Timesharing/Professional Services Workshop: Session 10: Mergers and Acquisitions

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Table of Contents

Timesharing/Remote Processing Services

Session 10: Mergers and Acquisitions

Conducted by Software Industry SIG – Oral History Project

Abstract: As the market and the competitive landscape changed, companies adapted by specialization, or by acquiring other companies, or by merging with companies inside or outside the computer field. Some companies changed their business model, focusing on software products or professional services, or morphing into facilities management organizations. This session explored the different strategies pursued by different companies, and the reasons for doing so. What were the new specializations? What acquisitions were made and were they successful? What companies were acquired, and did they maintain a separate identity? Were the acquired companies successfully managed by their new owners, or were they irreparably harmed? Which products and services survived these reorganizations? What were the costs, and the prices, for the acquisitions?

Participants:

Name	Affiliation
Burt Grad	Moderator, SI SIG co-chair
Dick Bayles	National CSS
Frank Belvin	Interactive Data Corporation
Chris Brook	GE Information Services
Ann Hardy	Tymshare
Norm Hardy	Tymshare
Mike Humphries	Tymshare
Gary Myers	Tymshare
Dick Orenstein	National CSS
Nick Rawlings	National CSS

Jeffery Stein	Online Business Systems
Mike Wyman	Interactive Data Corporation
Thomas Haigh	Historian, Univ. of Wisconsin
Chris McDonald	Historian, Princeton University
Doug Jerger	SI SIG member
Luanne Johnson	SI SIG co-chair

Burt Grad: It is June 3, 2009 and this is Session Number 10, which covers the consolidation of the Timesharing and Remote Processing Services industries. We will explore how these companies ended up; who bought them and why they bought them; why you sold, what you got out of it, and how it worked afterwards. We'd also like to hear about the horror stories, and have each of you tell about at least one time where you said, "Oh my God, if we'd only done that." Or on the other side, "This was the one thing that really made us great."

Let me start with you, Jeffery. You sold your company, On-Line Business Systems, after what, 20 years?

<u>On- Line Business Systems</u>

Jeffery Stein: Twenty years, almost exactly to the day.

Grad: To whom, and why?

Stein: To ACS of Texas.

Grad: Who was ACS, what were they doing?

Stein: Affiliated Computer Services. Darwin Deason [was the founder of ACS]. Our company was not for sale. We were approached, probably once a month by a business development person or a broker. They want to buy us. They wanted to come by and talk. I would never really give them a lot of information, because I felt that they were all just all shopping. And when you get into the details of buying, getting sold and all that, you come down to the end of the line, and really, they thought they'd give you X, but really you get a haircut down to .65 of X. I just didn't want to go through with it. I mean, I was making some pretty good money, and having a good time. I had freedom. I worked hard for 20 years. I always would [be willing to] sell, but I wasn't going to go looking to be sold.

Deason wanted to buy. I said, fine, you can have it for X number of dollars; however it has to be all cash. The reason that they wanted us was that they were going to do an IPO in the very, very near future, and they wanted to bulk up their revenue and bulk up their earnings. Thirty months after they bought the company they lost the first customer that we had booked the business for. If they would have just given them good customer service, it would have taken 60 months to lose the first customer. That's how solid the customer base was.

Grad: How many customers did you have when you sold it?

Stein: When they picked us up, I think we had probably about 300 active customers.

Grad: Were they all pretty much local?

Stein: No, they were all over, but there was a lot of local concentration. We had the largest data center in northern California; we had a 60,000 square foot data center on Great America Parkway [in Santa Clara, CA]. And one of the things that we used the data center for was to buy books of business. We would parade the customers through and they kind of felt like it was nearby. They really liked the way it was laid out, and the security, and all that. That was a great sales tool, having a real good showcase data center.

Grad: What year was it that you sold the company?

Stein: November 15, at 11:30 in the morning, 1989. <Laughs> It's not funny. We were sitting there, and we signed all the papers in the lawyer's office in San Francisco, on the 32nd floor of 101 California Street. We signed all the papers, and were all done by about 10:15, 10:20. All we did was we just sat around and talked, and talked and talked. Our papers were here, theirs were there, and we're just waiting for the phone to ring from the bank to say the transfer was done. Then we transferred the papers over. That's why I remember the time.

Grad: Your revenue at that time, Jeffery, that year?

Stein: Just about thirty million.

Grad: Are you willing to tell us what you sold it for?

Stein: We sold it for, I think, 18 million dollars.

Grad: I was trying to look up what these ratios are, because software products companies sold for one kind of ratio, and professional services sold for another, and processing services sold for a different ratio to revenues.

Stein: I have a very funny story to tell you about this sale. I don't know if any of you know Darwin Deason, but he's quite an interesting guy. He's like [Bernie] Madoff, you know; he likes to wear black. He had a black car, he has black suits, black tie, and everything. He used to go around and buy companies all the time, but he would say, "Okay, I'm going to give you 100 dollars for your company. Here you go, hundred bucks." And so the seller says, "Perfect, I'll take that." And so they go through the due diligence and all that, and he says, "Well, you know, I'm going to give you 95 dollars, and I want you to take 55 dollars back on a note." "What happened?" "Well, the guy's haircut in the computer room? I didn't like that. And that customer doesn't seem like he's going to be around, and all that." So they – Deason -- would suck all the energy out of the seller. The seller had, in his mind, already sold the company. So he just went ahead and took the deal. Then the note had to start coming due about a year later. The seller would say, "Well, where's my money?" And they would wait, and wait, and wait. Then finally Deason would say, "Well, you know, you misrepresented [the company]. There was fraud there, and this and that." So they would settle for, like, 25 cents on the dollar, on the note.

I didn't know about this, but I just looked him in the eye, and I thought, this has got to be a cash deal. So here comes the money shot. He was so pissed off at me. And I enjoyed this! We were in [law firm] Wilson Sonsini's office. We've got all the lawyers around. We're getting the final agreement put together and all that. He said, "Jeffery, you've just got to give me some paper. I can't go back to Texas knowing that you got 100 percent your way, 100 percent." I said, "Well, I'm sorry, Darwin, that was the deal. That's why we're here. We agreed to it." He said, "Come on, give me something. Can I give you an IOU?" I said, "Well, Darwin, you mean an IOU, and that means it's not attached to anything? You're going to pay me, and that's it, no conditions?" "Yep, no conditions at all, just an IOU." I said, "When are you going to pay it?" He said, "I'll pay it in a year." I said, "Are you sure it's just an IOU?" He said, "Yep, it's just an IOU. You've got to give me something, so I can go back to Texas and say that I got something out of Jeff Stein." So I said, "Okay, Darwin, if that's the way you really feel, then I guess you wouldn't mind signing a Confession of Judgment." He said, "I don't give a shit what that is, I'll sign anything. I want a note." The lawyers from Wilson are running around the room, "No, you can't sign that, you can't sign." And Darwin said, "No, I told him I'd do that." A Confession of Judgment basically makes that note cash, because when it comes on the day due, there's no court hearing, there's no lawsuit, there's no discovery, there's nothing. He has to pay the money off.

Grad: How did you learn about that?

Stein: Because I'd been in another couple of transactions where it was turned around the other way. <laughs> Very few people know about it. But I used it more times after I heard about it.

Grad: That's wonderful. But why did you want to sell? Did you think that the price was that attractive? Were you bored with the business? Why did you want to sell?

Stein: It's the same thing we're all struggling with. 20 years is a long time. The business is constantly changing. I think we would all sell for the price we want to have.

Grad: So that was it: the price was right. Did you set that price, or did he set it?

Stein: I set it.

Grad: Was that the first price you started with?

Stein: I didn't budge. Didn't budge.

Grad: You didn't budge; wow. I'm glad I'm not negotiating against you!

Stein: Well, I'm being somewhat egotistical here. I felt we had a good property. I felt it was a pretty good deal. It was not for everyone, but it was really particularly good for him, because he had the right type of business, and for what he wanted to do.

Grad: Yes, for bulking up [his revenue].

Stein: I felt it was fair. Very fair. He didn't have to pay it. He didn't have to buy it.

Grad: Did he go public soon thereafter?

Stein: Yes, they made a lot of money. He had a huge yacht, over a couple of hundred feet in length.

Grad: Once you go public on that, his multiplier on your revenue gave him a lot more money than 18 million.

Stein: Oh it did. Sure. Yes, right.

Grad: Okay, GEIS [GE Information Services]. Chris, tell me about what happened.

GEIS and GXS

Chris Brook: Right after I left, they sold out to Francisco Brothers, I think it was.

Stein: To Sandy Robertson.

Brook: It was GXS at the point that I was there. GE had changed the name from GEIS to GXS and sold that to Francisco Brothers, a west coast outfit.

Grad: My recollection is that Bernie Goldstein was involved in the sale of GEIS to John Keane.

Luanne Johnson: Here's what I have, from September of 2002: "Francisco Partners, the world's largest technology buyout firm, and GE today announced the completion of Francisco Partners' acquisition of GE Global eXchange Services", which is what it was called then, "a business-to-business (B2B) e-commerce leader. Global Exchange Services (GXS), as the company will be known, will operate as an independent, privately held business based in Gaithersburg MD."

Grad: Keane must have bought the professional services piece of GEIS a few years earlier. Keane became the biggest professional services company, other than the ones that were part of other companies, because of that purchase. What ever happened with GXS afterward? Do you know?

Brook: It still exists. They're still in the same place, in Gaithersburg.

Grad: Is it still a big operation?

Brook: No.

Johnson: It's an e-commerce operation of some kind.

Brook: It does other stuff, but it's mainly e-commerce, EDI. As I said, they finally shut down Mach III, which was the main vehicle for EDI, two months ago, which is interesting. It's been around 40 years.

Grad: Jeffery, does your old company still exist?

Stein: The lease in Santa Clara expired, and they consolidated the data center down into Dallas. On the 30th month they lost their first customer, and then they very slowly attritted and lost the customers, all pretty much after they went public.

Grad: But there's no entity or identity or anything there?

Stein: No, the identity went away fairly quickly.

Grad: But the GSX identity is still there?

Brook: Yes. Well, it's the same business, same people.

Grad: Same people doing the same things?

Brook: Yes, their name was all [that changed]. It was GSX, a department of GE, but now it's GXS, an independent group of Francisco Partners.

Grad: Do we know price and revenues at that point in time? Lu, from the record here?

Johnson: I was just looking. I had the backup for that information, a press release, but I just clicked on the link and it's gone. So I'm going to have to find another source of that information. It will be out there someplace.

Grad: We can add that to the transcript. [See http://www.iii.co.uk/investment/detail/?display=news&code=cotn:GEC.L&action=article&articleid=4479922]

Tymshare. Who wants to tell me what happened to Tymshare?

Tymshare

Gary Myers: Let me take a cut at it, and then Ann and Norman might fill in the holes. I know that there were some internal discussions about the demise of the vanilla timesharing business, and there were many of us who said, "Tom [O'Rourke], you've got to do something. We don't know what you want to do, but you've got to do something." I think we were all generally in favor of selling the company. American Express came to us and gave us a really good offer.

This was probably in the mid 1970s; I'm not sure exactly what year. But I'm guessing, 1975, 1976, maybe 1977.

Ann Hardy: We were working with American Express then.

Myers: Yes. We were trying to do some TymNet stuff.

A. Hardy: And a lot of traffic stuff.

Myers: We were trying to do a facilities management deal, and a bunch of stuff. And for whatever reason, that fell out of bed. Who was the CEO of American Express at that time?

Grad: [James] Robinson?

Myers: Anyway, he and Tom didn't get along real well.

A. Hardy: I don't remember that, but I liked him.

Myers: Then Dun & Bradstreet came to us -- I think it was before you guys [National CSS] got involved -- and we almost had a deal there. Again, those of us who had some modicum of input to Tom's thinking, said, "We ought to do it. Let's sell, let's cash out." Because we could see the increasing pressure on profits and we just weren't achieving any growth of revenue. It was kind of leveling off. We didn't do it. I think -- this was my personal opinion -- that Tom just wasn't ready to release the reins of the company and let it go. There were many of us who were kind of dissatisfied with that, because we didn't think that was the right decision.

Grad: Let me interrupt you for just a second. Did all of you have significant stock in the company?

Myers: Yes.

Grad: So there was a value to you directly.

Myers: Yes. There was a lot of stock that had been vested up until that point in time, which we were able to cash out. But then there were a lot of options that had changeable ownership control vesting; an automatic vesting provision. When that happens, when there's a change of control, it vests automatically, and you can cash out. So that's what we were all looking for, as part of the personal financial incentive to be able to see the sale of the company.

Grad: So the D&B offer falls through.

Myers: It falls through.

Grad: The story I heard was that was one of the reasons Bernie left. Now I may be wrong on that.

Myers: I think that was the case.

A. Hardy: I think so. I think that's true.

Myers: I left the company shortly thereafter. Maybe Mike and Ann and Norm can fill in the holes, because later on we were courted by McAuto [McDonnell Douglas Automation Company] and that deal came to pass. From what I hear, it was done primarily for TymNet.

A. Hardy: Well I think Wang was interested just before we got acquired by McAuto in the first quarter 1984.

Grad: It was that late?

A. Hardy: Yes. In the third or fourth quarter the year before, 1983, Wang made an offer -- an unfriendly offer -- for the company.

Grad: You mean Wang Computer, or do you mean Charlie Wang [Computer Associates]?

A. Hardy: Wang Computer. They didn't want to do that, so we went back again to McAuto.

Norm Hardy: McDonnell Douglas, you mean?

A. Hardy: McDonnell Douglas, but I thought it was the McAuto part of McDonnell Douglas. Anyway, at that time, around the McAuto deal, the McDonnell Douglas deal went through.

Grad: Did you go looking for them, or did they come looking for you?

A. Hardy: You know, I think the conversations had been going on intermittently for quite a long time.

Grad: Jeffery, did you use a broker?

Stein: No.

Grad: You did your deal directly.

Stein: Yes. I had someone to coach me through it, and help me with it a little bit.

Grad: And GEIS, you don't know how that was handled? Bernie [Goldstein] wasn't part of the deal on that one. Well, his company [Broadview Associates] at one period had, I think, 70 or 80 percent of all mergers and acquisitions [in the computer software and services industry]. I guess he wouldn't have been involved any more, with Tom, would he?

Johnson: I have a comment on the Tymshare deal. There's a notation that the McAuto discussions had become stalled. Here's a memo from Tom O'Rourke, 1 December 1983. "I'd like to clarify some points", basically saying that it's not going to go through.

A. Hardy: That's right.

Johnson: So something happened after that.

A. Hardy: Yes, it then depends on who you listened to and who you believed. What happened after that is that they concluded the deal in first quarter of the next year, in 1984.

Grad: Do you know what the price was? Was it stock, was it cash, do you know what the deal was?

A. Hardy: Mostly it was stock, yes. Wasn't it mostly stock? Do you remember?

Grad: So you guys got stock. Now, you had left the company. Did you have stock in the company, but your options were gone, or were they okay?

Myers: No, when you leave the company, it really terminates the vesting.

Grad: But what you had already vested, of course, you had.

Myers: Yes, absolutely. Let me add another interesting point. I've heard this second hand from some very reliable sources, and you all can verify it. It got to the point where the decision to sell Tymshare was going to be made, one way or the other, yes or no. The board really insisted that Tom take that deal. It was either that or maybe some other dire consequences would happen. It was not one of those things where the founder really grew [the company] and then saw that the vision was dying. It was a very confrontational.

A. Hardy: Tom was forced into selling.

Grad: Did Tom stay with the operation after it was sold?

A. Hardy: No.

Grad: So that was the end of that career for him.

A. Hardy: That was the end for Tom, yes.

Grad: It was his child, wasn't it, that he created?

A. Hardy: Yes it was.

Grad: Now Dave [Schmidt] had been gone long before that.

A. Hardy: Dave had gone years and years ago, Dave was totally not involved.

Grad: Who was the number two person there? Was there one?

A. Hardy: I'm going to let Gary guess. Maybe it was Warren Prince [VP for financial and network systems]. And Alden [Heintz] was certainly involved.

Myers: Ed was gone by that time, wasn't he?

A. Hardy: Yes, he had been replaced by whatever his name was, I can't remember;

Myers: It was Ron Braniff and he left after the deal

Grad: Do you know what the effective value was of the transaction?

Johnson: Twenty-five dollars per share.

Grad: Which was how many total dollars?

Johnson: I don't know. I can try to find that out. There is apparently a document in the archives that we can scan. But here is the wording: "Offer to purchase outstanding stock."

Grad: But it was the view that TymNet was the key to that sale?

Myers: I can almost assure you 100 percent that McAuto was more interested in TymNet than the rest of the business. This is based on conversations; there was another guy, Otis Brinkley, who was very involved in this.

A. Hardy: Right.

Myers: He stayed on, and he and I are good friends. We've talked long and hard over many scotches about this. There is no question in his mind -- and he worked with John McDonnell and some of the other people who were very instrumental [in the acquisition] -- that the TymNet piece of business was the part that was really valuable.

A. Hardy: Yes, I completely agree with Gary.

Grad: Was there a Tymshare identity after the acquisition? Did TymNet go away? Did the old timesharing business continue as an operation?

A. Hardy: It was pretty much wrapped into McAuto.

Myers: It folded into McAuto, and died.

A. Hardy: Most of it just sort of disappeared.

Myers: The people left.

Grad: Did you stay?

A. Hardy: No, I left and took a whole bunch of the tech division, the programmers, out.

Grad: Where did you go?

A. Hardy: A security company.

Grad: Your own company.

A. Hardy: Yes.

Stein: What did you start?

A. Hardy: It was based on a product we had at Tymshare. We started a company called Key Logic. It was selling security systems.

Grad: Okay, now let's talk about IDC [Interactive Data Corporation].

Interactive Data Corporation

Frank Belvin: I'll take care of that first.

Grad: Okay. The first acquisition was by Chase?

Belvin: Yes. I'm not positive about the year. I think it was 1974, that was probably when the La Salette missionaries were beginning to wonder about their investment, and I think White, Weld & Co. was facing hard times, so they wanted to cash out. And so, based on NCSS' success in an IPO, we decided to go public. We went to an investment bank and went as far as having a red herring, but the night before [the IPO] we pulled it back, because the market had depressed enough that we didn't think we'd get enough money for it.

Mike Wyman: I think it was earlier than 1974.

Belvin: Could have been 1973. I no longer have the red herring, so I can't tell you. But we'd been doing increasing business with Chase as a customer, and we'd received a cash infusion from them. Our relationship with Chase was pretty good, and Father Sauvé and White Weld pushed through the sale, and Chase purchased for cash, 15 million dollars, all the stock options of the employees; everything was vested, and that was the end of that setup.

Grad: What were your revenues at that point, do you remember?

Belvin: I don't. Do you, Mike?

Wyman: No.

Grad: Okay. And then what happens afterward?

Wyman: We were then owned by Chase. Chase hangs onto us until 1988, and they sell us to D&B [Dun & Bradstreet]. It's not clear how much they sold us for, but I can tell you the absolute maximum, probably. Going to this news article from Reuters, dated March 3, 1988, it says that Chase Manhattan said it expected the sale of IDC and its divestiture of a Paris branch office building to give it an after-tax gain of about $120 million.

Grad: After tax gain, so that was a high price. They had kept an almost ten time multiplier over that 14 year period. Yes. What happens next?

Wyman: What happens next? D&B holds onto us until 1995, when they sell us to [the Financial Times Group of] Pearson for 201 million dollars.

Grad: And? Is that where it is today?

Wyman: Well, there was some more. Pearson spun off part of it and made it public. Pearson owns, like, 49 percent of Interactive Data.

Grad: Does it exist as an entity today?

Wyman: Definitely, it's traded on the New York Stock Exchange and it has grown substantially.

Grad: Is it doing similar kinds of work? Is it still the same data kind of things?

Wyman: Their primary focus is on the securities industry, providing information services.

Stein: Does it do any dirty old timesharing?

Wyman: I don't know.

Grad: Okay, last one here: National CSS. The prices and so forth for the sale to D&B?

National CSS

Nick Rawlings: Was it 165 million?

Orenstein: Yes, yes.

Rawlings: Revenues was about $120 million.

Orenstein: Close to that.

Rawlings: Why do I remember $135 million?

Orenstein: Well that's possible.

Grad: So, you got more than your annual revenue! You got a multiple, which everyone thought was overpaying.

Orenstein: What do you mean? Who felt they were over paying? <laughs> It was a good deal for D&B. They really wanted us. I think the Tymshare deal had fallen apart, and they needed to recover.

Grad: Let me take the other side. Were you looking for a buyer at that point in time? Were you looking to sell the company?

Orenstein: This is a question that's best asked directly of Bob Weissman.

Rawlings: Or of Bernie Goldstein. I think it was probably pretty clear Bernie was looking to sell it.

Bayles: Bernie came to sell it.

Grad: I've never heard that story.

Orenstein: I've not heard that either. But I think Bob saw that it had played out. He was detachable, and he detached. It had played out, everything was coming up roses, and this was the time [to sell].

Dick Bayles: One contrast: if you look at the Tymshare issue with respect to Tom O'Rourke, what you had there was, it was Tom O'Rourke's child. By the time 1979 rolled around, NCSS was nobody's child. It wasn't Bob Weissman's child. So there wasn't the same kind of tension.

Grad: We have had interviews with Alan Rievman on this subject.

Orenstein: And what did he say?

Grad: He said that Bernie Goldstein wasn't looking for a sale.

Orenstein: I think that there's a guy by the name of Al Harris involved**.**

Grad: That's the one he mentioned.

Orenstein: Al Harris had a connection to the financial executive at D&B. Al Harris, I think I'll use the word, "presented" the opportunity. And I think coincident with that, vis-à-vis what Dick said, and what was said about Tom O'Rourke--this is guessing since I've never had a meaningful conversation with Bob on this subject, but. I did have a conversation with him about it, but it was way earlier and it wasn't related to a transaction-- I think that Bernie saw the opportunity and Bernie was going to leave [after the sale]. Bob figured he would leave after this was sold and he would find another opportunity. Bob felt that NCSS was at the top, and where was it going to go? There was more risk with the 3200 [computer system].

Grad: But Bernie has said that the price was so high he couldn't walk.

Orenstein: Well the price was a 50 percent premium over the stock price.

Grad: Bernie said that the price was so attractive that the [NCSS] Board couldn't walk away from the deal.

Orenstein: That was clearly true.

Grad: And neither of them [Bob or Bernie] had that personal ownership that you're talking about with Tom, and that's a big difference.

Orenstein: Actually, a cute aside, which Alan may have told you, was that when we went to the Board meeting, there was an error in the option count. Did he tell you that?

Grad: Yes. We have that on record [in the transcript of the Alan Rievman oral history interview at the Computer History Museum] that there was an error. They had used the wrong number of shares in the calculation. They had set, in the document, a price per share, not the total price. And at the last minute, Rievman or someone from NCSS said, "Hey, you left out these shares, and they've got to be included," and the CEO of D&B at the time…

Orenstein: Drake, Duke Drake.

Grad: Duke Drake. At the last minute he agreed that they had made a multimillion dollar error.

Orenstein: Five million dollars. It was 100,000 shares at about 50 dollars per share.

Grad: So the deal went through at the higher price?

Orenstein: D&B had to call a telephone board meeting, because they had already approved the lower total price.

Grad: We have that on the CHM website. Now National CSS has a very interesting life after going to Dun & Bradstreet. You mentioned some of the things that occurred. Of course there were a number of things that came over. Nomad [the relational database and 4GL] ends up with a life of its own.

Rawlings: We talked about the fact that the network group got absorbed into a separate thing. There was a large effort on DunsNet, but also there was an effort with AC Nielson. The 3200 [computer system] was also a problem and required some kind of effort. Then they decided to sell the Nomad business to the French company, Thomson, and that happened in 1987, eight years later.

Grad: Another interesting thing, for the record, is that Bob Weissman goes in, starts working at D&B, and eventually ends up as the CEO, and sort of serves in the breakup of Dun & Bradstreet into its multiple pieces.

Rawlings: Yes, when they sold Nomad to Thomson, what they said was, "we want to get out of the software business." And a few months later, they bought IDC.

Wyman: And we were in the software business.

Rawlings: And they also bought MSA [Management Science America].

Grad: And they bought McCormick and Dodge.

Rawlings: Well, they bought McCormick and Dodge before they sold Nomad.

Grad: Bob Weissman played golf with [MSA CEO] John Imlay, so we assume that's why they bought MSA. So again, the only identity that's left from National CSS is Nomad; is that correct?

Rawlings: I don't know what's left.

Bayles: I'm not even sure that's still around.

Rawlings: There is still an eight million dollar a year Nomad business for maintenance, and also a few new sales to do reporting.

Grad: You can't kill these things off, you know?

Rawlings: There's a group of about 30 people who have an office in Shelton, Connecticut working with Nomad.

Orenstein: You don't think somebody is running an [IBM] 1401 somewhere?

Grad: Oh they are. Right next door, didn't you see it?

Rawlings: In emulation mode?

Grad: No, they have a real 1401 they rebuilt. They got one from Germany with 50 cycle power, and they had to redo it and everything because of the 50 cycle. The one they got was in the best condition.

Johnson: I do have the Tymshare information now. It's an article from the San Jose Mercury News [November 5, 1984], and the reporter was Mary A. C. Fallon. "McDonnell Douglas paid $307.5 million for Tymshare to obtain ownership of TymNet, one of two public 'value-added' computer networks in the country. Timesharing, the business that helped Tymshare grow to $288.6 million by 1983, was near death." So according to this reporter, the purchase was really to get TymNet, but it was $307.5 million.

Grad: That's almost one times revenue. Oh, they got more than 1.2 times revenue. You sold out cheap, Jeffery!

Stein: Tymshare was in a different business.

Wyman: They had a network.

Johnson: It sounds like Jeffery had more fun in his negotiation than the rest of them had.

Horror Stories

Grad: Yes, that's right. Good for him. Okay, we have a little bit of time. I would like to start to have horror stories and success stories. Who can tell the worst story about something: a decision that was made that just absolutely turned out to be a horror, really was a miserable decision that cost the company a great deal, and was bad. Who wants to start with a really bad decision? You didn't make any?

Stein: Of course not.

Orenstein: You're asking for a decision that was essentially one that cost the business.

Grad: No, just that it was a really bad thing. "I wish to hell we had never done it. It really was a miserable thing."

Belvin: I've got one example, but it doesn't quite fit your characterization.

Grad: All right.

Belvin: Joe Gall and John Thompson [at IDC] aimed at having a first class company and got a good office in a good building in Waltham. They got good space for offices in New York and Boston, and built up a sales force. They spent money hand over fist, until the board finally said, "No more." So in April of 1971, we had our "day of the long knives". We had a layoff day. I lost almost half of my department, 40 percent. In fact across the board, the company was reduced by that amount. It was the most miserable day of my life. I talked to every single one of those employees, one of whom I'd hired just a month before. At that time, the sky was the limit. We eliminated the FFL [?] group in that layoff, and stopped all development on it. The net result of that was that the board essentially kicked Joe out, even though I almost hesitate to say it like this because he left within two or three months. Jack became president, and in June, three months later, we had our first month of profit. And I made happy face badges on the IDC logo, and spread them around.

Grad: Was it just lack of control on expenses?

Belvin: Yes. I talked to Joe recently, and, if he had it to do over again, he wouldn't have done it that way. He would have concentrated on his original idea of a product; he would have concentrated on protecting a support force, and concentrated on customers, and educating the customers, and not spending a whole bunch of money on ads in the [Wall Street] Journal.

Grad: 1970, 1971. Wasn't that a recession period, a serious recession?

Johnson: Yes.

Belvin: It was not a happy time.

Grad: That's a perfect example of what I mean. That's a real horror story. Now, does anyone have a similar one?

Orenstein: You know, it's interesting, because I never heard that story. I would say that but for the names and the location, it's the same story. Sitting here, one of my observations is that we -- and I certainly include myself and Bob Bernard -- we were the most naive about the business operation. I won't say we weren't naive at all about the product and the service, but we had no idea what we were doing in terms of running a business. The way I describe what I learned in 1970, when we had our night of the long knives, was that the financial statement was the vocabulary of business. That's exactly how I describe it, and I can only thank Alan Rievman for that. I finally understood that if you look at the financial statement, you could tell what was going on. I just didn't pay any attention to it, the same as everybody else that was with us. Although there were people in our company that knew that this party we were having was going to come to an end. They may have even talked to us about it. But I don’t think that Bob Bernard or myself and anyone else focused on this.

Grad: But you spent the money on the business. You didn't buy a yacht, you didn't buy cars, or things like that?

Bayles: We bought a health center in Providence.

Orenstein: Yes, that was the most flagrant.

Bayles: The single most flagrant.

Orenstein: We hired 15 people at Brown University.

Johnson: But the story that he's telling is what I was talking about earlier at ADAPSO [Association of Data Processing Service Organizations], where we got together. It's where I, as someone who came out of a programming background, suddenly learned, oh, there's a reason why these numbers are on these sheets. Esther Dyson used to say, when she had meetings with all those PC companies, that she had guys running 50 million dollar companies who had never seen a balance sheet. They just didn't know what it was.

Grad: That hasn't changed. I have a grandson who started a very successful company called Etsy.com, and he ended up getting about 25 million dollars of investment from VCs. He wouldn't look at a financial statement or anything else. They've kicked him out now, which is the smartest thing they could have done. I kept saying, "You need a financial plan, you need a balance sheet, you need a profit & loss statement." "Nah, nah, nah, I have a great idea." He was right, and he's a lot wealthier than I'll ever be.

Belvin: I just want to clarify something. At IDC, it's not as though Joe Gall, who is a Harvard Business School Graduate, was ignorant of what's on a balance sheet and an income statement. He certainly knew, and Jack Arno, [ph?] even though he's a technical person, knew enough about balance sheets and income statements~~,~~ too. It was just the vision that Joe had, that we would come out of this if we keep building our capabilities and our sales force. The business is going to get there.

Orenstein: Well Bob Bernard certainly didn't have any idea at the time about a financial statement, although I had taken a year of accounting.

Grad: That certainly wasn't your thing. What do they say, "There is no accounting for engineers"?

Bayles: I'm not sure it makes any difference. The net result was the same.

Thomas Haigh: Tell me, were any of these companies started by people who knew anything about running a business? Were all of these companies, was this whole industry, started by people who didn't know anything about running a business? Or were any of the companies started by people with real management, and financial knowledge

A. Hardy: Tom [O'Rourke] knew a lot about business. Tom and Dave [Schmidt] both [had that experience].

Grad: They had come out of GE, where there was good management training. These were technology people. I don't know the people who were involved originally with IDC.

Belvin: I don't mean to be flip, but I don't think Bill Gates knew a whole lot about running a business, and he's certainly demonstrated that you can [learn].

Johnson: Yes, but he was on that trajectory -- the trick I was talking about – of just going fast enough. Who was that financial guy that he brought in very early on? The guy who eventually died? [Francis J. Gaudette, who joined in 1984 as CFO, and died in 1993 at the age of 57]

Grad: He's someone I worked with when he was with Informatics.

Johnson: Gates was smart enough to hire a really good financial guy and listen to him, while he was still on that trajectory, with enough growth to cover his mistakes.

Grad: Hey, look, he lucked out.

Johnson: Yes.

Orenstein: And so did we all. So did we all in some way.

Johnson: Yes, yes.

Grad: No, it was personal skill on your part. Come on, guys, I know that.

Orenstein: There were decisions that I made that were good. And there were plenty [that weren't], but luck played a good part for everybody.

Grad: Tell me the worst Tymshare story you can think of.

Myers: I've got one. I don't think it's really a terrible story, but it certainly indicates our naiveté in going into markets and maybe even Tom [O'Rourke]'s lack of understanding of what we thought then was a very important asset in our timesharing culture. We wanted to expand out of California into the East Coast. New Jersey was the chosen target. We acquired a little company there, and had some experts come in. There was even one guy from England. They were senior people, they had grey hair, they really knew their stuff. We put a timesharing system out there, and we gave them some manuals, and said, "Go to it." Well, they fell on their face. It was an unmitigated disaster. They would sign up customers, but they couldn't get the service delivered. They didn't know how to train people. It was just an unmitigated disaster. And Tymshare spent a ton of money setting up all of the infrastructure there, and the support, and putting lines across the country, He [O'Rourke] ended up, to his credit, recognizing the problem. He fired them, and sent back a couple of Tymshare guys. Ron Braniff and John Shirocken went back there for a couple of months, and then hired people in the Tymshare image, the culture. We knew how to communicate with the technical people to get the problem solved. We knew how to sell the customers, and support the customers. As soon as that culture moved to the East Coast, and then proliferated through other cities on the East Coast, then we had a successful operation. But it really pointed to one huge mistake early on that we made, and that was not recognizing how important the culture was to maintain.

Grad: Did you have any stories that you wanted to tell, either Norm or Anne?

A. Hardy: You tell your tax story.

N. Hardy: Here is a story that I heard indirectly, so this may be exaggerated. I believe it was about Unitax, one of the [Tymshare] acquisitions. There was a manger coming up through the ranks at Unitax who had a theory of communications for the development group. Every year they have this short schedule to develop the software for that year, and he had a theory as to how the sections of that development group should talk to each other. The theory entailed limiting communication, except through the channels he established. It was a failure. The tax software was not done on time, and that was the end of Unitax. I hate to put that on the record, but that's the memory I have of the story.

Grad: Interesting. Ann, did you want to add one more story?

A. Hardy: No, I'd say that's enough for Tymshare.

Grad: I see. How about you, Chris, do you have a GEIS story?

Brook: In terms of the business decision that I've already mentioned, the public data network fiasco, when we were going in and out of it. And then the Genie story, which was kind of unfortunate, and reflected back on the GE culture, or the GE way of doing things. The other one, I think I told you, was when I left GEIS as it was then. It was kind of interesting, because things were not going well. We had a new CEO, and business was going downhill. So the big thing was that word came out: "cut costs". So what they did was say, okay, we'll cut costs. They got the employee relations people to send out a letter to everybody who was 55 years or older, or had 25 years of service. Here you are, you're eligible for a golden handshake. Leave the company. They sent it to pretty much everybody with that qualification, regardless of whether they needed them or not. Needless to say, the offer was very good. You got a full year's salary, you got your immediate retirement, you cashed in of all your chips, and you got the insurance. It was one of those things you could not refuse. Everybody took it. It must have been somewhat of a surprise to the employee relations people. We all got in a room and they said: here it is. You're all eligible, and here's what you get.

So we had a big party, and we had a big retirement thing, and we off went. Then there was a little clause in here: "by the way, if we ever need you, we'll hire you back as a contractor at full rates, etc., etc." Well, one of the groups that had taken retirement -- because they were all senior people, by definition -- were the finance people. So all the accounts receivable and all the accounts payable [employees], had gone. The next month, they said, "Oh shit, what do we actually do now about collecting our cash and everything?" Well, guess what? They had to hire them all back at full contractor rates, on top of the full salary they were all being paid. So it was a very amusing situation for those of us who had gone and were sitting out. We were all laughing at that. I went back and did some tracking for them as well. They had any number of people who did that.

Grad: You got a hell of a consulting rate when you came back?

Brook: Yes. I only did a little bit, because I was working elsewhere. But there were a lot of people who ended up doing contracting for, I think they had a 12 month limit. A lot of people did the full 12 months, on top of the salary they were getting, plus the pension, plus everything else,

Grad: That's a great story. I like it.

Brook: It doesn't always work out the way you expect.

Grad: Jeffery, do you have any horror stories to tell?

Stein: Well, the one I mentioned earlier, when I started OBS. I was 27 years old. I didn't really have any experience in running a company, but I was involved in several companies. It was the purchase of OSI [Optimum Systems, Inc] -- how naive I was! That was havoc for five years. It was really, really tough. That transaction was the worst thing I ever did, but I don't think we'd be in business today if I hadn't done it. So it was sort of bitter-sweet.

Grad: But you suffered through five years of real pain and agony as a result.

Stein: Yes.

Acquisitions

Grad: That was one of the things I was going to ask all around. Most of you acquired some number of companies as part of your ventures. Jeffery spoke of OSI, but all of you acquired some companies. In bringing them in, getting them into your company, how did that work? Was that a problem? You mentioned the years you took, Gary; you moved seats. I can't remember who you are after that. That acquisition you mentioned of the UDC thing, how you broke out the stripes on your back from the pain of integrating that into the operation.

A. Hardy: That was tough. We had acquired a number of companies before that whose business was timesharing, or we acquired the part of the company whose business was timesharing. The integration of all of those went very smoothly.

Grad: So they were in the same business, and that worked okay.

A. Hardy: They were in the same business. We pretty much picked up anybody who wanted to move to California, and they just integrated in, because they were in the same business and had the same sort of philosophy and approach. The one funny thing that happened was when we acquired Graphic Controls, which was in Buffalo [New York], at least the timesharing services part of it. We were all sitting around trying to figure out: there's this many staff, who's going to move, and who's not going to move. All the guys said -- I was the only woman in the room -- they were all saying, "Well, the major programming staff in this company is all women. Their husbands won't leave their jobs, so we'll never have to worry about adding these ten people to the staff in Cupertino." Of course, they had forgotten that these people were in Buffalo! Every single one of them moved!

Grad: That's the "law of unintended consequences."

N. Hardy: They were all valuable.

A. Hardy: They all integrated really well. It was fine.

Grad: Nick?

Rawlings: There was a decision made, in the 1982, 1983 period, to have a PC version of Nomad. And as with the issue that I think Rick Crandall talked about, there was OS/2 and Windows, and also we had to make it run on a 64k DOS machine at the same time. Who should we give this project to? So we gave it to some people who didn't really know Nomad very well, and had a very different idea. They came up with an entirely different product that was totally incompatible and didn't even work. <laughs>

Wyman: But could you sell it?

Rawlings: No, and we didn't. But we had told everybody we were coming out with a PC Nomad. Meanwhile, our major competitor, IBI Information Builders, had taken their product, Focus, which was largely written in Fortran, and made it work fairly compatibly on a PC. Our customers were expecting us to do the same thing, and we totally screwed up. So, we took, essentially, a whole bunch of the Nomad development resources that we could have been doing something else with, and we did this. We called it PC Nomad, and it didn't work. We tried to retrofit it for the next several years, and we tried to move it to the [DEC] VAX, and a whole bunch of other things. We renamed it a couple of times. We kept pouring all the resources in. I said before that there's still a business in Nomad, but the PC product in which we put 90 percent of our effort for ten years never made a dime.

Grad: My memory is that RAMIS was eventually sold to Computer Associates by Mathematica; does anybody know that story?

Rawlings: Computer Associates bought a lot of things.

Grad: I was involved. Sterling Software wanted to buy RAMIS, but you couldn't bid against Charlie Wang on those kinds of things. He would pay more, because he was going to go fire everybody. He had a different business model.

Rawlings: Didn't Computer Associates buy Sterling?

Grad: Eventually, for four billion dollars, CA bought Sterling Software. But that was not the e-commerce part, that was just the software. SBC bought the e-commerce part for four billion dollars also. Sam Wyly and the other stockholders walked away with eight billion dollars in those two companies. He sold them in late 1999. Good timing!

Rawlings: Wow. At any rate I think that our effort on PC Nomad was a major factor [in Nomad falling off]

Grad: Well I think we've had enough disasters for one session. We'll come back and talk about the demise of the timesharing model, and also focus on the legacy of timesharing. What has happened since then that you feel has built upon what you people created 20, 30, 40 years ago, and what the values were. We'll talk about how the legacy of timesharing has come back to not haunt us, but to make us feel good now.