



Oral History of Fred Shulman

Interviewed by:
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Fred Shulman

Conducted by Software Industry Special Interest Group—Oral History Project

Abstract: After getting his BS degree from the University of Maryland, Fred Shulman joined Sperry Univac as a systems programmer. He then worked for Raytheon and for Advanced Technology Systems where he later became an independent contractor. He saw an opportunity to bring in other programmers for a project at American Satellite and decided to form his own company, COMSYS. He initially partnered with Katherine Griffin and shortly afterward, Howard Stein became a partner in the business and they started serving other clients with independent contractor services. Shulman describes the marketing and recruiting process that the company followed and their pricing of the services. He talks about the drastic impact that the Section 1706 rules had on COMSYS, the forming of NACCB and how he was able to re-orient his business to get back to a growth mode. He discusses selling the company and then starting AETEA, a similar brokerage-oriented professional services business. He concludes with a brief review of Trilogy, his current company in the independent contractor professional services area.

[Fred Shulman extensively edited the original transcript to improve its readability and accuracy.]

Burton Grad: I'm Burton Grad and I'm interviewing Fred Shulman as part of the Software Industry Special Interest Group's oral history project. It's March 28, 2007, and we're at the Computer History Museum in Mountain View, California. Fred, I'd like to start by getting a little bit about your family background and school, your after-school activities, those kinds of things.

Background

Fred Shulman: I was born in Brooklyn, New York, where I lived until I was 9 years old. My father had a job with the federal government working for the Internal Revenue Service. He was promoted and transferred to Washington, D.C. Thus I ended up in Potomac, Maryland.

Grad: When was this?

Shulman: This was back in 1965 when I was in fourth grade. It was a big change. I remember my public school in New York. It was a huge city school. Out back everything was concrete, no grass. Then at my elementary school in the Maryland suburbs, out back there was nothing but tall trees and grass. At first I missed the city but it ended up being a good change. At my young age there was a lot more to do in Maryland. I also met Howard Stein when I moved to Maryland and we became best friends. Howard and I shoveled driveways together in the winters and in the summers we had a little lawn cutting business.

Grad: Potomac was certainly a suburban community then if I remember correctly.

Shulman: Yes. At that time it was probably one of the original new suburban communities around Washington, D.C.

Grad: I grew up in the Washington area and so I know Potomac was way out there as far as we were concerned.

Shulman: That was the end of the line back then.

Grad: What kind of after school activities were you interested in and what kind of school subjects were you interested in high school?

Shulman: I was very interested in math and sciences. My first introduction to computers was in a high school math class. The teacher brought in a Western Union teletype and we typed some BASIC programs into the machine. I was struck how I could put computational commands into this machine and get answers but didn't know much more than that. After school activities were mostly sports – I wrestled and I did some cross country. I also did a little photography, but I was mainly interested in the math and sciences when it came to school subjects.

Grad: Did you get involved with radios or any of those kinds of things by that point, doing any kind of electronics?

Shulman: Not formally, but I was always the kid who went around took things apart, put them back together and tried to fixed things. If somebody had a broken TV or a radio or a washer or dryer they would call me to try to fix it.

Grad: There was an interest in the technical side of things even at that point?

Shulman: Yes, I had an interest in finding out about how things worked.

Grad: Were you a good student?

Shulman: I was a pretty good student. A solid B student in school.

Grad: Did you enjoy school?

Shulman: I did enjoy school. Socially and academically. I was also interested in how businesses operated.

Grad: Do you have any brothers or sisters?

Shulman: Yes. I had two brothers, both older. My oldest brother, Harvey Shulman and middle brother Alan Shulman, and Alan and I are in business today. He was part of my other two ventures as well as Harvey.

Grad: It's been a family business area in many cases.

Shulman: It has, yes.

Grad: Your older brother became a lawyer and what was Alan's background?

Shulman: Alan majored in history and then he received a master's in recreation as well as another master's in, I believe, contract management and went on to be a contracting officer at the Pentagon.

Grad: He worked for the government there?

Shulman: Yes.

Grad: Did your mother work?

Shulman: When I was young, yes, my mother did work. She was a secretary for the Montgomery County Public School system.

College Education

Grad: Where did you decide to go to college and why?

Shulman: I decided to go to the University of Maryland. But it was more of it being the only choice than a decision. Recently my son and daughter applied each to about eight schools which seems to be a norm today. Back then my friends and I applied to maybe two schools. Things have changed. But I liked Maryland. My brothers went to Maryland and I would go visit out there a lot. Maryland had a very good business department and an engineering department which they still have today.

Grad: Were you living at home or did you live on campus?

Shulman: Both, plus an off campus apartment. I spent my freshman year at home, my sophomore year on campus and then my junior and senior year I had an apartment off campus.

Grad: You lived in the College Park area?

Shulman: Yes.

Grad: Did you start with a business major from the beginning or an engineering major?

Shulman: When I applied to Maryland I applied into the engineering department, I wanted to learn more about how things worked. I took some of the pre-requisite classes but I also wanted to learn about business so I took some business classes. Having taken some classes in both I decided that I was more interested in learning about how businesses operate so I switched my major.

Grad: When did you make that switch from the engineering major to the business?

Shulman: Actually, during my freshman year.

Grad: That was very early.

Shulman: Yes. I started taking some business classes like marketing and accounting and I liked them.

Grad: You found that more interesting than the basic engineering classes that you could take.

Shulman: At that early point, I was torn, because I always wanted to start a business. I had these little businesses that I enjoyed growing up.

Grad: That's very interesting because your father worked for the government. Did he continue to do so while you were growing up?

Shulman: Yes. He retired from the government around 1978.

Grad: You were in college at that point in time probably.

Shulman: Yes.

Grad: You had a personal interest in the business side of the things. Was your father an accountant?

Shulman: He was.

Grad: What were your activities while you were at school besides classes?

Shulman: I did intramural sports while I was there and was president of my dorm section.

Grad: Did you belong to any kind of clubs or any special projects during the summer?

Shulman: No, not really at that point, I had just switched in my freshman year from engineering to business. After I went into the dorms in my sophomore year and I became interested in computers I worked summers doing computer work. I wanted to tell you how I became involved with computers. When I moved into the dorms there was a guy in the room next to me, Ed Brey, and I used to watch Ed late at night and he always had these big sheets of paper that he was going through and circling things with red ink trying to "fix the code" he would say and it was always a mystery to me and I finally said, "Ed, what are you doing? You're up all night with these big sheets of paper." And he said, "Oh, this is for my COBOL programming class." And I said, "Oh, COBOL. That's kind of like this BASIC thing I had in high school." And he said, "Well, sort of." So he started showing me and I was really fascinated by it because it was sort of building something. He showed me how you built a program and then you would take it over to this building and put it through this machine. So I remember coming home one day to my father and saying, "I think I found something I'm really interested in." And he said, "Fred, just wait a minute. I want to talk to you about something." My father was like that and he pulled this piece of paper out that he read in the Washington Post and he said, "Computers. That's the thing of the future."

Grad: That sounds like "The Graduate" with plastics or something like that.

Shulman: It was, but he was like that and I smiled and I said, "Well, this is amazing because what I think I'm interested in is changing my major to computers." And of course I thought he was going to say, "Fred, you've been in school for 18 months. You've already changed your major three times," but it was an easy sell.

Grad: What was the program? Was it a computer science course or was it something different that you switched to at Maryland?

Shulman: Well, I switched into computer science.

Grad: It was the technology side of it rather than the business side?

Shulman: The technology side but I also stayed with business as I took COBOL and information technology courses. I switched to computer science as my major so I went right through assembly language, writing operating systems from scratch, learning programming languages and microprocessors, minicomputers. Plus business side and I learned COBOL and PL/1 and how the computer would operate in a business atmosphere.

Grad: We're talking about the late 1970s?

Shulman: Yes. This would have been in 1976.

Grad: Were there any of the courses that related to the applications and use of computers as against the sort of computer oriented things, the learning of languages and so forth?

Shulman: Outside of learning about languages on the computer science side, I remember microprocessor classes where they taught us how computers would operate for example traffic light systems and computer operating systems. On the business side they just got into data processing basics as how it might apply to doing repetitive tasks like producing paychecks and other accounting functions, but not any more expansive than that. Information Technology was in its infancy.

Grad: Did you pick up significant business knowledge in terms of additional accounting courses, entrepreneurial courses, anything of that sort that would be of use to you later?

Shulman: I considered myself a jack of all trades. Computers are still a hobby of mine. I took a lot of different introductory classes like accounting, marketing, and data processing. Most

of my focus was really spent on my major computer science side because I needed so many credits to catch-up and graduate as I was trying to graduate in 4 years.

Grad: You have a bachelor of science in computer science?

Shulman: I have a bachelor of science officially in mathematical physical sciences and engineering, which at that time was the college. The major was computer science. It just so happened that it was the first graduating class at Maryland where they recognized computer science as its own major.

Grad: Your note says you graduated in 1978. Was there anything else about school that was particularly eventful? Had you started any businesses while you were at school, summer work or anything like that that would be meaningful?

Initial Employment

Shulman: Well after I transferred into computer science I really liked it; so I went out and at the end of my junior year before the summer and I was hired by Sperry Univac as a paid intern. I interned with them the summer of my junior year. And, throughout my senior year, I traveled from Maryland into Washington, D.C. working during school as well.

Grad: Were there any particular applications you were working on at that point for your employer?

Shulman: Yes. At that time I was working on databases that stored logistical information for the military. It was called WWMCCS, the Worldwide Military Command and Control System, and upon graduation they offered me a full-time job, which ended up being my first job.

Grad: You actually went directly to that area as your initial employment?

Shulman: Yes. I knew I had a job when I graduated. Sperry offered me a full-time job. I accepted it. I moved from College Park to Patuxent River in southern Maryland, where they have a Naval Air Test Center. I was cleared for top secret work and I worked on some projects on the base for a year. But not the logistical information system.

Grad: Go back to your family for a minute. By this point, had Harvey graduated from law school?

Shulman: Yes. Harvey was a tough act to follow. Harvey actually went to Maryland when he was 16 years old. He had graduated from Maryland and he was probably through Michigan Law School by then and practicing law.

Grad: This is the late 1970s and Viet Nam was over so there were no war problems, no service requirement on your part or anything?

Shulman: No. Just missed it.

Grad: Alan had graduated from Maryland as well?

Shulman: Alan had already graduated from Maryland. At that time he was a contracting officer at the Pentagon and then he switched to becoming a contracting officer for IBM.

Grad: In the Rockville office?

Shulman: Yes. In the Rockville office.

Grad: I was wondering whether Alan might have said, "Come to work for IBM," or something like that.

Shulman: No. But I was thinking about applying there.

Grad: You got this job at Patuxent on your own through your internships?

Shulman: Correct.

Grad: What did you work on there and what did that lead to?

Shulman: I worked on WWMCCS again. We were building an operating system. They had militarized versions of commercial computers. I remember it was called an AN/UYK 20, and it was a militarized computer that would be on a battleship, submarine or an aircraft carrier.

Grad: It was for sea borne use?

Shulman: Yes, it was sea borne and they were using it to detect and identify enemy submarines using sonar.

Grad: What did you do on that system?

Shulman: My group specifically was writing an operating system from scratch for the AN/UYK 20 and I was writing drivers for the operating system, printer drivers and tape drivers from scratch. We had other people working on the kernel and the schedulers.

Grad: It was real technical, systems oriented work.

Shulman: Yes, one, zeros type of work.

Grad: You were primarily writing in assembly language?

Shulman: Well, assembly language and a language the government used called CMS-2 which was a precursor to Pascal and C.

Grad: How long did you stay there?

Shulman: I stayed there for a year. Lexington Park was a very small town. I had grown up in Washington, went to College Park and basically I wanted to get back to the D.C. area.

Grad: Was your employer the US Government while you were at Patuxent?

Shulman: No, it was Sperry Univac.

Grad: What happens next?

Shulman: Well, I went and I applied for some other positions to leave Lexington Park. Some of the things my friends and I used to do back then regularly, before the Internet job boards made it easy, was you'd open up a publication called Computerworld and you'd go to the back of it and you would find 20 pages of jobs opportunities. We would all circle all the interesting ones and apply to see if we could find other work and make more money. Since I wanted to leave Lexington Park I finally applied to Raytheon, INCO and a couple other companies in the D.C. area and I was offered a position at Raytheon in Washington, D.C. They had a data center where they had acquired equipment off of an old Navy battleship and they were using an old military computer with ancient tape drives and they were trying to replace it with a new PDP-11 Digital Equipment minicomputer. I was hired to spec out the hardware they would need and then write conversion programs to convert the Navy COBOL programs to DEC COBOL so everything would continue to work smoothly..

Grad: Were you working pretty much on your own or were you part of a team? Were you a team leader?

Shulman: I was on my own; I was the first hire for this new data center. It was supposed to be a one-year project as far as me doing the specifications, programming and conversions. I finished it in three months and then went to my boss and said, "I'm done," but Raytheon and the US Government don't move that quickly and my boss said, "That's fine, Fred, you did a great job. There's a library on the third floor and in about a year we'll have the equipment here and you can come back in." In the meantime my office mate had seen an ad in the paper and they were looking for someone to run this data center when completed. My office mate said, "They're hiring someone to kind of oversee what you just did." So I went in to the vice president at the facility, and I said, "I saw this employment ad in the Post to oversee the data center I have just worked on." And he said, "Oh. You've done a great job, Fred, but you're only 24 years old and everybody here is 50, 60 years old. We can't have you in charge of the data center. It just doesn't work like that." I wasn't happy. That was my first inkling of how big business operates so I said to myself, "Well, I'm not going to sit here for eight months and wait until they hire someone." So I went out and took a look in the market again and I accepted a consulting position at a company that had a contract down at Amtrak.

Grad: Do you remember the name of the company you were hired by?

Shulman: Yes. It was ATS, Advanced Technology Systems. ATS had a contract at Amtrak and Amtrak was upgrading their reservation system, moving from mainframe CDC equipment to mainframe IBM equipment. They were using a Digital PDP-11 as a communications concentrator, which I had expertise in and they needed for the project. I worked at Amtrak and once again I finished my portion of the work in several months early but this time was promoted. ATS had a whole team of consultants and I was part of the team. Eventually, towards the end of the project I was running the team and I was one of the youngest members of the team and I said, "I kind of like this." When I accepted the work I didn't understand that companies would hire teams of people to come in. I thought everybody had employees. I left ATS at the end of the Amtrak work and went out to find a job. I went to a company called Fairchild that had a new subsidiary, American Satellite. In the middle of my interview it just struck me that although they were hiring for a full-time job and I asked, "Would you hire me as a consultant?" they said, "Well, is that the way you want to work? You're not interested in being an employee?" And I said, "No. I'd love to be a consultant here for you." And so they brought me on as a consultant.

Grad: You were truly an independent contractor at that point.

Shulman: I was an independent contractor and I was excited because I was in business for myself and doing the type of work I loved to do.

Starting COMSYS

Grad: How old were you then?

Shulman: I was still twenty-four years old. I had met a co-worker at Raytheon, Katherine Griffin, who then ended up going to work for Amtrak while I was still there. After I began consulting for American Satellite, they really liked the work I was doing and they said, "We would like two or three more of you because we have this other project to get completed." So I went back to Kathy, told her I knew some other people from college with these skills and asked her to go ahead and give them a call. "Tell them that you're working with me and see whether they're interested in doing some of this work over at American Satellite." So that was the re-birth of COMSYS in the IT Staffing world.

Grad: Were you marking up the other people at that point?

Shulman: Absolutely. Yes. We were marking them up. When I was back at Amtrak and I was consulting I happened to go into one of the manager's office one day and on the desk was the invoice from ATS to Amtrak. I took a look at the invoiced bill rate and I know what they were paying me and I said, "It looks like this is a very good business."

Grad: That was the first real awareness you had of that? There had been a professional services business for a lot of years at that point in time.

Shulman: I didn't realize how profitable it really was.

Grad: It was not something you had been aware of or been cued in to or anything.

Shulman: No, nothing that I had been particularly cued into.

Grad: Did you start a corporation or did you just keep it as a personal business?

Shulman: COMSYS was started as a subchapter S corporation. I probably need to circle back a little bit. My college roommate Howard Stein was my best friend growing up. He was the friend with whom I had the snow and lawn business I spoke of earlier. Howard ended up being an accountant while I ended up getting my degree in computer science. He worked as a CPA at an accounting firm in downtown D.C. A businessman called the firm he was at one day and said, "I need someone to write an inventory program for my business," and they told him, "Well, we don't do that kind of work." Somehow the call ended up at Howard's desk and he put Marv Broadbent in touch with me. Howard and I met with Marv: he engaged us to design an inventory

control system on his TRS-80. This was the actual beginning of COMSYS. We finished this project and I wanted to get more work but Howard wanted to continue down the path of being a CPA. I found it very hard to have a full-time job and then a part-time business where you have customers relying on you for their business full-time. They don't understand that you have another job. If there's a problem that comes up, they want it address now. Now the story continues about how I got into the IT staffing side of the business.

Grad: Now you have a contract and you have two or three other people starting too.

Shulman: Yes.

Grad: Are you leading them as a project leader or did you simply provide the bodies?

Shulman: Both, I personally lead some teams of people, but we also provided the bodies. Back in those days the staffing of programmers was relatively new. There were companies around that were considered job shops. They serviced the electrical and mechanical engineering areas. American Satellite had used those companies because they were designing integrated circuit boards for the communication systems we were writing software for. We were one of the first pure software staffing companies they used. I think this why when I came in there and said, "I'll be a consultant," they weren't insistent on me being an employee. They had used contractors on the hardware side and had good experiences.

Grad: Where did the name come from, COMSYS?

Shulman: Howard and I came up with that name when we did the work for Marv Broadbent. We were just brainstorming one night driving down Interstate 395 and we were thinking of how CDC and IBM and PRC and the other large computer companies used initials rather than long names and we said, "Well, how about COMSYS?" We wanted a name that people would recognize and relate to computer systems. So that's how we came up with the name.

Grad: Was he your partner at that point?

Shulman: He was my partner when we did the one project for Marv but left to pursue public accounting. When I consulted to American Satellite Kathy Griffin took Howard's place. Howard then came back in later on when he had moved from accounting to marketing.

Grad: The initial company was you with Kathy?

Shulman: Yes, the staffing company.

Grad: You were a corporation. You both had stock in the company?

Shulman: Yes.

Grad: Did you have the bulk of the stock or was it shared?

Shulman: It was shared. We each were 50/50 owners.

Grad: You went subchapter S.

Shulman: Yes.

Grad: Did you figure that you were going to lose money?

Shulman: No. I we just went with what our accountant advised he said: "This is a good way to do it. You're taxed similar to a partnership, unlike a C corporation but have the protection of a C corp. Everything flows through and you'll probably only have limited shareholders so this would probably be a good way to set up your corporation."

Grad: You've got a couple of people now. What happens from the business standpoint with COMSYS now? You're actually working yourself as well as using these other people.

Shulman: Yes. I was working myself and we built up the number of contractors at American Satellite until we had maybe a dozen people contracting for us.

Grad: You said you did mark it up. What percentage did you use?

Shulman: We took a look at what our costs were of running the business and what we thought was a fair profit margin and then we came up with not a markup or a percentage but a flat hourly rate as a dollar mark-up. We said, "Okay. If we have X number of people billing and make for example \$7 an hour on those people billing then this would cover our expenses, our salaries and a nice profit."

Grad: None of these other people were employees except that you and Kathy were employees of the company?

Shulman: Correct.

Relationships with Independent Contractors

Grad: All the others from the beginning were independent contractors?

Shulman: Yes, they were independent contractors.

Grad: This is in 1980, 1981?

Shulman: This was probably 1980, 1981 yes.

Grad: At that point in time, if my memory serves me correctly, the rules for what an independent contractor had to be were set by the IRS which had 20 rules. Were you familiar with those at that time?

Shulman: Absolutely not. I was not familiar with that at all. Just naive I guess.

Grad: Did you have a contract with each of these people that you had working or did you just let the client write the contract with them?

Shulman: We had a contract with each of these people saying that they would perform the work at particular client.

Grad: At such and such a pay rate and so forth?

Shulman: Yes, and we had a non-compete agreement with them so that they wouldn't take the customer and they wouldn't engage our other programmers.

Grad: Where did you get the model for that?

Shulman: When we advertised that it was temporary work the people that applied for the jobs were independent contractors. They weren't full-time employees. We weren't looking for full time employees. We were looking for people who wanted to go to work at American Satellite for six months, nine months or a year. The people that applied were independent contractors because the work was relatively short term assignments. We used Harvey to develop our original contracts and put in the protections we would need.

Grad: Where did you advertise?

Shulman: The two primary sources back them were Computerworld and the Washington Post.

Grad: One industry publication and one local. How did you interview the people? How did you decide whether they were going to be able to meet the needs of the client?

Shulman: Well, early on it was mainly making use of my technical background, my understanding of computer science. I didn't always understand every particular technological niche that they were looking to fill but with understanding computers in general and technology I was able to tell whether somebody had enough experience to perform on the job. Also, if they passed a technical test with us, then we always sent them in to the client. The client always had the last word. Our clients liked that.

Grad: Did you set the rate that you were willing to pay them or did you ask them what they expected to get paid?

Shulman: These people were in business for themselves. They generally had a rate and they would say, "I'd be interested in doing this job for X dollars per hour."

Grad: You said that you were setting a flat rate with the client. Did that rate vary by who you supplied?

Shulman: Well we had a flat dollar mark-up. If somebody wanted \$20 an hour, we would add \$8 to that. If somebody else was \$40 an hour, we would add \$8 to that.

Grad: You were adding a flat amount per hour rather than 10% of what their charge?

Shulman: Yes. Over the years that changed to a percentage mark-up

Grad: Do you remember what it worked out to? Was 20% fairly close to it? Obviously, the more expensive people would be a somewhat lower percentage I gather.

Shulman: It was about a 25% to 30% markup. Yes.

Grad: Did you have trouble staffing these projects or were there always enough people coming in to give you some choices?

Shulman: There were no problems staffing the projects. I think that a lot of these workers were independent contractors for a reason. They were very independent-minded people. They wanted to move from project to project, not get involved in company politics and just do the work they were tasked to do. What they didn't like to do or maybe what they lacked doing well was the marketing. We offered them good contracts and they didn't have to market themselves so it was win-win proposition.

Growing COMSYS

Grad: That was a fairly rich location with a number of people available in the Washington, D.C., area?

Shulman: Yes.

Grad: Essentially all your work was in the Washington, D.C. area at that point in time?

Shulman: Yes, when we started out we focused on the communications companies in the Washington D.C area. I built up the number of contractors at American Satellite. Washington was a big communications marketplace; a center for different types of data and telecommunications businesses and that was my area of expertise. MCI had just begun growing their long distance services. GTE Telnet headquartered their packet-switching network there. So I said to myself, "Okay. I have this expertise in this area. I need to clone myself. I need to replace myself at American Satellite and then I need to go over to MCI and GTE and say, 'Hey. I've got a company and we specialize in communications software programming'"

Grad: This is a major changeover point from doing the work and bringing in some people sort of as secondary. Now you're saying, "I'm going to stop doing the work and bring in the people."

Shulman: There was an intermediate step where I cloned myself at one client, went to MCI, got hired as an independent contractor and repeated and cloned the same situation over again.

Grad: You in effect were the "Trojan Horse."

Shulman: I was the Trojan Horse and it worked at American Satellite, then I did it at MCI, and then again I did it at GTE Telenet. At that point in time, we had three nice clients going. We had built the business up to about \$3+ million in revenue. So then I went to speak with Howard.

He knew the business had been successful and he had left public accounting and had gone to work for ADP on the marketing side.

Grad: So you went to Howard and invited him to come join you in the business?

Shulman: Yes.

Grad: What did you need him for?

Shulman: Howard had become one of ADP's top sales people in the area. Kathy and I knew to really grow COMSYS we needed a great salesperson, so we brought him back into COMSYS. We said, "Okay Kathy, you do the back office; Fred you focus on the technical side of the business; Howard you'll focus on the client side of the business. Howard didn't know anything about technology but he was an excellent salesperson. At that time I came back into the office and stopped contracting out my services. Howard and I went out and sold as a joint sales team. We both opened new doors and we would go out to the prospective clients and talk to them about their needs, the kinds of services we could offer and the technical capabilities that we had provided our other clients.

Grad: How did you pick which companies to go talk to?

Shulman: It was easy. As I had said earlier Washington was big in the telecommunications industry and it was my area of expertise so we focused on the communications companies to begin with. Then we targeted all the government contractors. We sold to Honeywell, Planning Research Corporation, CSC, etc. We looked to see where the bulk of the business was in the Washington area by analyzing the marketplace from an industry standpoint and began to diversify our client base.

Grad: Did you become a subcontractor to these other firms like CSC and PRC? Were you doing work directly for them, were you working on their clients? What was the relationship?

Shulman: In some cases their contracts with the government called for us to be a bona fide sub contractor to them to bring us on. In other cases that wasn't the case so we had agreements let's say with Honeywell but we weren't named in their prime contracts with the government but could still provide them contractors.

Grad: So you were giving them people that they in turn were providing, so there was a double mark up?

Shulman: Yes. In some cases there was a double mark up.

Grad: So you were still getting the rates you wanted from CSC or PRC or whoever?

Shulman: Yes.

Grad: But you didn't have to deal directly with the government rules, regulations and so forth on contracting?

Shulman: Sometimes we did. We did implement a Federal government approved accounting system called Deltek so we could comply with government reporting. One of the differentiators we marketed to our clients was our flexibility and our ability to help them out in any way they needed. Having this government authorized accounting system, allowed us to be a prime or sub contractor and provide the reports needed for compliance.

Grad: At this point in time, where were you at, 1984, 1985?

Shulman: Howard came in around 1984. One of the down sides of being in the temporary placement business is there's vulnerability. We had, at one time, about 25 of our 30 contractors working in American Satellite and a new president came in and at the end of the week and said, "What's this large expense for all these contractors?" and just cut it off. That was another lesson about having all your eggs in one basket. So that motivated Kathy and me to create a larger, more stable enterprise and spread our business base out more. Thus we called upon Howard to help.

Grad: And that's to get more customers?

Shulman: Yes, that is what drove us to get Howard in; let's focus on bringing in more customers. We need to expand our sales and marketing.

Grad: Did you have other employees such as secretarial or people like that by that point in time?

Shulman: Yes we did have a secretary and we had hired a part time salesperson. As things started to grow and Kathy couldn't do all of the recruiting because she was doing the back office functions like payroll and billing, we brought more recruiting support and began to grow our recruiting department.

Grad: What was your family situation at that point in time?

Shulman: Well, at that time I had just gotten married to Kathy

Grad: I had a feeling we were going to get there.

Shulman: And in 1986, we had our first child, our son Evan who's right up the road now going to UCLA. Life became a real balancing act.

Grad: It was a very busy time; but you were no longer doing technical work directly on projects at that point or were you still doing some?

Shulman: No, I was 100% in the office, spending most of my time marketing.

Grad: So you were the technical marketing arm of the company?

Shulman: Yes, that's correct.

Grad: Did you get involved in the substance of the projects with any of your people, if there were problems there? If they didn't do the job, did you replace them?

Shulman: Sure I did. At many levels I was involved. Whether it was in the office or on the technical side, I always lent a hand. This gets into the basic philosophy of our company and the way we had operated. My feeling in running all the companies I've run is that nobody's really above anybody else, everybody is involved in everything. If I had to go out and help people technically on a project or talk to them, I would do that. Sometimes it was just counseling people; you're putting people into organizations and a lot of large companies have their own culture. And for a lot of these independent contractors, part of the reason why they're independent is that they didn't fit in the corporate culture; they didn't want to deal with company politics. So a lot of times those were the issues more than the technical issues. Sure people didn't perform at times but sometimes it was really training them how to behave in a corporate environment and just get their work done. Because they're being paid to get their work done and a lot of them were very opinionated and they just had to learn how fit into different company environments.

Competition

Grad: So you have the 2 sides of the coin, you have the marketing side to find customers who need help and the other is the recruiting side to get the people you need to fill those opportunities. Was it heavily competitive in terms of who knew of an opportunity or did someone talk to you about just what they needed? Would they have 5 or 6 other people coming

in to offer them people to fill those same positions or were you sole sourced in some of these cases?

Shulman: Early on, in many of the cases, we were able to sole source positions. In the DC area when we started we were probably the first locally based IT staffing company in the area. There were companies like Tech Aid, Volt and CDI that had branches in the D.C. area and had begun to get into the software side of the business. I think it was Tech Aid or TAD that had created two separate software divisions called EDP and Micro Temps. Some of the people that started running these remote branches were people that were Maryland graduates whom we knew from my Maryland days and had been running into at some clients. Some left the branches to start their own companies, like Rick Philips of ATR. In the late 1980s we started to see more competition in the software side of the business.

Grad: How about competition from the regular professional services companies, a number of them were well established by the mid 1980s like AGS and Informatics, many of these others had substantial professional services operations by then?

Shulman: That's a good question. On occasion we ran into Computer Horizons and Cap Gemini America.

Grad: That was originally Barry Goldsmith's company, CGA.

Shulman: Yes, they were there; however it was sort of interesting because we didn't see as much infiltration in the DC market place, they were mostly in Baltimore. Where we started running to them in the DC market place was outside of what I would consider the telecommunications or engineering centered companies. They seemed to specialize in data processing, the IBM mainframe area. They seemed to be focusing on the data processing shops, the banks, the financial institutions.

Grad: That's a very interesting distinction; so by going into communications and mostly into technical applications areas, you had differentiated yourself because these other guys were looking at straight data processing applications, the business side of things as against the technical side, that's a very interesting point and something I have to remember to cover tomorrow.

Shulman: But then what happened was as we started branching out looking for other industries to tap, we started crossing lines and we started running into them.

COMSYS Operations

Grad: Let's look at 1985 as a year, how big was your business by that point; do you remember what the revenues might have been?

Shulman: Let's see, I think by 1985 we were probably \$3 to 4 million range in revenues.

Grad: Do you have any idea about how many independent contractors you might have been using at that point in time?

Shulman: Oh I think the equation's always been you multiply by 10, so we probably had about 40 consultants on contract give or take.

Grad: So it was \$100,000 per person per year?

Shulman: Approximately Yes.

Grad: You had a half dozen employees at this point in time including Howard and Kathy, yourself and a recruiter?

Shulman: Yes we were growing, we just hired a salesperson to help Howard, and we had a couple of recruiters we had some internal staff and we had just moved into new office space.

Grad: Had you ever operated out of your home?

Shulman: We started in a townhouse in Gaithersburg, Maryland and interviewed people at the kitchen table.

Grad: When did you get your first office?

Shulman: When we put our first few people to work at American Satellite, we took some shared office space in Rockville, just a small suite and then as the company grew, we went out and leased some bigger office space.

Grad: Did you pay yourself a salary; had you taken a salary out each year?

Shulman: No salary early on. Whatever was leftover after the bills were paid we split up.

Grad: Were you still a sub S by that point in time?

Shulman: Yes.

Grad: How long did you stay a sub S?

Shulman: Actually we were sub S until we sold the company in 1994.

Grad: That's very interesting because that's very unusual to stay that way that long; your financial advisor/accountant didn't ever suggest making the change?

Shulman: My understanding was not to change at that time, there was something called the big tax; I just remember an accountant at Anderson saying "Well if you do this you're going to have to pay tax as a subchapter S individually and if you convert to a C corp. then you're going to be taxed at the regular corporate rate on top of that, so you want to stay a subchapter S as long as possible."

Grad: Did you ever bring in any outside money either through other investors or through loans?

Shulman: No, it was completely started from a few hundred dollars of our own.

Grad: Were you making a good living in 1985?

Shulman: Yes, I was making a very good living in 1985, I mean for my age.

Grad: Were you using your brother Harvey as an attorney to help you with any of the work that you were doing?

Shulman: Often, but not always.

Grad: Was that a problem?

Shulman: It wasn't a problem, it was more that Harvey was an excellent lawyer and he had his own practice, I always felt guilty bothering him because every time I went for advice to him he refused to let me pay him for his advice; and it was more of a personal thing and I told him "If you're not going to let me pay you, I'm going to another attorney," which actually was a friend of his that he had recommended. So from time to time we used his friend for general business issues.

Grad: Was Howard a stockholder at this point in time or not?

Shulman: Howard was a minority stockholder. When the company started really taking off, Kathy and I made him an equal partner in the company.

Grad: So it did end up with all three of you being equal partners?

Shulman: Yes, at the end.

Grad: But essentially you and Kathy though still had the majority of the stock and could make the decisions you wanted to make?

Shulman: Actually, it was really equal, it was a third, a third, a third and later we brought in some other management as shareholders. My brother Alan came into the business and he was a minority shareholder, as well as our CFO and we had given out some shares to some other key people in the business.

Grad: So you had extended it so some employees. Did you give shares to some of the independent contractors?

Shulman: No the stockholders were all employees; they were all internal staff.

Grad: In 1985, when the company has grown to a substantial size, did Alan join that early?

Shulman: I think by 1986 Alan had left IBM and come into the company.

Grad: And how many clients did you have by that point – a dozen?

Shulman: Probably a dozen clients.

Grad: But still essentially a local business?

Shulman: Still essentially a local business; by then we were maybe around \$5 to \$6 million in sales.

Grad: By 1986?

Shulman: Yes.

Section 1706 and NACCB

Grad: Somewhere along here, the company was doing well but some problem came up. I'm going to start to pull in a little bit of the NACCB story.

Shulman: As we talked earlier there were other professional service consulting companies. We ran into them at Riggs Bank and at some other clients who were data processing oriented. Also at that time everything was very competitive, you really didn't talk to your competition, you might see them in the lobby at a client and you would say hello. But you were trying to figure out whether to follow them to another client. I'm just kidding. But it was a very competitive atmosphere and nobody talked a lot about the business, how they were doing in business, how they were pricing the business, how they were marketing their business etc.

I got a call one day from Rick Phillips who was a Maryland graduate that ran ATR. He said, "Did you hear about this new law?" and I said "What new law?" And he said "You can't use independent contractors anymore." And I said, "Rick, I know that we're competitive, but I know you're pulling my leg." He said, "No I'm not. It just happened." He said that he saw an article in the paper, in the Wall Street Journal. And there was another woman who I knew in the business as well, Judy Goldberg, she called me about it just minutes afterwards so I knew this was something real but I had never heard of it. I did pick up the phone to call Harvey. I didn't use him for every day kind of legal issues, but I did consult Harvey for all of the big issues and I called him and I said, "Harvey, I don't know anything about this. You're a lawyer at a downtown law firm, could this be true?" I said that I'd heard Senator Moynihan just introduced this legislation into congress last night that somehow prohibits independent contractors. He said, "Well I know somebody in Moynihan's office." Harvey is very well connected; he knows people all over the world. He said, "A guy I went to law school with, Joe Gail, is one of Senator Moynihan's staff aide, let me call him." He called me back about 15 minutes later but he said, "Let me go back and talk to Joe since I only had a brief conversation with him; let me find out what's going on." That was my first introduction to what was going on.

Grad: Let me ask a related question. I'd asked you earlier about the IRS rules in terms of using independent contractors; had that been a significant factor to you, did you look at that or consider that as a major element in your recruiting of people at that time?

Shulman: I would have had to plead ignorance, at that time. Remember we were just a small local mom and pop business at the time. But we were educated very quickly.

Grad: It wasn't something that was on your horizon?

Shulman: No, a lot of companies were advertising for independent consultants. The business model was independent consultants. ICCA, the Independent Computer Consultants Association, was active back then.

Grad: Did you belong to that?

Shulman: No, but we had people who worked for us that belonged to the ICCA so we knew of the association. Right after I heard about this, I spoke to Judy Goldberg and to Rick. Judy had told me there was a meeting in Baltimore with an association called ADAPSO, the Association of Data Processing Service Organizations. It was at that point I became aware of all the members of this Association including the large companies like IBM and CSC and CDC that were our clients. ADAPSO also had an arm of professional service companies and I went to that meeting. In that meeting there were also people from DPMA (Data Processing Management Association), because a lot of the users belonged to that group; they were managers of these companies. I just sat there and listened and everything became very clear to me. The ADAPSO companies felt threatened by companies like COMSYS who are operating with independent contractors and they had lobbied Moynihan's office to remove computer programmers and similarly skilled individuals from the safe harbor provision. Evidently, Congress had looked at this issue about 10 years earlier and the reason they put in the safe harbor was because the IRS was not uniformly applying the rules of reclassifying employees, so the safe harbor was passed to protect companies that used independent contractors and then it was removed just for computer professionals.

Grad: We're going to cover most of this in the meetings in the next two days, but I'd like to talk though either what you did personally or how this affected your business; that's what I'm more interested in at this point.

Shulman: We saw this as a serious threat to our business so we started a phone tree going with all the competitors in the D.C. area that we had tried not to be in touch with up until then. I called Rick and I called Judy and there was another woman Tiger Keithley – and we began calling all the others we knew.

Grad: All pretty much in the local area?

Shulman: Yes, we were all local companies and we set up a meeting to see if there was anything we all could do. Maybe if we all got together there would be something we could do. I told everyone "I've got this brother Harvey and he happens to be tapped into Moynihan's office or knows somebody in there so maybe he can help us with this." I was a little ignorant of how the government worked even though I lived in Washington, DC. We did get together and we talked about it again and again. I don't know how detailed you want me to get.

Grad: You personally were part of this process?

Shulman: Yes.

Grad: Were you leading the process?

Shulman: My competition considered me as a leader of the process.

Grad: Were you the largest of the companies, at that point in time?

Shulman: Yes, we did a very good job branding COMSYS; we were large, we had a very diverse and spread-out client base in 1986. We were, at that time and at the time we sold the company, probably the largest single branch office in Washington, DC area. So we had good name recognition, good presence and a good reputation.

Grad: So there was some leadership there?

Shulman: Yes.

Grad: Was there a particular name they were using at this point in time to describe this provision?

Shulman: Yes. We knew it as Section 1706; it was passed into the tax code one night, so it became a program to stop 1706.

Impact of 1706 on COMSYS

Grad: What effect did that have initially either in prospect or in actuality on your business?

Shulman: It temporarily put a screaming halt to things because everybody was worried. Our initial understanding of the law was that it was forcing us to convert all independent contractors to employees.

Grad: So Social Security payments would have to be made and you'd have to do withholding taxes and all these other kinds of things; was that the implication?

Shulman: That was the implication. From a business standpoint we would have to change the business model we were operating under. I think for us the almost bigger concern was that we knew the independent contractors and they knew us and they liked to do business with us. We knew their mentality and we just knew that if this was the case, it wasn't a matter of just changing the COMSYS model to employ people that worried us. It was like trying to go out to someone who is a "mercenary" and telling them that can't be a "mercenary" anymore. If you want to do business with us, you've got to be our employee. We must control you.

Grad: Could the customer use an independent contractor directly?

Shulman: Some customers back then were using independents directly, but what happened when this word got out is they became very skittish also about using companies that used independent contractors or the clients themselves using them directly. Now all of a sudden the clients started asking, "Are these people your employees or are they independent contractors? Because we don't want to deal with companies that use independent contractors."

Grad: What effect did it have on your business in that first year?

Shulman: We lost a little more than a third of our contractors. Just like the theme of "Who Moved My Cheese" we knew the cheese was moving and we'd better move with it. So we decided that we were going to go out and try to convert as many people as possible to employees and through that conversion process we lost about a third of our business.

Grad: What did those independent contractors do who didn't want to become employees, how did they get work?

Shulman: There were still pure brokerage companies out there that were willing to use independents. They were staunch believers who said, "I'm not doing this, I'm not changing my model. If I'm audited, I'm audited. I don't believe I'm doing anything incorrectly." Personally, I don't think they were doing anything incorrectly. It's a matter of the risk you want to take in business. At the size of our company we were just unwilling to take that risk until all the issues became sorted out.

Grad: What was the risk? Suppose that you had gone ahead with independent contractors and you were audited; what did you think the risk would be and what would it have cost you?

Shulman: Well it would have cost us money in the reclassification of those people who were independent contractors to employees. That means that the independents or people who were self employed paid their full share of FICA, FUTA, SUTA and they may have had their own

pension plans or Kehoe's or whatever. Now all of a sudden if they were reclassified as our employees, the IRS could come back and say, "You know what, we'll refund you (the IC) your FICA contributions, but, COMSYS, you need to pay their employers portion and COMSYS, you need to pay their payroll taxes, you need to do their withholding so it puts us into a financial situation that we hadn't planned for.

Grad: I'm going to try and be very specific here. Did you have pension plans for the employees and for yourselves at that point?

Shulman: We did for the internal staff.

Grad: Did you have health insurance for yourself and for your employees?

Shulman: We did.

Grad: So implicitly you would have had to provide payments to independents for the health insurance and pensions that you hadn't provided to them before. Is that the implication – that you'd have had to pay those things besides the FICA, FUTA, etc?

Shulman: Yes, that is one potential. I presume that the reclassified employee would make a claim that they were entitled to those benefits.

Grad: So we're talking a significant amount of money that you would have to reimburse or pay them?

Shulman: Yes it was. And just to add to that-- it's not just the paying them, but it's the penalties and interest imposed by the government on top of paying them.

Grad: That's a good point. So there was a considerable financial exposure? And yet you say some of the companies chose to take that risk and continue to do business that way?

Shulman: Yes.

Grad: And that meant that some of the customers were willing to accept that?

Shulman: Some of the customers were. But the word didn't get around to everybody.

Grad: So some didn't have awareness?

Shulman: Correct.

Grad: If I would have been a professional services company with employees who were competing with you, I sure as hell would have made my customers aware of it.

Shulman: Some of them did, some of them did not.

Grad: Did you have any further dealings with ADAPSO at that point in time, you personally or this group of other companies?

Shulman: I did not have any further dealings directly with ADAPSO, no.

Grad: When did NACCB come into place?

Shulman: January 1987.

Grad: So relatively soon after this comes out, it's not just your local group of half a dozen companies or something, talking to each other. Were you instrumental in making contact with the people outside of the Washington area?

Shulman: Yes, Through the Wall Street Journal article, where Phyllis Murphy was quoted, she spoke of what had been going on in California with regards to independent contractors. Judy Goldberg had said, "Oh, you need to read this article." I read the article and we called Phyllis and Phyllis said, "Oh, this has been going on in California for a while now and we've been fighting it at the state level." Before we heard that we thought that in the DC area we were unique, that we were probably the only companies doing business with this model. And we come to find out that there are literally hundreds of companies using this model around the country.

Grad: I want to talk about the recovery at COMSYS, what went on after and how you recovered. Your own family is growing a bit during this period of time, isn't it?

Shulman: Yes. We had a daughter, Elise, in addition to our son, Evan.

Grad: Did you have any other non-business activities that were important to you at that point?

Shulman: Trying to play golf was always important to me, but my focus at that point in time was – and it's the same today – is my family and business, in that order.

Changing the COMSYS Business Model

Grad: Let's complete the story on COMSYS now. You have this big downturn. What happens next and how do you recover, because obviously COMSYS became even more successful after this.

Shulman: We converted as many independent contractors to employees as we could convert, and we changed our business model to employee only. During that period of time, NACCB was formed and model employee and IC contracts were developed. We felt these model contracts allowed us to use employees and independent contractors safely. Eventually, when we felt it was okay we started using some independents again in our business model, but never more than a small percentage of our business.

Grad: What made you feel it was okay to start using independents again?

Shulman: Extensive research by Harvey was used to develop model NACCB contracts. Those model contracts gave us the ability to feel safe in reducing the risks. If we and the independent contractors took all the appropriate steps needed and followed those contracts and their terms and conditions to the letter.

Grad: We had the 20 rules from the IRS, or is this a different set of criteria?

Shulman: We called them the 20 questions and the contracts were modeled to comply with the 20 questions. That seemed to be the whole issue behind 1706--the 20 questions. It's not as if you get 10 right and you're OK or three wrong and you're not. The IRS was and still is very arbitrary. The 20 questions were developed in the 1920's for people who were day laborers like bricklayers. Questions like "Do you bring your tools to work?" During the 1980s everybody used mainframes. Of course, you don't bring your mainframe to work. <laughing> The employee contracts were developed so that it really defined on paper what is an employee and then a contract was created for using independent contractors that was the anti-employee model. So that if you looked at both contracts side by side, clearly this person's an employee, but in the Independent Contractor agreement that person is not entitled to anything that an employee might be entitled to. And we felt relatively safe. We also required people to start being incorporated rather than being on 1099s or self employed. There was some push back from the independent contractors in incorporating. However, that model seemed to work well for us. Some of the mercenaries came back in from the cold and came back to us, and I think once the independents started to understand what was going on, they were willing to work with us rather than see us as the enemy. I went to some ICCA meetings and I sat on panels and tried to explain to their members that we weren't the bad guys and we weren't trying to keep them from

exercising their right to be in business for themselves and why we're doing all of this. And I think eventually the message got through.

Grad: That's interesting. We had a business called Heights Information Technology Services which Luanne Johnson and I started in 1979. And we, from day one, religiously worked to those 20 IRS rules. And issue never came up because we had very specific criteria for using the people so it just never affected us. Of course, we were very unsuccessful as business people and closed down, <laughing> in 1986, but we never had a problem with that particular issue.

Shulman: I was young and naïve when I started into business. I may not stated a business if I knew all the mine fields. Not knowing sometimes what you need to know is maybe a good thing. <laughing>

Grad: Could be. By this point now with NACCB, Harvey was now involved right away with NACCB as their general counsel?

Shulman: Yes, after everything was formed then Harvey became general counsel.

Grad: You don't seem to have been an officer in NACCB; at least I can't see your name on this list.

Shulman: I was not an officer. I was a local president of a local chapter for a number of years.

Grad: But not of the national.

Shulman: No. One Shulman was enough.

Grad: I see Kathy was involved during at least part of that time as an officer.

Shulman: Yes she was in the later years.

Grad: Okay. NACCB is now formed. You've now found a model contract and a structure where you can have both employees and independent contractors, depending upon he client. Now you start to grow again.

Shulman: Correct.

Grad: Talk to me about what did you do then differently. What did you start to do to grow the business?

Shulman: We opened our first branch. Our business model for opening branches was to try to find clients in the Washington area that also had locations in other parts of the country. Our first branch was in Phoenix, and we serviced Honeywell out there as Honeywell was a client of ours in the DC area. But in business it's always lessons learned. We opened in Phoenix, but within a year Honeywell closed down their facility. However, we ended up getting into American Express and Motorola and some other clients. So we ended up keeping that branch open and it became very profitable for us. Then we went into other cities; we went to Raleigh, North Carolina to try somewhere closer to Washington, D.C. We went into Atlanta. And then we went to Colorado Springs when MCI moved their corporate headquarters from the D.C. area out there and they were a huge client for us.

Grad: In opening the new branches, did you try and hire local? Did you try and buy a local company, or did you simply expand your model to those locations?

Shulman: We used our business model to open and grow internally rather than acquire. In some cases, we hired local, and in other cases, we found it more successful where we took a COMSYS person and actually relocated them to those locations. Then, we built the staff around them.

Grad: Let's talk about 1990 or so. What was the mixture between employees doing the work for clients and independent contractors?

Shulman: I would have to guess we were probably 80 percent employee and maybe 20 percent independents.

Grad: So you really had swung to be almost a normal professional services company by that point.

Shulman: Yes. We had three models of bringing consultants on. We had the independent contractor, not 1099, meaning if you're incorporated and if the client allows us to place non-employees, we'll do business with you that way. Otherwise, we had two other employee models. One was hourly. We tried to mirror the independent contractor. You can be an hourly employee and you don't have to participate in any benefits. We did only their withholdings and paid them a maximum hourly rate. Then we had a separate class called the salary people which mirrored the professional service firm type of employee, where we gave them time off, vacation, sick leave, and other benefits.

Grad: You had hourly employees and salaried employees, but they would both be part of your 80 percent employees?

Shulman: Yes.

Grad: That includes both classes of employees.

Shulman: Correct.

Grad: So now you end up, I think, with six branches all together. And by 1994, according to what you've told me here, about a \$55 million a year operation.

Shulman: Yes. We had really grown. We had branded the company well.

Grad: Were you the operating executive? You were the CEO?

Shulman: Correct. I was president. We didn't use the CEO title, but I was chief executive officer.

Grad: Did create a board of directors, or didn't you bother?

Shulman: We had an outside advisor but not a board of directors.

Grad: But by law you had to have some officers, but that was just inside.

Shulman: Yes, just inside. We had an inside board and management group.

Grad: So essentially then, the money still flows through you as S Corp?

Shulman: Correct.

Grad: So salary wasn't an issue because it's all treated the same way effectively.

Shulman: Correct. They all took salaries, and then at the end of the year, right, you pay tax on the profits on an individual basis.

Grad: And everything had to get taxed, right, basically?

Shulman: Yes, yes.

Grad: Interesting model. Okay, we're in 1994. You had this very successful company. And according to some notes you gave me, you're one of the fastest growing companies in the area. You get singled out as an entrepreneur of the year or are a finalist in that area.

Shulman: Yes.

Selling COMSYS

Grad: So now what happens? What do you do? Why do you decide to sell?

Shulman: Through the years many companies made offers to purchase us. The problem was they weren't what Kathy, Howard and I would consider bona fide offers.

Grad: They weren't at a high enough price?

Shulman: That's a nice way of saying it. They weren't the right price, and they weren't cash offers. And we always said if somebody came around with the right amount of money, and they would pay us cash, we'd take it. We started this business from scratch. We weren't interested in offers that were stock or earn outs. We started this with our life savings, and everything was invested in COMSYS. After 1706 we were all thinking what if another 1706 happens? What if there's a big downturn in the economy?

Grad: So it was time to cash in.

Shulman: Yes. Only if someone came along with an offer that made sense.

Grad: You didn't go to Broadview Associates or another M&A firm and say, "Do you have a buyer?"

Shulman: No, no. In retrospect, that would have probably been the right thing to do, but we didn't. We hadn't made the commitment to actively pursue a buyer.

Grad: Did one of the other NACCB companies finally approach you, or what happened then?

Shulman: No, not an NACCB company. There was a gentleman who had a secretarial staffing company, Talent Tree Temporaries and his name was Mike Willis. He had sold Talent

Tree to a company called Hestair, an overseas company. And he was very successful with it. He aligned himself with an equity partner, a great group called GTCR, out of Chicago. Golder, Tomer, Cressey, Rauner. Their business model was putting equity money in companies by backing successful management teams. They backed Mike Willis to do a consolidation in the temporary services industry. And he had a lot of cash. He wanted to build a big secretarial business and a physical therapy business. To make a long story short, his CFO had an interest in IT staffing companies. And one of their M&A firms had heard of COMSYS and approached us. It was just coincidence as well that a public company, approached us the same week. That was the good as there was a little competition going on. And they both made extremely nice offers.

Grad: Are you willing to tell us the figures?

Shulman: It was more than 15 million and less than 25 million.

Grad: And your revenue stream was about \$55 million?

Shulman: Right.

Grad: And the offer was at about 40 percent of what your annual revenue was, at \$.40 on the dollar?

Shulman: Yes.

Grad: That's interesting, because professional services companies are currently being valued at about \$.50 on the dollar. So it's in the same ballpark and it sounds like a fair offer.

Grad: Software product companies were getting like a two-to-one ratio on annual revenues. Professional services companies were getting about more like \$.50 on the dollar.

Shulman: Well, what we were told back then was that the staffing model was not as valuable as the true professional services firm.

Grad: But you were, by that point, 80 percent professional services.

Shulman: Well, we were but we still operated under the model where at the end of the contract, the employment was over, so we didn't have bench people.

Grad: So your people literally walked out at the end of each project.

Shulman: Yes.

Grad: So that would have made it a little bit less valuable than the other companies.

Shulman: Right.

Grad: Makes a lot of sense. Okay, you pick up a nice check that you share with your partners and with the other people who had stock in the thing.

Shulman: Correct.

Grad: And now what does Fred Shulman do?

Shulman: One of the things we wanted to do with COMSYS was to make COMSYS a national company as we were really well-branded. We had stellar clients, Exxon, Coca Cola – I mean, you go down the list. And we were well-known in all of those clients. And we wanted to make this really big. We could have gone out and brought in an equity partner but it just so happened that CORESTAFF came in with Willis and said well I'll pay you out right now. The real incentive though that Willis offered was for us to fulfill our vision of a large national player. And his offer included letting us continue to run the company. And therein was the rub. If you do the homework, you'll find out that probably less than 10 percent of the time, those promises ever work out, for one reason or another.

Grad: Did you sign a multi-year agreement to stay?

Shulman: We signed a two-year agreement to stay.

Grad: Did you have a non-compete agreement?

Shulman: Yes. We had a non-compete that allowed us to go back into the industry in 1997 when we started AETEA. Both Howard and I lasted 13 months after the sale. We had an earn out plan and they weren't supposed to come in or change anything.

Grad: It never works.

Shulman: And all of sudden things were changing. And it wasn't exactly what we agreed to or expected.

Grad: You didn't go to anyone for advice or counsel at that point in time?

Shulman: We did. The good news was that we had Harvey Shulman in the deal, and we were protected throughout.

Grad: You were protected financially, but emotionally it seems to take a toll on people. Did it bother you?

Shulman: It bothered me, and then you sort of resign yourself to what's happening.

Grad: You didn't get angry and want to start shooting people there?

Shulman: No. I would say my hair got a bit raised, but at the end of the day you learn lessons as you get older, and you realize that there are some battles that aren't going to be won. And you just sort of resign yourself to the situation.

Grad: You seem to have some amount of equanimity, which is maybe what served you well. Some of the people I have talked to who have been through this experience have incredible bitterness toward the people who bought them and didn't keep their promises.

Shulman: What I've learned is business is business. And people change their minds. Sometimes they know they're going to change their minds. Sometimes they don't, but business is business. Like professional athletes one day they're here. The next day, they're there. It's the business.

Grad: You don't take it personally.

Shulman: I don't take it personally.

AETEA

Grad: After your 13 months there, what did you do?

Shulman: Took a year off with the family. I tried to make up for late nights and not being with my kids. We took the kids out of school and all went to Europe for a year and visited 22 countries and South Africa. We were all over the place. We home schooled the kids while away. During the trip I came back and Howard and I got together and we went to an NACCB meeting in Florida and we saw that the business was still there. So we started AETEA which by the way stands for Alex, Evan, Taylor, Elise, and Andrew. Evan and Elise are my kids. Alex, Taylor, and Andrew were Howard's.

Grad: So that relationship with Howard had really lasted for a long time successfully?

Shulman: Yes. When we started AETEA in 1997, we started it from scratch. We wanted to fulfill our dream of making a national company, and we thought we could do it. And we felt we were going to do it through acquisition. We hired much of the former COMSYS management team when we could, grew the business in Washington, and then went out to see whether we could raise any equity money. GTCR was more than thrilled to back us, among some others, but we had some experience with them, so we agreed to do a deal with them.

Grad: So now we have a whole different ball game. You're getting outside money, equity partner type money, and you're going to grow by acquiring instead of building your own company step-by-step. This was a totally different growth model than you had originally.

Shulman: Yes, which was exciting.

Grad: It was the same business, but a new growth model. That must have been fun.

Shulman: It was fun. Towards the end our time at COMSYS, we were out looking for companies to acquire for Willis. We got a taste of the Mergers and Acquisition side of the business. So when we started AETEA that was sort of exciting, because we had already grown branches at COMSYS by scratch.

Grad: I would like to get a summary here. You ended up, according to the notes you gave me, with about a \$75 million business within what, about six or seven years, or—a few years.

Shulman: Then we sold the business in 2003.

Grad: And who did you sell to?

Shulman: We ended up selling it back to one of the owners of the first company AETEA acquired.

Grad: Who was that? Do you remember the name?

Shulman: Jeff Sardis.

Trilogy

Grad: I want to just ask you two general questions. Since then, you've started another company, Trilogy--

Shulman: Yes.

Grad: And when did you start that?

Shulman: That was started about two and a half years ago, September 2004.

Grad: So you didn't have a real non-compete when you sold AETEA.

Shulman: I had a one-year non-compete.

Grad: You're still in the industry?

Shulman: Yes.

Grad: Actively in it. Do you expect to stay in it? Do you enjoy it still?

Shulman: I do enjoy it. And I'm back doing what I like best. I've liked all the roles I've had in the past. I've started something as a baby being an entrepreneur and grew it fairly large from scratch with branches in many cities as I did being the President of COMSYS. With AETEA, it was different model of mergers and acquisition.

Grad: What's different about Trilogy?

Shulman: We are just a mom and pop company. I'm not traveling all the time from the east coast to the west coast. I'm back with my hands in the business getting them dirty. We have a staff of people to do sales and recruiting and I'm doing what I enjoy by helping them out. I go out on sales calls, I help recruit and I fix the network. We work on proposals late at night. I use the Xerox machine. We are using the successful models we used with COMSYS and AETEA. It was always about building around the employees and trying to have a family feel to the business. We have people believe in us, they enjoy working here and do a great job for us. And we're not trying to take over the world.

Grad: You're not trying another merger and acquisition strategy at this point in time?

Shulman: No, we're just trying to find some good clients in the Washington area and serve them well and have a good reputation and enjoy doing what we're doing.

Grad: You're enjoying being close to the business then instead of being the executive of a much larger business?

Shulman: Yes.

Grad: Is the brokerage type industry finished?

Shulman: I'm sure there are companies that do pure brokerage business out there. I don't run into them that often. I think as an industry, brokerage companies just for independent contractors are probably far and few between.

Grad: Is it project length employment though? Is that the model you're using now, or is it regular employees?

Shulman: It's project length employees.

Grad: You then went to this other combined model, but essentially you kept some of the character of the IC by having project length employment.

Shulman: Yes. The project length employment works very well. When I graduated from college, they said there was a shortage of technical and computer people, but ten years later, it'll be filled. Except it never was filled. We have that same problem today. And that's why the model works so well. The clients we deal with like to have their own staff, but they also want to inject the expertise. They want someone who has a year of experience with a piece of software that came out yesterday. <laughing> What makes the business work is we're networking people. We're moving technology skills around through people. We're moving the talent to where it's needed. And because technology changes so quickly, it's hard to develop a staff that's expert in one area, because all of a sudden our clients are moving on to the next generation.

Grad: Is recruiting still reasonably easy, finding the people that you need?

Shulman: Recruiting is, I think, the biggest challenge of the business. Back then, it was the clients. In early 1980s, you had to sell the customers on why they would want to bring in people who weren't employees. They have accepted that model. They have departments that manage the vendors. The hard part today is recruiting the talent.

Conclusion

Grad: On a personal standpoint, you've had a very rewarding career, haven't you?

Shulman: Yes, I feel well rewarded by the career and very fulfilled, and I like helping people. I feel good about putting all those people to work and helping them have good livelihoods.

Grad: You've had two chances to change careers and you have chosen to go back to essentially that same career. That's interesting and tends to show a happy person.

Shulman: Well, I am a happy person, and there are three successful people, who along my career, when I started thinking about doing other things, always came back to me and said, "Fred, you always want to stick to what you do best."

Grad: Who are the three people?

Shulman: Well, one was Jim Beers who ran a CPA firm that Howard worked for early on in his career, and grew one of the largest CPA companies in D.C. We used him as a mentor early on. Second was Bob Kruger who was on our advisory board and he started PRC. The third was my father, William Shulman. When three successful people you respect all give you the same advice you need to listen. So every time I think about doing other things – I always come back to... why make new mistakes when I can make the same mistakes over again?

Grad: Thank you very much. We really appreciate it. It's an excellent interview, and I'm sure other people will enjoy reading it and studying it. Thank you very much.

Shulman: Well, thank you. Thank you for having me.