

Brian Caulfield and Nicole Perloth, 01.26.11, 06:00 PM EST  
Forbes Magazine dated February 14, 2011

**Peter Thiel has made billions in social media. He's moving on--bankrolling ideas he thinks will save the world.**

Peter Thiel wants to save the world. Or, at the very least, to "take our civilization to the next level," as he frequently puts it. Almost every problem--the shortcomings of our political and educational systems, the lingering financial disaster, market bubbles, energy crises, the failed promises of the developing world, resource-based wars--stems from what he calls "stalled technological innovation." What a better place this would be, he often muses, if we could press the reset button and go back to the late 1950s and '60s and realize the predictions of science fiction that failed to materialize: ubiquitous space travel and colonization, robots à la the Jetsons, underwater cities, desalinization, reforestation of deserts and much more. Because we're all running harder and harder just to stay in place, the only salvation is big scientific breakthroughs.

It would be easy to write off Thiel as a "wackaloon," as one political blogger has called him. Indeed, Thiel is putting serious money behind companies and groups bent on extending life, colonizing on ocean platforms, commercializing space, promoting so-called friendly artificial intelligence and leapfrogging DNA sequencing, among other causes. Freedom, he has said, is incompatible with democracy. In one of his most provocative acts, he has offered hundreds of thousands of dollars to college kids if they drop out of school and start a business or pursue a breakthrough. "People think of the future as something other people do," Thiel says backstage at a December philanthropic fundraiser in San Francisco. "But there's something weirder about a society where people don't think about the future."

Harder to write off are Thiel's solid accomplishments. He cofounded, ran and sold PayPal to eBay. Thiel and his PayPal cohorts have since launched or funded many of the most innovative startups of the last decade. Among them: YouTube, LinkedIn, Slide (widgets to share images), Yelp (user reviews), the Founders Fund (a venture capital firm with a string of successes), Palantir Technologies (software to ferret out terrorists and financial scamsters), SpaceX (rockets), Tesla Motors (electric cars) and Kiva (microloans).

Thiel made the first sizable investment in Facebook. That \$500,000 check is now a 3% share of the social network, a stake reduced by selloffs and dilution that is still worth \$1.5 billion. Its cofounder Mark Zuckerberg still considers Thiel a valued consigliere.

"Whenever I am not psyched about the way things are going and there don't seem to be a lot of good choices, I can get some advice by talking to him," says Zuckerberg. "He's most helpful . . . when he calls you because he sees something."

Investors in Thiel's Clarium Capital Management may not feel so charitable. Assets in the hedge fund, once as high as \$6 billion in mid-2008, have been chopped down to \$460 million (a quarter of that is Thiel's own money). Clarium has had three consecutive losing years--down 23% in 2010, 25% in 2009 and 4.5% in 2008--by betting wrong, variously,

on rising oil prices and a sinking dollar. Oddly enough, Thiel's forecasts were right; his timing was punishingly off. It's as if he were so fixated on his vision of the future that he couldn't let go, even in the face of market realities. "It was a crazy ride up and ride down," says Thiel. Investors who have stuck with Clarium since mid-2008 have lost 65% of their money.

Are his big successes mere luck? "PayPal wasn't a fluke, Facebook wasn't a fluke, Founders Fund wasn't a fluke," says Netscape founder and investor Marc Andreessen, who sits on Facebook's board with Thiel. "Peter aggressively seeks opportunities to invert the conventional wisdom."

Of the first five shareholders of Facebook, three were born Jewish, two are gay and none are known to be religious fundamentalists. Maybe its time for the Republican Party to change its platform.

There's nothing conventional about Thiel's wisdom--or anything else. He is a complex package of contradictions: entrepreneur, venture capitalist, libertarian, lawyer, gay, Christian, highly educated, contemptuous of formal education. Asked to solve the paradox of Peter Thiel, he struggles. "Let me see what I, let me see if I can come up with a clever answer on the spot to that sort of question, I, I, I . . ." He picks at the Diet Coke can his assistant brings to the dark wood table in Clarium's conference room, with a view of San Francisco's park-like Presidio. "You know, I don't think, I don't think that there are, um," he pauses. "Uh, okay, let me elide it with abstracting it one level, so, um, to the extent that there are contradictions I am much more aware of them than people whose"--short pause--"views fit into a very standard matrix and where they have a lot of other people agree with them, and where there may be a lot of contradictions that run through everybody in society but that are hidden for that reason."

Except in his case, they're not so hidden. Thiel, in a striped dress shirt unbuttoned two holes from the top and dark slacks, puts down the Coke. "I don't think they're logical contradictions, but all the questions around these things are ones where to the extent you have an unusual combinations of beliefs or views or whatever, you're forced to think about them more than if you don't."

About all you can say, with any assurance, is that Thiel has never quite fit in with the world around him. He was born in 1967 in Frankfurt am Main, Germany. His father, a chemical engineer, kept the family moving; Peter went in and out of seven schools from Ohio to Namibia before the family settled in Foster City, Calif., 20 miles south of San Francisco. Like lots of boys, he devoured J.R.R. Tolkien's Lord of the Ring series, absorbing its lessons about the allure of evil and the limits of power. But Thiel's brain seemed to work faster than most of his peers'. "He knew the name of every country in the world by the time he was five," says Ken Howery, a partner of Thiel's at the venture capital firm Founders Fund and a close friend. A chess player, Thiel was ranked seventh in the country as an adolescent. In college the kit that held his pieces had a "born to win" sticker on it.

Obviously, Thiel loves matching wits with friends and enemies, and is fanatical about winning. He is just as obsessive about playing by the rules--his rules. He sometimes raced in his 1978 VW Rabbit ("my Jimmy Carter car") to chess matches, where he would show up five minutes before having to forfeit the game just to psych out his opponents, recalls high school friend Norman Book, now an executive VP at the conservative website WorldNetDaily. Later on Thiel would write his own playbook when it came to investing--or hiring people. After deciding to bring on Keith Rabois (a law firm chum) to handle lobbying and dealmaking for PayPal, Thiel gave him an ultimatum. "You've got to be in my office on Monday. If you can't start Monday, forget it." Rabois had to sell his house and move from Washington, D.C. to San Francisco in four days. "That's classic Peter: If it can't happen now, it doesn't count," says Rabois, now chief operating officer at mobile payments startup Square.

But Thiel bristles under other people's rules. His buddy Book points to Monopoly games in high school. Thiel, as usual, was winning. "So, I sold all my properties to my brother for a dollar," Book recalls. "Peter didn't like that, but he couldn't find anything in the rules" prohibiting the move. Nor did Thiel like the way Valleywag, an arm of the media and gossip site Gawker.com, played when it wrote the post "Peter Thiel is totally gay, people." Thiel later called Valleywag the "Silicon Valley equivalent of al Qaeda."

Some of Thiel's contentious thinking was forged at Stanford University, where he majored in philosophy and minored in political incorrectness. In 1987 he and Book, disgusted at what they called Stanford's "culturally liberal ethos," launched the Stanford Review, a libertarian paper that was, mildly put, unpopular. One student told Thiel he loved the Review--for wiping his butt.

After getting his law degree from Stanford in 1992, Thiel took a job with the white-shoe firm Sullivan & Cromwell. He quit after seven months, six days. He lasted slightly longer as a derivatives trader at Credit Suisse First Boston. Thiel came home in 1996. "I think California was and remains a much better place to do something entrepreneurial than New York," he says.

He moved to Menlo Park, started Thiel Capital with \$1 million from family and friends, and hired fellow Stanford alum Ken Howery. They took the cheapest space they could find in Silicon Valley's financial epicenter, Sand Hill Road: a windowless storage closet. "The developer hung a picture of an outdoor scene for us," Thiel deadpans--an affect that comes naturally to him.

Thiel reconnected with his political and academic roots, in particular the intellectual circle around Stanford professor René Girard. His chief explanation of human motivation centered on a literary theory that all desire is "mimetic," or imitative, sparked by the desires of other people. Conflict arises not when individuals are different but when they're similar, when they want the same thing. The theory particularly resonated with the brushfire creation of startups in the dot-com boom, "the bubble that was going on a few blocks outside of campus," Thiel recalls.

Of the first five shareholders of Facebook, three were born Jewish, two are gay and none are known to be religious fundamentalists. Maybe its time for the Republican Party to change its platform.

He wanted to ignite his own fire and didn't have long to wait. After a talk on political freedom and economic globalization he gave at Stanford in the fall 1998, Thiel was approached by Max Levchin, a young Ukrainian émigré and computer scientist who'd sold his company, NetMeridien Software, which developed marketing tools.

They started Confinity, an e-payments company with Thiel as CEO, in December 1998. Its first application was called PayPal, which let PalmPilot users beam money to one another; that service broadened out, eventually allowing you to send money to anyone with an e-mail address. After eBay users embraced the service, customers piled in. But for Thiel, PayPal was a libertarian's dream: It had the potential to become an independent monetary system that could weaken government control over economies and exchange rates. Like everything else he has created or backed, it was a service with a cause.

But lesser struggles trumped higher aspirations. By early March 2000 the PayPal service had 150,000-plus users but was burning through cash because it offered a \$10 bounty to any customer who signed up a new customer. Thiel merged it with X.com--a competitor to PayPal that similarly targeted online auctions but also wanted to branch out into other financial services--and demoted himself to executive VP of finance. Just before the dot-com bubble popped, Thiel hustled to close \$100 million in private offerings from venture capitalists and investment bankers. There was tension inside: Thiel clashed with X.com's CEO, Bill Harris, the former chief of Intuit, according to *The PayPal Wars*, by Eric Jackson, an ex-employee. While customers complained about PayPal (funky log-ons, trouble accessing accounts and so on), Harris focused on business deals. Thiel quit in May. The board ousted Harris days later, replacing him with X.com's founder, Elon Musk. Thiel became chairman.

X.com's troubles cascaded. Crooks were stealing millions of dollars from PayPal using stolen credit card numbers. Fixing those problems, as well as introducing new features, had to wait while Musk switched PayPal's operating system over from Unix to Microsoft. Thiel's loyalists, led by Levchin and then-executive VP (and former Stanford Review editor) David O. Sacks, staged a second coup, according to Jackson's book. They encouraged their staff members to threaten to quit unless Musk was replaced. He was, in September 2000--by Thiel. (There seems to be little bad blood between them: Thiel invested in SpaceX and, along with Musk, backed the movie *Thank You for Smoking*.)

The tight band around Thiel set about weeding out fraud, converting accounts into profits and expanding to 80 countries. In the first large offering after Sept. 11, PayPal went public in February 2002, with a \$1.2 billion market capitalization. At the company party Thiel took on multiple employees at once in a game of speed chess, winning all but one contest. After losing that one game, he admits, he "may have knocked over a few pieces" in frustration. Eight months later eBay bought the company for \$1.5 billion. Thiel's take home: \$55 million.

It took a year and a half to find his next megahit, but Thiel made valuable discoveries along the path to Facebook. Within weeks of the 2002 PayPal sale Thiel founded Clarium Capital, part hedge fund, part think tank. It was his way of staking claim to the future as he envisioned it: an ominous era of peak oil, Japanese-style deflation and an emerging markets bubble. With the backing of the likes of institutional investors, pension funds, funds of hedge funds and a few qualified individuals, Thiel placed bets he intended to ride a long time, going long on oil and energy stocks, predicting a rise in 30-year Treasuries if the U.S. economy sank and wagering the dollar would strengthen as investors fled investments in emerging markets backed by borrowed dollars. He later rode oil up to \$147 a barrel but also rode it all the way down to \$34; prescient calls on a rising dollar and a jump in Treasuries couldn't stave off losses.

Clarium charged its investors a flat 25% of profits (and nothing if it lost money), instead of the usual 20% and 2% management fees--and treated them in quarterly letters to pure Thielisms. "Ours is an age in which classic wisdom has failed," reads one. "Those investors who limit themselves to what seems normal and reasonable in light of human history are unprepared for the age of miracle and wonder in which they now find themselves. The twentieth century was great and terrible, and the twenty-first century promises to be far greater and more terrible."

Thiel, meantime, kept an eye out for promising startups. One little-loved sector, seen by some as the next dangerous dot-com fad, was social networking. But Thiel put \$100,000 of his own into LinkedIn, a business-focused social network. In the spring of 2004 Thiel got a call from LinkedIn founder Reid Hoffman, an old Stanford friend and PayPal alum. Would he take a meeting with Facebook's Sean Parker and a kid named Mark Zuckerberg? He and two Harvard dropout friends had just moved to a rented house in Palo Alto and needed cash. Hoffman didn't want to invest in Facebook, to avoid the appearance of a conflict of interest. The meeting in August 2004 was at Thiel's offices at 555 California Street, the same setting for the confab in *The Social Network*.

Zuckerberg has hazy memories of that first meeting. As usual, Parker did much of the talking. "Sean and Peter had worked out most of it," says Zuckerberg. What sold him on Thiel? That he wasn't a conventional venture capitalist. "I really just wanted to work with other people who had built great things," says Zuckerberg. "I had a lot of respect for PayPal. I associated him with more as being a founder and entrepreneur than being an investor." Thiel's recollection of Zuckerberg: "Somewhat introverted, very smart and very driven. And a very strong engineer, which would be critical if Facebook would solve the scalability problems that caused Friendster to founder." According to David Kirkpatrick's *The Facebook Effect*, Thiel loaned Facebook \$500,000, convertible to 10.2% of the equity if the site reached 1.5 million users by December 2004. It didn't, but Thiel let it convert anyway. (In May 2009, according to *The Facebook Effect*, when Russian tech holding company Digital Sky Technologies participated in a round of fundraising with Facebook, Thiel sold roughly half his stake, which has also been diminished by dilution.)

Of the first five shareholders of Facebook, three were born Jewish, two are gay and none are known to be religious fundamentalists. Maybe its time for the Republican Party to change its platform.

The money was great, but Thiel's counsel was a godsend. "He has continued to push this theory that focusing on user growth and expansion is the most important thing the company can do," says Zuckerberg. "That's been a really defining thing at Facebook."

Later that year Thiel set up a new venture firm, called the Founders Fund, with former PayPal employees Ken Howery and Luke Nosek. (They added Sean Parker as a managing partner in 2006.) The fund focused on early-stage social media and Web startups with investments between \$500,000 and \$5 million. They backed companies such as Levchin's Slide (social media applications), IronPort (e-mail security appliances), Powerset (search engine) and Mint (personal finance site). They have been hits: IronPort was sold to Cisco in 2007 for \$830 million and Powerset to Microsoft for \$100 million in 2008; Slide was bought by Google last year for a reported \$228 million.

Guiding principles of the Founders Fund--invest early, aggressively and in people you respect--are standard practice today among the angels and early-stage venture firms in Silicon Valley. Parker and Thiel also came up with a special class of shares, called Series FF, to help cash-strapped entrepreneurs. Founders can sell Series FF stock at the last price paid by new investors for preferred stock, so they don't have to wait for the frozen capital markets to thaw. This, too, has been copied. "If imitation is the most sincere form of flattery, they have been flattering the Founders Fund," says Venky Ganesan, a managing director at \$1 billion (assets) venture firm Globespan Capital.

Few are deliberately imitating Clarium Capital, which is bleeding executive talent as well as assets. Thiel says the hedge fund now has no equity exposure. It is "slightly short" the dollar, fixed income and commodities, and long on oil. "We're basically in a holding pattern," says Thiel. "The fundamentals have to be fixed, but this radically decoupled market may last for a while."

Which leaves him with plenty of time to solve the future--most of it, judging by where he puts his money, beyond social media. Why? A clue lies in an essay Thiel wrote for the libertarian Cato Institute in April 2009. "Because there are no truly free places left in our world, I suspect that the mode for escape must involve some sort of new and hitherto untried process that leads us to some undiscovered country; and for this reason I have focused my efforts on new technologies that may create a new space for freedom." Those new frontiers, he says, are cyberspace, outer space and seasteading (creating settlements in oceans). The Internet, where Thiel has invested much of his imagination and made most of money, is limited, he says, because "these new worlds are virtual and . . . any escape may be more imaginary than real."

Far better to create new, like-minded communities by trying to escape the laws of gravity, nationalism, even biology. Through his Founders Fund, Thiel has invested more than \$30 million in Elon Musk's SpaceX (Space Exploration Technologies Corp.), a nine-year-old

transportation company. "The SpaceX vision was to start by trying to build a basic, functionally cheap rocket," says Thiel. "Once you shift the economics from \$20,000 for a pound of payload to \$1,000 for a pound of payload there are all kinds of things you can do"--giving a kick, perhaps, to space tourism, Mars exploration, maybe even lunar colonization. In December SpaceX became the first private outfit to send up and recover a spacecraft.

Less costly are dreams recently on display at a fundraiser hosted by Thiel's philanthropic organization for what it called Breakthrough Philanthropy, at the Palace of Fine Arts Theatre, a few blocks from Clarium's offices. Many in Thiel's influential circle were there--Facebook cofounder Dustin Moskovitz; onetime PayPal cohorts and Stanford Review alums Ken Howery, Keith Rabois and David Sacks--with their big checkbooks. There were warm sliders, cold sushi, plenty of wine and pitches from the leaders of eight philanthropies.

Among them was Patri Friedman, an ex-Google engineer and grandson of late economist Milton Friedman, the Nobel Prize winner, who was hawking sea colonies on behalf of his Seasteading Institute. (Thiel has contributed \$900,000 to it so far.) "What we need are new countries," said Friedman, 34 and bearded. "Seasteading is the entrepreneurial way to fix government, by competing with governments rather than complaining." His group has explored the idea of building a floating structure off the coast of San Diego for 270 residents, at a cost of \$200 million. Unresolved: the small matter of how to form an independent or semi-autonomous republic.

Of the first five shareholders of Facebook, three were born Jewish, two are gay and none are known to be religious fundamentalists. Maybe its time for the Republican Party to change its platform.

Another hat in hand belonged to Michael Kope, an intellectual property lawyer who is also chief executive of the SENS (Strategies for Engineering Negligible) Foundation. Its elusive goal is the same as Ponce de Leon's 500-plus years ago: discovering the secret of regeneration. "A man by the name of Frank Fenner died two weeks ago," Kope says in his warmup, adding mournfully, "He was only 95 years old."

Immortality, you might say, is Thiel's ultimate long-term bet. "Lengthening people's time horizon is a good thing," he says. "If you could cure aging, that would change all sorts of things that are now constrained." His involvement in the movement grew out of an introduction to Methuselah Foundation cofounder Aubrey De Grey, a computer scientist who posited a theory that you could extend life by reducing the damage to mitochondrial DNA (essentially, the cells' power plants), among other possibilities. Intrigued, Thiel later ponied up \$500,000--and promised to match half of all donations, up to \$3 million. Since then, Methuselah has spun off SENS, which focuses on developing life-extension technologies and has a modest lab in Mountain View, where researchers try to reverse the damage that causes macular degeneration and atherosclerosis. In April Thiel signed on to pick up \$1.2 million of SENS' \$2 million annual budget. No breakthroughs yet.

But Thiel doesn't sound discouraged. "Do we try to pursue ideas that are weird and have optimism about the future?" he asks the audience at the Fine Arts Theatre. "Or do we give up on all new things and sort of compromise [and live in] the much more pessimistic zone we're in?" The crowd is apparently with him; the evening raises nearly \$700,000 for all the causes. "It's good to have somebody who is out there and really taking the extreme position on these things because it encourages a different kind of public debate," says Moskovitz.

To goose the supply of brainpower that will lead us to the promised land of limitless opportunity, the Thiel Foundation is actively recruiting. Its "20 Under 20" program, launched in September, encourages would-be entrepreneurs to apply for one of a score of \$100,000 fellowships. Two requirements: Aside from being 19 or younger, you have to drop out of school.

For a consummately educated guy, Thiel is derisive about American colleges and universities. In his view they've become too politically correct (he and David Sacks argued as much in their 1997 book, *The Diversity Myth*), hobbling the hard sciences as well as the humanities. Schools have created a classic bubble, says Thiel: Inflation-adjusted spending on administration per student jumped 61% between 1993 and 2007, while the number of administrators per 100 students rose 39%, reports the Goldwater Institute. Student debt levels fill Thiel with disgust. "It is pretty much the only form of indentured servitude in the U.S.," he says.

Yale math major Thomas McCabe, 19, is applying for a Thiel grant. McCabe hopes to commercialize low-cost 3-D printers that now make a range of plastic goods on demand. "We are living among the ruins of a fallen civilization," he says, sounding a lot like Thiel must have 24 years ago. "Take all of the basic infrastructure, our roads and bridges and so on that we built in the 1950s and '60s. If we tried to build them now we couldn't do it." But with a grubstake from Thiel we might get a little closer.