

# PANDO QUARTERLY

SPRING 2014



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## LETTER FROM THE EDITOR

Welcome to the Spring issue of PandoQuarterly.

What a quarter. Each month was a record-setter by any measure. From Adam Penenberg's fearless expose of the financing of suicide bombers to David Sirota's "Wolf of Sesame Street" bombshell to our relentless coverage of Indiegogo's \$1 million Healbe scam, our investigative reporting is being read more widely than ever and is having a huge impact. I couldn't be prouder of what we are building.

On the business side, one of the most important things we did this quarter is launch Pando memberships. If you haven't signed up yet, head to <http://members.pando.com> to check it out. Members get a whole range of benefits including access to all PandoMonthly events (with live streaming if you can't make it), access to the entire PandoQuarterly digital archive and, of course, every new issue of PandoQuarterly, delivered anywhere in the world.

Members even get a hugely discounted ticket to our first annual conference, Southland. Held in Nashville this June, it is produced in partnership with LaunchTN and the producers of Bonnaroo. The lineup includes Al Gore, Christie Turlington Burns, David Marcus, Aaron Levie, Phil Libin, Tristan Walker, and more. (Not to mention music in intimate venues from the likes of St. Paul & The Broken Bones.) We think it's unlike any other conference in the world. You can still grab a ticket at [pandosouthland.com](http://pandosouthland.com).

If you already have your tickets for Southland, you'll want to check out the newly revised "Who Killed the Music Industry" explainer in this issue, produced by Pando's David Holmes and Explainer Music. We'll be getting into a lot of these issues on stage, and this is one of the best breakdowns of the industry's problems I've ever read.

Also in this issue, you'll find some of our favorite writing from the past three months of Pando.com, and plenty of original pieces, including Gary Brecher's reminiscence of his time at NSFWCORP and Andy Warner's brilliant piece of comics journalism: "Google's Other Androids." I've even managed to sneak in an original piece of my own: A long-in-the-making profile of the remarkable Kirsten Green.

Thanks again for all your support.

Sarah Lacy, Editor in Chief, PandoDaily

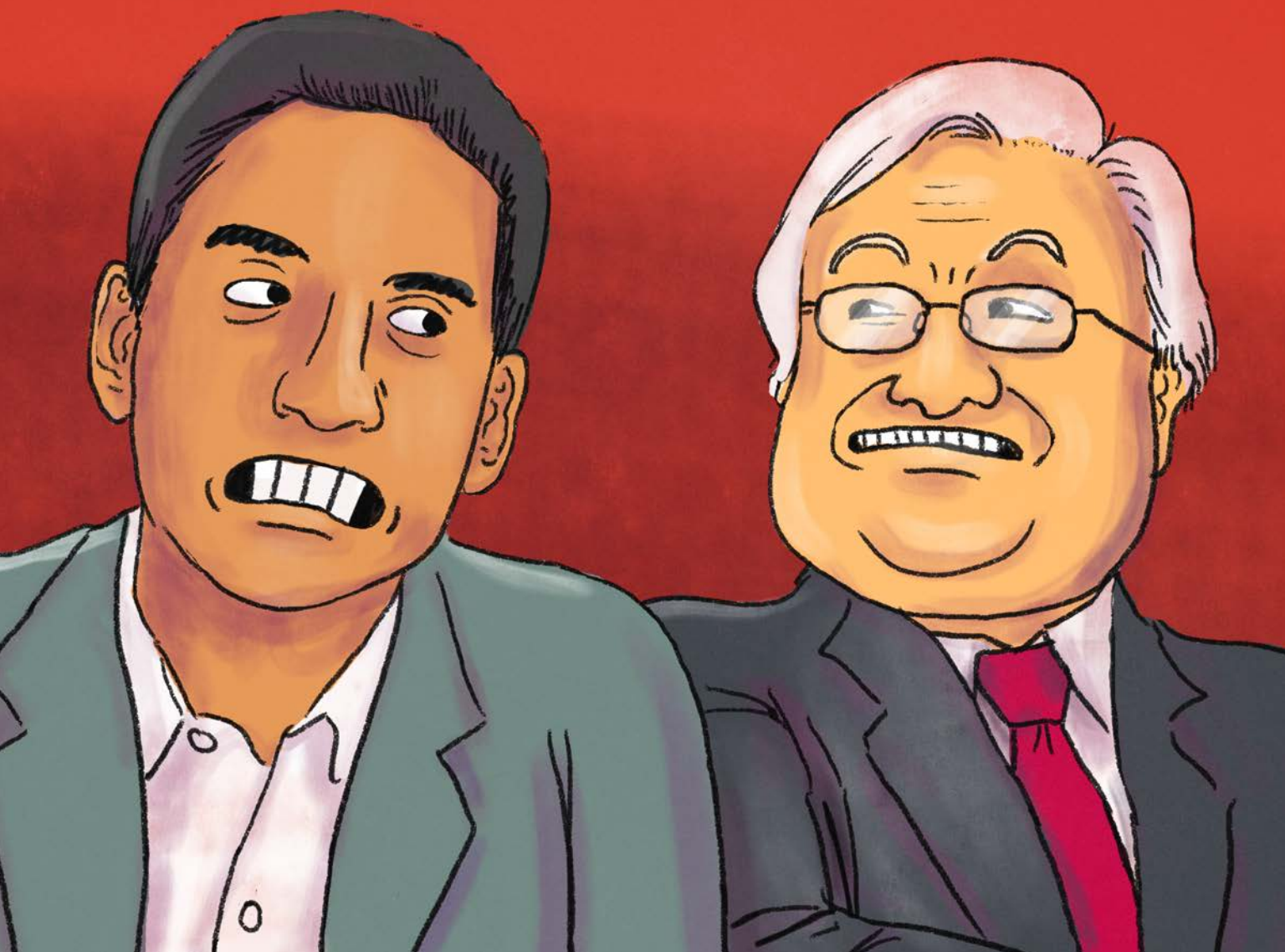
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# SILICON VALLEY'S OWN(ED) MAN



BY YASHA LEVINE

ILLUSTRATED BY BRAD JONAS

SAN FRANCISCO—There's a political fight brewing in the heart of Silicon Valley, pitting old school liberal Congressman Mike Honda against a young tech-backed candidate who's gunning for the elderly man's Congressional seat.

The challenger's name is Rohit Khanna. He's running an aggressive, cash-rich campaign to unseat Honda and represent some of the most fertile soil in Silicon Valley: California's 17th Congressional District, home to the headquarters of megacorps like Apple, eBay, Intel, Yahoo, and AMD.

Ro—as his campaign likes to call him—is 37 years old and works as an intellectual property attorney at the powerful Silicon Valley law firm Wilson Sonsini Goodrich & Rosati. He has never held elected office, and most rank-and-file tech workers I've talked to have never heard of him. But they will soon, not least because Khanna has the blessing and financial support of their bosses and their bosses' bosses.

His campaign has so far raised about \$3.2 million—three times more than the incumbent candidate he's trying to unseat. Much of that cash has come from the most powerful people in tech.

Ro's campaign contribution list reads like an unofficial Silicon Valley social register: Peter Thiel, Sean Parker, Sheryl Sandberg, Marissa Mayer, Marc Andreessen, Ron Conway, Mark Pincus, rainmaker/venture capitalist John Doerr and hundreds of other lesser-known tech Titans and financiers. [Thiel, Andreessen and Conway are investors in Pando.]

Most of these donors (as well as

their husbands and wives) have maxed out their \$2,600 federal individual contribution limit. Many of Ro's big name supporters are so sure he'll succeed in his primary challenge that they've maxed out their contributions to both his primary and general election campaigns.

Ro is running as a Democrat. But as you can see from the list of names, moneyed support for Ro is a post-partisan affair. It's a big tent party that includes hardcore libertarians, Tea Party backers, Mitt Romney supporters, wealthy techno-Democrats, entertainment industry has-beens like M.C. Hammer and new age quacks like Deepak Chopra. Hell, even anti-government venture capitalist Chamath Palihapitiya, a Senator Ted Cruz supporter who praised the recent government shutdown because it finally prevented D.C. pols from messing with the economy, is excited about electing Ro as Silicon Valley's next Congressman.

New York Magazine's Kevin Roose hung out with Ro and some of his backers, and came away stunned by the messianic fervor the candidate inspires among the normally politically agnostic Silicon Valley elite:

"In the past few months, I've heard maybe a dozen members of Silicon Valley's investor class tell me, in rapturous tones, how Khanna just gets it. He gets that tech's political influence can be much bigger than changing a few immigration laws, and he gets how much the Valley could do for the country if given strong leadership and a common platform to rally behind."

Which brings us to Ro's "strong" common platform. What exactly is it? Ro's supporters didn't offer many

specifics when interviewed by the Times or New York magazine. Rather, they described his appeal in cultural, almost transcendental terms. Ro is a politician like few others—someone who understands that Silicon Valley is undergoing a political awakening—a coming of age. He just "gets it" and "identifies with us." The only thing Ro's backers can agree on is that, if he wins, he'll be a reliable warrior for their interests.

"The tech community is looking for advocates who will be really, really outspoken for tech, and Ro fits that mold... I'm hoping it's a wave of the future that continues, because it's crucial for the tech community to have a really active voice in Washington," Ron Conway, an early investor in Google and PayPal, told the New York Times.

At a \$2,600-a-head fundraiser in May 2013, Napster/Facebook billionaire Sean Parker introduced Ro Khanna to a room full of other tech millionaires and billionaires as a man who can take their vision to D.C.

"Silicon Valley hasn't been properly represented at the federal level. We haven't had the kind of young, hard-driving candidate that really understands the unique issues facing Silicon Valley at a moment in time when, you know, they actually are at a series of, uhm, important political milestones and political turning points. And to a certain extent, I think we're starting to come to a realization of our own power and of our own capability, not just as innovators and technology pioneers, but also, uhm, but also in a political sense."

Taking the mic from Sean Parker, Khanna told this room of ultra-wealthy donors that he wanted to use the values

and culture of tech—their values and culture—to change the world.

“The premise of this campaign is quite simple. We’ve had quite brilliant people...use technology to change the world. And it’s time that we actually change politics, that Silicon Valley has the potential to do this... It’s not just about having a tech agenda. This is about something much deeper—our values, and our ability to use those values to change Washington and the world.”

Khanna’s appeal to the inflated egos of Silicon Valley billionaires—and their delusional belief in the transformative and utopian power of tech—is a bit nauseating. But it’s not surprising, given the candidate’s shameless embrace of tech culture and money. I mean, this is the same guy who told the New York Times that he considers himself a “tech groupie.”

Still, while sucking up to Silicon Valley’s sense of their new power has done wonders for Khanna’s campaign coffers, it’s hard to see how he wins against Mike Honda solely on the strength of his spiritual connection to Silicon Valley’s investor and executive class.

He needs something big, because it’s shaping up to be tough battle. To enter the general election, Khanna will need to place at least second in California’s newfangled “open primary” race this summer. Called a “jungle primary,” it’ll pit all candidates from all parties against

one another in a single race and then put the top two candidates on the general election ballot.

Current polls show Khanna coming in close third. So he’s got three months to convince enough voters that he’s a better Democrat than Rep. Honda. And that’s no easy feat, given



that the incumbent is well-liked, has the protection of the powerful House Minority Leader Nancy Pelosi and has been endorsed by President Barack Obama, Howard Dean, labor groups and a long list of other Democratic Party power players.

So what’s Khanna’s plan? How is

he going to convince voters that he’s radically different and better than Mike Honda?

Khanna’s campaign literature offers an uninspiring and cautious mix of progressive, New Democrat and Centrist Republican policies—most of them long supported by Rep.

Honda. The only substantive difference seems to be in the realm of education, with Khanna favoring measures against teachers unions like performance pay. But even there the wording is guarded and generic... If you read his book “Entrepreneurial Nation,” Khanna comes off as a boringly moderate Republican—someone who tsk-tsks hardline Austrian economists, Randroids and Koch groups for going over the edge in their hate of government, but praises business-minded pragmatists like President Ronald Reagan for understanding that “ideology must never trump national interests, and that our nation has a stake in helping our businesses.”

Centrism? That’s not the type of stuff you’d expect from a insurgent politician facing a tough race with bad odds.

I wanted answers, specifics. So I went along to a Ro Khanna campaign event to ask the candidate exactly what he stands for. What I discovered was shocking: He doesn’t seem to know either.

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The event took place on a Monday morning in Santa Clara, at a small

high-tech medical equipment company called Access Closure. The company employs several hundred people and manufactures its products—devices that seal human tissue during surgery like a heat gun for human skin—right there on site. Which made it the perfect place for Khanna to announce his manufacturing-centric jobs plan.

The press release said that the event would include a quick walkthrough of the facility to provide reporters and TV crews an opportunity for “footage.”

I expected a bigger media crowd, but only two other reporters showed up. And we respectfully trailed behind Khanna and an Access Closure company manager. Khanna, tall and lanky, wore a dark suit and didn’t say much as we walked through a maze of corridors and small manufacturing rooms with people in white lab coats huddling over assembly lines.

Ten minutes later we ducked into the company cafeteria, where we were greeted by with cheers and a loud ovation by a room full of Access Closure employees.

Khanna got on top of a makeshift stage in front of a row of wall-mounted flatscreen TVs and delivered a 30-minute talk titled “Ro Khanna’s Jobs Plan for the Bay Area’s Future.”

For a Democrat pledging to “disrupt” DC politics, Khanna talked a very predictable and generic game: He called for bringing advanced manufacturing jobs back to America, boosting the number of math and science teachers, increasing the participation of women in tech,



supporting paid maternity leave, teaching public school kids how to code, offering tax breaks to companies that hire the long-term unemployed and increasing the federal minimum wage to \$10 an hour—“we need to make work pay,” he said.

Along the way, Khanna referenced “research” by Koch-funded libertarian

economist Tyler Cowen (apparently Khanna is a fan) and proposed creating some kind of crowd-sourced online lending platform to match small businesses with capital.

Khanna talked a lot about small businesses. To him, entrepreneurs are the engine that will put America back on the road to prosperity. We need to unleash their potential. He closed his remarks with a rousing, if clichéd, call to action:

“It’s time that our government in Washington puts partisanship aside and creates the kind of partnerships that will bring prosperity to more of our families and communities. That requires a new kind of leadership with a new kind of vision. That’s what I’m offering in this campaign. And it’s what I’ll deliver in Congress.”

*Way to shake things up, Ro!*

For all the talk of him being an aggressive disrupter, Khanna is a big let down. His political vision is bland, cautious and overly conservative.

This isn’t Kansas or Arizona, and Khanna isn’t running for Ron Paul’s old congressional seat in Texas.

This is the heart of the Bay Area, which has been solidly liberal and Democratic for decades. Out here, Khanna comes off as a squishy moderate Republican.

None of his proposals is controversial, nor even minimally progressive by Bay Area standards. And they are completely in line with the views of Silicon Valley’s investor



and executive class.

Even a seemingly radical proposal to increase minimum wage to \$10 minimum is old news in California. Just last year Governor Jerry Brown signed a law that will increase California's minimum wage to \$10 by 2016. And plenty of cities up and down the state have similarly high minimum wage laws, including San Jose—which is part of the Congressional district Khanna wants to represent.

How un-radical is Khanna's jobs plan? Consider that even Peter Thiel, a Khanna supporter and a hardline libertarian who bankrolled Ron Paul's 2012, is in favor of raising the federal minimum wage to \$12 a hour—20% more radical than what's proposed by Khanna.

More importantly, most of the ideas Khanna outlined in his speech—improving education, helping small businesses, increasing diversity in

tech, boosting minimum wage and bringing back manufacturing jobs—are totally in sync with Rep. Honda's politics. Honda is not a pioneering or overly inspirational politician, but he's pushed and voted for similar proposals over the ten years he's spent as Congressman.

I wanted to believe that Khanna's tech politics transcended Honda's tired old world ideas, but I didn't see any evidence of this.

So I went up to Khanna after speech and asked him directly: Is there anything specific that he thinks Rep. Honda has done wrong? Any legislation, policies and/or votes?

Honda has a decade of legislative history behind him, so I figured Khanna would at least find a couple of things he disagreed with.

I was wrong.

Khanna couldn't name anything—not a single vote nor a single piece of

legislation that he took issue with.

I asked Khanna again and tried pressing him for something—anything—concrete. But he just kept talking vaguely about Honda's "lack of leadership" and "initiative," and that today's political challenge requires a "different skill set and expertise on the economy."

The only specific criticism he could come up with: Mike Honda accepted PAC money and taking campaign contributions from lobbyists. This was a strange fault to pick at, considering that Khanna raised the vast majority of his campaign funds from the crème de la crème of Silicon Valley's money class.

If he doesn't have a problem with the way Mike Honda has voted, then why aggressively unseat a fellow Democrat? Why go through the trouble if there's no concrete reason to do so?

Could it be that Khanna has plenty

of things he'd do differently than Mike Honda, but doesn't want stick his neck out too far and possibly alienate voters with unfavorable positions so early in the race?

Maybe.

In February, Khanna got creamed by a negative New York Times article after he bragged to a reporter that the main difference between him and Rep. Honda is that "I wear tech groupie as a badge of honor." He then followed that up by telling the NYT that he favored changing America's tax code to allow tech companies to repatriate their profits without being taxed. It's a position that would go over well with lots of tech companies in his district that have hundreds of billions of dollars stashed away offshore, because they don't want to pay taxes.

And maybe that's why Khanna inspires such political fervor among the Silicon Valley elite: Their political vision is so degraded and limited that they view a boring centrist like Khanna as nothing less than Jesus, just because he wants to let them pocket their fat profits without getting taxed.

The funny thing is that even Khanna's radical tax plan is probably not so different than Mike Honda's. The Congressman has long supported—and taken flak for—some sort of squishy Dem compromise to allow tech companies to repatriate their profits at a special reduced tax rate. His support is not surprising given that his district is home to the some of the biggest profit hoarders in Silicon Valley: Apple has over \$40 billion stashed overseas, eBay's got \$12 billion and Intel nearly \$18 billion.

Even the language Khanna uses seems like its borrowed from Mike Honda.

Compare this on Khanna's campaign website:

"We should also allow U.S. companies to bring their overseas profits back at a reduced rate if they invest a significant portion into expanding payrolls and building new manufacturing capacity."

...to this op-ed Honda co-wrote in 2011 during pushing for a tax holiday:

"Companies with billions in cash—Oracle has more than \$20 billion,

Apple almost \$50 billion, Cisco has \$40 billion, Microsoft has \$45 billion—would like to put that money to work through investments back in the company, such as dividends to shareholders, new hires, capital investments or acquisitions. Because the U.S. tax code makes bringing money back into the U.S. impractical, American companies fund their U.S. operations with debt while they expand acquisitions and expansion in Europe, Asia and other parts of the world."

What kind of tax deal does Honda support? I asked him, but he wouldn't commit to a hard number, only saying that he considered the 5% tax rate fielded by Silicon Valley during negotiation to be too low. But given that today's effective corporate tax rate is somewhere around 12%—whatever number Honda supports is bound to be too low.

Where does that leave Ro?

Good question. I went back to Khanna's campaign to ask them but, after my earlier reporting, his press secretary had decided I was reporter non grata. "I'm not sure we'll get a fair shake on things," she said. /// Pq

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