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BIG MONEY ON CAMPUS

See charts showing how Stanford and its president are linked to Silicon Valley[2], and also learn more about the connections between industry and other university presidents.

The Golden Touch of Stanford's President

How John Hennessy's Silicon Valley connections reap millions for the university -- and himself

By JOHN HECHINGER and REBECCA BUCKMAN in Palo Alto, Calif.

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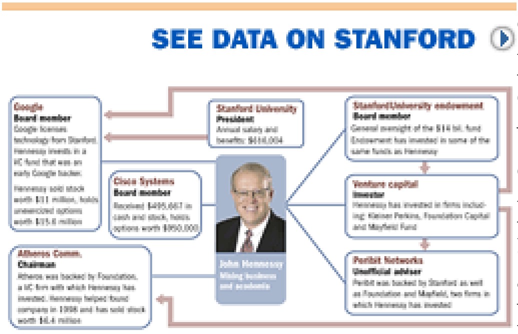
In the month of November, John L. Hennessy, president of Stanford University, made $1 million. It didn't come from his day job.

Mr. Hennessy, an engineer who co-founded a semiconductor company, has used his talents, Silicon Valley connections and academic position to help win billions of dollars for Stanford. He has done well for himself, too. Mr. Hennessy's November haul included a $75,000 retainer from **Cisco Systems** Inc., on whose board he sits, plus $133,000 in restricted Cisco stock, proceeds of $452,000 from selling stock in **Atheros Communications** Inc., where he is co-founder and chairman, and a $384,000 profit from the exercise of **Google** Inc. stock options. He sits on Google's board.

That month makes up only one part of an income stream that many in academia



Sources: Stanford University, SEC filings Photo: Stanford University

consider without precedent for a university president. In the past five years, through exclusive investments and relationships with companies, Mr. Hennessy has collected fees, stock and paper stock-option profits totaling $43 million, securities filings show. That dwarfs his $616,000 annual compensation at Stanford, where he has been president since 2000.

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Mr. Hennessy, 54 years old, represents a new model for the American college presidency, once the province of tweedy scholars. Stanford has long been intellectually and financially intertwined with Silicon Valley -- companies such as Google, **Hewlett-Packard** Co. and **Sun Microsystems** Inc. owe much to the school -- but none of its previous leaders have had such close and lucrative ties to the tech world.

In addition to sitting on the boards of Google, Cisco and Atheros, Mr. Hennessy has invested in elite venture-capital funds, partnerships that back high-tech start-ups. The venture firms include Kleiner Perkins Caufield & Byers, Sequoia Capital and Foundation Capital. He has advised and found backers for a number of college-based companies.

Some academics complain that the magnitude of Mr. Hennessy's extracurricular financial gains, especially in the clubby world of Silicon Valley, could create tensions between his duty to the university and his outside business interests. Others, including the chairman of Stanford's board of trustees, strongly support Mr. Hennessy as a gifted president who has helped the university, especially with fund raising. Stanford says it has created institutional safeguards to address any conflicts.

Mr. Hennessy notes that many of his investing and entrepreneurial activities predate his job as president, and says that he always puts the university's interests first. "Stanford is where I've committed my life," he says.

Mr. Hennessy's outside business interests crisscross his life at Stanford. Stanford and Google have a number of business relationships, giving Mr. Hennessy a seat on both sides of the table. He has invested in venture-capital firms generally inaccessible to the public, many of which invest the university's money. Mr. Hennessy has introduced some of these firms to promising Stanford entrepreneurs. He has also put his own money into Stanford-based projects.

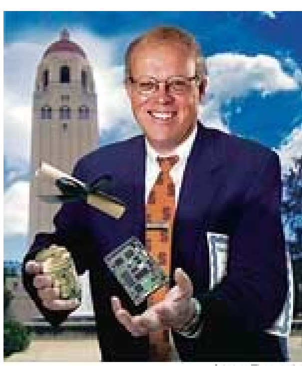
Mr. Hennessy sits on the board of Stanford's endowment, which selects venture funds for the university's portfolio. One firm that won such a coveted role last year has counted Mr. Hennessy as an investor, and also backed two Stanford-born start-ups partly on the president's recommendation. The risk for the university: the perception that venture firms are buying their way into the endowment -- a stamp of approval from one of the nation's most prestigious schools -- through their relationship with Mr. Hennessy.

William M. Chace, the former president of Emory and Wesleyan universities, and a former vice provost at Stanford, calls Mr. Hennessy's outside profits "remarkable," and says they must cause "a special problem and dilemma" for him. "If this were me, I'd have to ask myself, 'Where are my primary obligations?' " says Mr. Chace. (He didn't work with Mr. Hennessy when they were both at Stanford.)

One of Mr. Hennessy's predecessors, Donald Kennedy, says he was initially concerned about some of Mr. Hennessy's business activities but was reassured after conferring with a university official. In 2004, after a big Google stock-option grant to Mr. Hennessy became public, Mr. Kennedy says he called a Stanford administrator and asked the university to take a close look. "I was worried that there might be a perception on the part of reporters and the public that there could be a conflict of interest," he says.

Mr. Kennedy, a biologist, joined no corporate boards during his presidency, citing time constraints.

It is relatively common for presidents at top universities to join corporate boards. A 2005 Chronicle of Higher Education survey found that about a third of presidents at four-year universities served on at least one board, though just 12% sat on more than one.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Ruth Simmons, president of Brown University, sits on the boards of Goldman **Sachs Group** Inc., **Pfizer** Inc. and **Texas Instruments** Inc. In 2005, she took in about $732,000 from those posts in cash and stock awards, plus Texas Instruments options that currently carry a paper profit of $160,000. Brown paid her $685,000. The same year, Princeton President Shirley Tilghman joined Mr. Hennessy on Google's board. She received a stock grant of $1.9 million and options with a paper profit of $1.8 million. These awards vest over five years. Princeton paid her $596,000.

Representatives of the schools say the presidents recuse themselves from any matters involving the companies. Brown says Ms. Simmons might reduce her corporate activities, though the university says they haven't detracted from her performance. Mr. Hennessy says he works less than one day a week on his board posts -- the maximum allowed under the university's ethics code.

The code defines a "conflict of interest" as a "divergence" between an individual's "private interests" and university obligations. It counsels faculty to "minimize" such conflicts but adds they are "common and practically unavoidable in a modern research university" and must be disclosed to university officials when they arise.

Burton J. McMurtry, chairman of Stanford's board of trustees, calls Mr. Hennessy "a strongly committed academic" and a talented administrator whose corporate endeavors benefit the university. He and Debra Zumwalt, Stanford's general counsel, say the school has built protections to head off any potential conflicts of interest.

Mr. Hennessy has recused himself from Stanford business involving Google, and would do so if the school had dealings with Atheros or Cisco, Ms. Zumwalt says. In those matters, Stanford's second-ranking administrator makes the decisions. As for the endowment, Messrs. Hennessy and McMurtry say a professional staff controls the fund's investing without the knowledge of its board.

Ms. Zumwalt says Mr. Hennessy has disclosed details about his personal investments to her and to Mr. McMurtry. Stanford wouldn't release Mr. Hennessy's internal financial disclosures. Mr. Hennessy has "gone overboard" to make sure his holdings don't affect the university, says Ms. Zumwalt. "He is completely, 100% ethical and devoted to Stanford's interests," she says.

Mr. Hennessy says he has given away more than $2 million in stock to charity in recent years and that much of his total gains are paper profits on unexercised options -- nearly $17 million. He says many of these unexercised options, as well as some stock, haven't vested, meaning he isn't free to profit from selling them today. In addition, he says at least half his venture-capital investments haven't been profitable so far.

The Stanford president says his compensation is lower than that of many of his peers. He says the university might have to pay him more were it not for his outside income. Mr. Hennessy says his current board posts help the university because they allow him to "see a lot of things we could do better."

Mr. Hennessy's admirers compare him to Frederick Terman, the legendary former provost who introduced William Hewlett to David Packard in the 1930s, helping kick-start what became Silicon Valley. Mr. Terman joined the board of Hewlett-Packard and was a paid consultant for a high-tech investment fund, according to a recent biography by Wesleyan University professor C. Stewart Gillmor.

With his gray hair and glasses, Mr. Hennessy looks the part of an ivory-tower academic. He and his wife, Andrea, his high-school sweetheart, live in the official Stanford President's house. They also own a home in Atherton, Calif., valued at $2.2 million, a relatively modest sum compared with the lavish spending common among the high-tech jet set.

Mr. Hennessy is a fixture in the Valley's social scene, often to Stanford's benefit. In 1999, he helped land a $90 million gift from Netscape co-founder Jim Clark, who taught engineering with Mr. Hennessy at Stanford in the early 1980s.

He also persuaded **Yahoo** Inc. co-founder Jerry Yang -- his former student and a current Stanford trustee -- to help lead a successful $1 billion fund-raising campaign. Just this month, Mr. Yang announced he and his wife will donate $75 million to the university.

Including Mr. Yang, Stanford's 33-member board numbers 16 people who are venture capitalists, private-equity investors, money managers, or current or former high-tech executives or directors.

Board members and administrators say Mr. Hennessy helped the school improve undergraduate education and fund financial aid. In Stanford's 2006 fiscal year, which ended in August, the university raised $911.2 million, the largest annual take ever for a single school, according to the Council for Aid to Education, which tracks gifts to colleges.

In Mr. Hennessy's six years as president, Stanford received $3.45 billion in gifts, narrowly edging out Harvard for the No. 1 spot in that period, the education council says. Stanford's endowment, previously ranked No. 5 in the U.S., has jumped to No. 3, and at $14 billion lags only Harvard's $28.9 billion and Yale's $18 billion.

Mr. Hennessy, the son of an engineer, grew up on New York's Long Island. In 1977, he joined Stanford as a 25-year-old electrical engineering professor fresh out of graduate school. He became dean of the engineering school in 1996 before rocketing through the administrative ranks. Three years later, he became provost, replacing Condoleezza Rice, now secretary of state. In 2000, Mr. Hennessy was named Stanford's 10th president.

Two years later, Mr. Hennessy joined the board of Cisco, a company formed to commercialize computer-switching technology created at Stanford in the 1970s. Since joining the board in January 2002, Mr. Hennessy has received almost half a million dollars in cash and stock, and holds stock options carrying a profit of $924,000 if they could be sold at current prices -- not all are fully vested.

Throughout his career, Mr. Hennessy has mixed academics and commerce. In 1984, he left Stanford for 15 months to launch MIPS Computer Systems, a semiconductor company. In 1992, Silicon Graphics Inc. bought MIPS for $230 million. Mr. Hennessy says he made $1 million to $2 million from the sale.

Mr. Hennessy's success with MIPS inspired Nick McKeown, a Stanford professor of computer science and electrical engineering who calls the Stanford president "his role model."

In the late 1990s, Mr. McKeown co-founded Abrizio Inc., another semiconductor company. Because the technology came from Stanford, the company gave shares to the university under a licensing agreement. Mr. McKeown says Mr. Hennessy, who at the time was dean of the engineering school, often met him for coffee and gave him advice about strategy. In exchange, Mr. Hennessy had the chance to buy a small stake in the start-up, alongside venture-capital firms that put in about $6 million. Mr. Hennessy says he recalls his investment being in the "tens of thousands."

In August 1999, near the height of the high-tech boom, Canadian chip maker **PMC Sierra** Inc. bought Abrizio for $400 million. Later that year, Mr. McKeown and co-founder Anders Swahn, a high-tech executive, each registered to sell almost $54 million in PMC stock, according to a Securities and Exchange Commission filing. Stanford registered to sell $5 million, and Mr. Hennessy, $1.6 million.

In this combination of college and business, Mr. Hennessy's many roles have sometimes intersected. Amit Singh, one of Mr. Hennessy's graduate students, says Mr. Hennessy introduced him to a lawyer who put him in touch with first-round investors for his high-tech start-up, called Peribit Networks Inc. Soon after, one of those investors helped secure $10.5 million in funding from backers including Foundation Capital, a firm that has counted Mr. Hennessy as an investor. Mr. Hennessy won't say which venture-capital funds he currently holds.

In February 2002, Mr. Hennessy played golf with Kevin Fong, a venture capitalist who was considering backing Peribit, the two men recall. Between holes, Mr. Hennessy gave Mr. Singh a positive reference, Mr. Fong says. Mr. Fong's firm, Mayfield Fund, in which Mr. Hennessy has also invested, agreed to put $11 million into the start-up as part of its third round of financing.

Around that time, a couple of Stanford investment funds put in a small amount of money, Mr. Singh says. In 2005, networking company Juniper Networks Inc. bought Peribit for $337 million.

Mr. Singh says first and second-round investors, such as Foundation, made a return of eight to 10 times their money, while third-round players, including Mayfield and Stanford, received four times. Mr. Hennessy says he was not a personal investor in the specific Foundation fund that backed Peribit. He says he can't recall whether he was in the relevant Mayfield fund.

Charles Elson, director of the John L. Weinberg Center for Corporate Governance at the University of Delaware, questions Mr. Hennessy's dual allegiances. Mr. Elson says the president should have alerted Stanford to the possible investment when he first learned about it: "The question is: What hat is he wearing? Investor? Stanford president?"

Here, as in similar cases, Mr. Hennessy says that since he isn't actively involved in managing the endowment, he can't influence where its money goes. "I wouldn't have been in a position" to suggest the university make an investment, he says, adding that he "actually didn't know anything about the company."

The ties between Mr. Hennessy and Foundation Capital go deeper. Foundation played a key role in the creation of Atheros Communications, a chip maker that Mr. Hennessy and Stanford professor Teresa Meng co-founded in the late 1990s. At a party hosted by Foundation, Mr. Hennessy, still dean of the engineering school, broached Ms. Meng's idea with Foundation partner Paul Koontz, they both recall. Foundation backed Atheros, and Mr. Hennessy became chairman -- a post he holds today.

When Atheros sold shares in a 2004 initial public offering, Foundation made a return of more than 10 times its initial investment, says Mr. Koontz, who calls Mr. Hennessy "a great partner of ours."

Mr. Hennessy's money also went into the company through investments in two venture funds that backed Atheros. After the 2004 IPO, he received 12,899 shares of Atheros from both Foundation and another firm, August Capital, SEC filings show. Mr. Hennessy also received 600,000 "founder's shares" directly from the company.

Since 2004, Mr. Hennessy has sold Atheros stock for $6.4 million and gave away shares worth almost $1.2 million. He retains stock valued at another $3.7 million and holds 15,000 stock options carrying a paper profit of $150,000 at current prices. Over the past two years, he has also received $65,000 in director's fees.

Last March, Stanford's endowment invested with Foundation for the first time. Critics say the selection could give the impression that the venture firm won entry because of its relationship with Mr. Hennessy.

In an email, Ted Meyer, Foundation's chief financial officer, says Mr. Hennessy wasn't "actively involved in driving or directing" the endowment's decision to invest with his firm. But he adds that Mr. Hennessy has "been instrumental in the close relationship that we have with Stanford in our investment deal flow," including Peribit and Atheros.

Mr. Hennessy's role at Google has created the closest intersection with his Stanford duties. In 2004, several months before Google's public offering, the company appointed Mr. Hennessy to its board. Venture capitalist John Doerr, one of Google's original investors and directors, says he made the first overture to Mr. Hennessy, and the president declined. Both men say Mr. Hennessy worried about potential conflicts with his university obligations and the time commitment.

After six months of courting by Mr. Doerr and Google's founders, Mr. Hennessy signed on, Mr. Doerr says. Mr. Hennessy has invested money with Mr. Doerr's firm, Kleiner Perkins. Mr. Hennessy says he finally took the job because Google's transformative role on the Internet made the post "too interesting to pass up."

Google granted Mr. Hennessy 65,000 options to buy Google stock at $20 apiece. After the offering, as part of an earlier investment in a Kleiner Perkins fund, he received 10,556 Google shares, SEC filings show.

With Google shares soaring, Mr. Hennessy has made gains of $11 million from the sale of stock and the exercise of stock options, and has given away shares worth about $900,000. He retains stock worth $2.3 million. The paper profit from his unexercised options is $15.8 million; they can't immediately be sold because of vesting restrictions.

With his positions at Stanford and Google, Mr. Hennessy effectively sits on two sides of a business relationship. Google licenses its Internet search technology from Stanford, where founders Larry Page and Sergey Brin started the company and were Ph.D. students. As payment, Stanford received shares in the offering that the school has since sold for $336 million. Stanford continues to receive what it describes as "modest" annual licensing fees from Google. The initial agreement, the terms of which neither side will disclose, was struck in 1998, before Mr. Hennessy became president.

In an interview, Google CEO Eric Schmidt says the company expects no special treatment from Stanford. It sought Mr. Hennessy because of his expertise and experience, he says. Mr. Hennessy says he represents Google's interests, not Stanford's, when he sits on the Google board.

Stanford's library is one of a handful that has participated in a Google project to digitize books so that the public can search the texts. Major publishing companies and the Author's Guild, a professional organization for writers, have sued Google, saying the company is violating copyright law.

Paul Aiken, executive director of the Authors Guild, calls Mr. Hennessy's personal holdings in Google "a great concern" and says, "there seems to be both a personal and institutional profit motive here."

Ms. Zumwalt, the Stanford general counsel, says Stanford "walled off" Mr. Hennessy from any discussions involving the library project. She notes that Harvard and the University of Michigan, among others, have joined the project. So has Princeton, whose president also sits on Google's board.

In November, Google pledged $2 million to Stanford Law School's Center for Internet and Society, founded by Stanford professor Lawrence Lessig, known for his views that copyright laws are often too restrictive. The money will help fund a project at the center dedicated to help preserve the public's legal right to "fair use" of copyrighted material. It also intends to pursue legal cases relating to the topic.

Aine Donovan, executive director of the Ethics Institute at Dartmouth College, says Stanford shouldn't have accepted the Google gift because it is too narrowly tailored to benefit Google's corporate interests. "It might as well be the Google Center," she says.

Mr. Lessig says the gift won't affect his scholarship and that his views on copyright don't always agree with Google's, adding that there was no "quid pro quo." To avoid any perception of conflict, the center will avoid litigation if it relates to Google, he says. Larry Kramer, dean of the law school, says Mr. Hennessy wasn't involved with the Google gift and that the center supports scholars of diverse views.

For his part, Mr. Hennessy says, he's "been tremendously lucky" to have so many chances to work in Silicon Valley. He says he accepted the often demanding job of running Stanford for one reason: "I came to believe it was a way to repay the university."

--Charles Forelle contributed to this article.

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