These cities are on the rise. And how do you make sure that innovation, job creation, economic growth is more broadly dispersed and not just in Silicon Valley or New York or Boston or a few places? I want to do what I can to kind of drive that discussion, or at least participate in that discussion.

MR. RUBENSTEIN: Well, some people who are in the business world say the way to affect policy is to run for President or office. Would you ever consider running for office?

MR. CASE: No. I will pass on that, because there are many people in the room who are skilled at that. I kind of like my gig right now, which is mostly focused on Revolution and backing, you know, kind of great entrepreneurs; a lot on the – you know, on the foundation and trying to drive – Jean really runs it – but trying to drive some of these initiatives like inclusive entrepreneurship, impact investing, and then try to play a role.

And part of whatever limited success I've had on this is because it has been nonpartisan. It has been focused on policy, not politics. I don't endorse candidates. I don't give money to candidates. I don't host fundraisers for candidates. Some of those candidates don't like that. But it's deliberate, because I want to make sure that they view me – whoever's the next President, I want to be positioned to try to be a helpful force in bringing people together on the issues that I care about or on innovation, entrepreneurship, immigration – which is a big issue, tied into innovation. And I don't think if people thought I had any political interest I would be as credible as sort of this kind of behind-the-scenes policy wonk.

MR. RUBENSTEIN: Well, Steve, I highly recommend to people this book. I've read it several times. And it's actually very, very impressive, well-written. And I congratulate you on doing it and congratulate you on a very successful business and entrepreneurial and philanthropic career. Thank you, Steve. [Applause.]

On behalf of the members of The Economic Club of Washington, I want to present to you an engraved commemorative plaque from the Club.

MR. CASE: Thank you. Thank you all. Great to see you. [Applause.] Thank you, David.

Steve Case

Chairman and CEO, Revolution LLC
Co-Founder, America Online
Chairman, The Case Foundation

Steve Case is one of America's best-known and most accomplished entrepreneurs, and a pioneer in making the Internet part of everyday life.

As Chairman and CEO of Revolution LLC, a Washington, D.C.-based investment firm he co-founded in 2005, Steve partners with visionary entrepreneurs to build significant 'built to last' businesses. Revolution invests in and actively helps build companies leveraging technology to disrupt existing markets. This includes both early and mid-stage growth companies through both the Revolution Growth fund, created in 2011, and the Revolution Ventures fund, launched in 2013. Revolution has backed more than 30 companies, including: sweet green, Zipcar, Revolution Foods, LivingSocial, Bigcommerce, and Optoro.

Steve's entrepreneurial career began in 1985 when he co-founded America Online (AOL). Under Steve's leadership, AOL became the world's largest and most valuable Internet company, driving the worldwide adoption of a medium that has transformed business and society. AOL was the first Internet company to go public and the best performing stock of the 1990s, delivering a 11,616% return to shareholders. At its peak, nearly half of Internet users in the United States used AOL. In 2000, Steve negotiated the largest merger in business history, bringing together AOL and Time Warner in a transaction that gave AOL shareholders a majority stake in the combined company. To facilitate the merger, Steve agreed to step down as CEO when the merger closed.

Steve's passion for helping entrepreneurs remains his driving force. He was the founding chair of the Startup America Partnership— an effort launched at the White House to accelerate high-growth entrepreneurship throughout the Nation. Steve also was the founding co-chair of the National Advisory Council on Innovation and Entrepreneurship, and a member of President Obama's Council on Jobs and Competitiveness, where he chaired the subcommittee on entrepreneurship. In 2014, Steve was named a Presidential Ambassador for Global Entrepreneurship.

Steve has been a leading voice in shaping government policy on issues related to entrepreneurship, working across the aisle to advance public policies that expand access to capital and talent. He was instrumental in passing the JOBS (Jumpstart Our Business Startups) Act, and is active in advocating on behalf of immigration reform.

Steve is also Chairman of the Case Foundation, which he established with his wife Jean in 1997. Together the Cases have invested in hundreds of organizations, initiatives, and partnerships with a focus on leveraging the Internet and entrepreneurial approaches to strengthen the social sector. In 2010, Steve and Jean joined The Giving Pledge and publicly reaffirmed their commitment to give away the majority of their wealth to philanthropic causes.