Oral History of Jay Goldberg

Interviewed by:
Burton Grad

Recorded: February 16, 2006
Mountain View, California

CHM Reference number: X3004.2005

Table of Contents

Software Business History Committee—Oral History Project

Jay Goldberg

Abstract: *Jay Goldberg reviews his personal life and initial work at Bulova, IBM, Union Carbide and Auerbach. With his programming experience he and a partner started SDA to provide programming services to companies in the New York area. Over the years, and after some initial tough financial times, the company grew steadily and eventually Jay became the primary owner of the company. Venturing into software products businesses turned out to be a distraction and used up quite a bit of the company's earnings. After extensive geographic expansion, SDA was sold to AGS. Jay stayed on for two years after the sale. Jay discusses in some detail his experiences at ADAPSO and what he learned from and contributed to the trade association. He then discusses the other businesses that he either bought or started, including Money Management Systems, Zeitech, Image Business Systems, OpCenter and Lexstra Ltd. He reviews the Hudson Venture Funds that he has started with various partners and the investments that were made by the two funds. He closes by commenting on his charitable activities with the Albert Einstein College of Medicine, the Diabetes Research Institute and the New York University School of Arts and Sciences.*

Burton Grad: It is February 16, 2006. I am Burton Grad and I am conducting an interview with Jay Goldberg at the Computer History Museum in Mountain View, California. This is part of the Software Business History Committee Oral History Program. Jay, I would like to start by asking you to talk about your personal history. Please talk about your family, education, personal activities as a teenager growing up, your special interests, and how you got interested in computers.

Education and First Jobs

Jay Goldberg: I was born in Brooklyn, New York, in 1941. My family moved to the Bronx in 1946. My father died in 1942. My mother remarried in 1946 and we moved to the Bronx. I was raised there with my adoptive father and my mother. I have a half sister who was born in 1949. I had a kind of a classic New York childhood. I grew up in an apartment, in crowded space. Most of my time was spent on the streets, because there wasn't much room in the apartment. I grew up in an Irish Catholic immigrant ghetto. With a last name of Goldberg it was an interesting childhood. But I have always felt that my childhood had a major impact on my business life, my career, how I looked at the world, my competitiveness, and maybe my desire to succeed. So I kind of credit a lot of that street stuff, as you would call it, for a lot of the success I had in later life. It was kind of an interesting, difficult, early part of my life. I went to public school in the Bronx, PS 7 to be exact. I was the classic underachiever. I was not a great student. I think at the end of the day, looking back, I probably had some learning issues, but in those days they just called it underachiever. I took a test, a citywide test, in the 8th grade that

qualified me for the Bronx High School of Science. So I went to the Bronx High School of Science from 1955 to 1958, which was an incredible experience, both culturally and educationally. And I think what the Bronx High School of Science did for me was to give me an interest in math, science and the technical side of the world. I was an O.K. student, still an underachiever, loved sports, played basketball and baseball. I was not a great athlete, but I was competitive and I had a great time. I had a wonderful four years. That was a great time in my life.

I then went off to the University of Michigan. I was 17, not terribly mature. Had a great year and a half and then was asked to leave. I was elected president of a fraternity as a sophomore. It was just way too much, too quick, too soon. And I did not do very well in my second year. So they suggested that a vacation might do me some good.

I came back to New York. Went to NYU for summer school. Met somebody at NYU. Dropped out of college. Got married. Got a job that had nothing to do with computers. I was working at the Bulova Watch Company doing market research. And they were buying a 1401 computer. And it seemed interesting to me. It seemed like something I would like to do, so I asked the head of what in those days they called it the IBM Department how I would go about doing this. He gave me the classic IBM Programmer Aptitude Test, on which I did very, very well. And he said that he would get me a job working there. But I thought if I was going to be in that business, there was only one company to work for, and that was IBM.

So I took a day off from work at Bulova and I went to 590 Madison Avenue in New York City. I walked into the lobby of the building and I told them I was looking for their personnel office. And they asked if I was looking for technical employment or administrative employment? This was in 1961. So I said, technical employment. And they said, "We do not do that here. We do that in White Plains." But I didn't have a car and no way to get to White Plains, so I said, "Well, then administrative employment." And they sent me up to the fourth floor and I had an interview. And they did have some data processing there. That was IBM's World Headquarters in those days at 590 Madison. So I got a job as a second shift tab operator trainee, operating tabulating equipment for $70 a week. And they paid me 10% extra for working nights, which I needed because I was married and I had a kid at the time. So that was how my career started, not very auspicious, not well thought out, not planned, but I suspect very similar to other peoples' entry into the business in the 1960s, when it was propitious. It just happened.

Grad: Let me ask one question. You must have had good skills, even though you said you were an underachiever in PS 7, to do well in the test given at Bronx High School of Science. My memory is that it was extremely competitive getting in.

Goldberg: Very competitive. But it was basically aptitude. It was not achievement. So I always did well on aptitude tests. I mean, I was not a terrible student. Do not misunderstand. I was not a terrible student. In high school I was probably a B+ student. But the Bronx High School of Science was an incredibly competitive place.

Grad: You stayed in the Bronx during that period?

Goldberg: Stayed in the Bronx the whole time. Never left it until I left to get married.

Grad: Let's look at why you applied to the University of Michigan and what you majored in there.

Goldberg: As you would remember, Burt, in those days, you did not do what the kids do today, or at least I did not do what the kids do today. I had a guidance counselor at the Bronx High School of Science, and we were allowed to fill out four applications including one for City College. And in those days, if you had an average above 83, you got in to City College. My average was above 83, so I was admitted to City College, which a lot of kids went to in those days because it was free. And I think I had three more applications. My parents insisted that I apply to one local school. So I applied to Columbia. One big school, and the guidance counselor suggested Michigan, given my grades and I guess where she felt I would do well. And one small school, Hobart. So I applied to Hobart, Michigan, and Columbia. I got into Hobart. I got into Michigan. I got wait listed at Columbia, and decided to go to Michigan. I had to make the decision before the wait list was resolved.

Grad: Was it an economic problem going to Michigan?

Goldberg: No. No. I grew up, it is a long story and not a terribly interesting story, but I grew up rather poor considering that my adoptive father, was a doctor. He was not successful in private practice, and took a residency in 1951 or 1952 to become an anesthetist. And by the time he actually started to do O.K., I was gone. So in his later years he made a decent living, but in his early years, we lived, four of us, not to make it a sob story, but we lived four of us in a one-bedroom apartment until I was 15 years old. So I grew up relatively modestly, though that would not quite describe it. We did not have a lot. But as anybody that grew up in that area and era, everybody was in the same boat. So I was fine. I never knew what I had or did not have.

Grad: My question about going to Michigan, did you have a scholarship waiting for you?

Goldberg: No, no. It was inexpensive. I think that tuition was $300 a semester. It was not a state school; but it was a private state supported university. Tuition was very cheap. I could not afford to come home holidays, so I stayed out there or went to somebody else's house for holidays. I lived in a dorm.

Grad: It must have been somewhat of a disappointment to your family that you were asked to take a vacation after your first year and one-half there.

Goldberg: Oh sure, absolutely. They were disappointed that I did not want to be a doctor, first of all. And then, second of all, when I got thrown out.

Working for IBM

Grad: O.K. Now you have started at IBM. You have a wife. You have your first child and you are making $77 a week, including your night shift bonus. What happens next?

Goldberg: Well, I guess the right way to put it is I found my niche, because I loved working, and I loved IBM. IBM, in the 1960s, if there was a better place to work, I cannot imagine where it would have been. And it did not matter where you worked in the company. It was just wonderful everywhere because the company was growing so quickly that there was opportunity everywhere. In rapid order I moved from second shift tab operator trainee to first shift tab operator, and then I got transferred in 1962 to New Jersey, where I worked at what was then Supplies Division Headquarters and I became a computer operator, running 1401s. And then I became a programmer. They sent me to programming school, around 1963 and I became a programmer at Supplies Division Headquarters. They had a bunch of titles for programmers. They had a path for programmers who did not have a college education, and a path for programmers who did. I think my title when I was there was a Senior Programming Technician. In those days the highest programmer title you could have was Senior Programmer, but you had to have a college degree to get that. I was going to night school in New York to try to catch up. When I got transferred to New Jersey, I went to night school there to try to catch up. Then I got transferred to Armonk, N.Y. It was very hard at IBM if you did not have your degree to get it, because there was a lot of geographic movement. I know I will get back to it later, but I eventually did graduate from NYU in 1978 with honors. And so I closed the loop but it was a lot later in life. In case I forget to say that, I just wanted to get that on the record. And now I am on the board of the NYU faculty of Arts of Sciences. We will get back to that.

Grad: So in effect, during your time there at IBM, you were actually in college.

Goldberg: Right.

Grad: But you were now a programmer working in the Supplies Division. You were working on administrative type applications?

Goldberg: Yes. Inventory, fixed asset accounting, classic 1960s applications.

Grad: Do you remember what languages you were using? Were you using COBOL?

Goldberg: No, no. We were using Auto Coder and Assembler for the 1401. No such thing as COBOL in those days. And doing interesting code, because I was tweaking the IOCS system on the 1401, and trying to get greater productivity. IBM came out with a disc drive. It was more interesting than your vanilla stuff, but it was financial applications. In 1964, they asked me to go back to corporate headquarters which had moved to Armonk. It was a really interesting job because there was a group in Armonk called ITPS, Internal Tele Processing Systems. It was

the first IBM network that linked IBM offices around the world. And I was a programmer in the group that wrote the code for that system.

Grad: What machine was that?

Goldberg: It was on a 7740 front end, and a 1410 back end.

Grad: This is all still pre 360?

Goldberg: Pre 360.

Grad: What language were you using then?

Goldberg: It was Auto Coder on the 1410, and it might have been FAP on the 7740.

Grad: What did you do with your family with these moves?

Goldberg: I didn't have any money. So I rented an apartment in Queens, New York, at first. When I got moved down to New Jersey I was able to buy a little apartment, a cooperative apartment in Franklin Township. When I got transferred up to Armonk, I bought a cooperative apartment in Ossining, New York; that ultimately led to my leaving IBM in 1965, which was largely an economic decision.

Grad: Living in Westchester would have been a much more expensive?

Goldberg: That is exactly what happened. They gave me a raise when I went there, but I was still under their salary plan. They had very structured salary levels for people like me. I mean I had a great time. The group I worked in was spectacular. I worked for a guy named Sal Nastro, who I remember to this day. My bosses at IBM were spectacular. In New Jersey I worked for a guy named Ken McNab, whose initials were F. E. McNab. And he was also the mayor of Jamesburg, New Jersey in those days. And I learned a lot. Yesterday we talked about the fact that I had no formal training in management. And I never went to a management training program or course during my time at IBM. But I worked for people that I learned enormous amounts from. And so I think one of the wonderful things about IBM was that the people there were so good that if you just watched you learned.

Grad: Watching their management styles influenced you?

Goldberg: Oh, tremendously. Tremendously. Watching how they dealt with people. Watching how they were encouraging. Watching how Ken McNab always talked about wanting to wind up

working for people who had worked for him. It was just that the culture was wonderful there, and the people I worked for were really good, until 1965.

Grad: Now you are working at Armonk. You are living Ossining. What happens in 1965?

Goldberg: I was having trouble making ends meet.

Grad: You still had just one child?

Goldberg: I had two. My second daughter was born in 1964, in February of 1964. So it is now 1964. I had two kids, living in Westchester. I was not making enough money to make ends meet. And they had put somebody else into the job between Sal Nastro and me. And after about six months, I went to him and said, "I am really having trouble making ends meet." And he gave me the excuse, and I think it was an excuse, but I was never really sure, that the System/360 had just been introduced and the company had spent a lot of money on developing it and introducing it, and salaries in Armonk were frozen. Now my suspicion is that that was not really the case. I never knew. Three months later I went back to him and I said, "I really cannot survive. I am really having trouble paying my bills." He said there was nothing he could do. Salaries in Armonk were frozen. So, I decided to look for a job.

Grad: Did you ever consider while you were at IBM shifting out of the administrative area and trying to get in programming on the commercial side, or the marketing side?

Goldberg: Not having a college degree was a pretty significant handicap within IBM in moving to programming jobs that would be more interesting and valuable. Ironically, the ITPS job was about as interesting as you could ever get within IBM. I do not think I could have found a more interesting place to work. So, even though I was in a corporate environment, and it was mostly commercial systems going on around me, what I was doing was fascinating. And the group I was working with was fascinating.

Grad: That particular program became a very significant program at IBM.

Goldberg: It was a precursor to all of their TP stuff and the whole administrative system that they put together at IBM. So I really never had the desire to move away from there. I loved what I was doing.

Grad: That is so different from the characterization people mostly have of IBM's willingness to pay for the work that is done.

Goldberg: I actually think it was the guy. I have learned over the years, both from my observations and Mary's, my wife, is that so much of it is your boss. And in a big company, if

you have the staying power, and you can wait out your boss, you can very often have a great career. I did not have that staying power.

Grad: So you decided to go look for a job.

Union Carbide and Auerbach

Goldberg: I made one phone call to one headhunter, and had one interview. I got an offer for more money than I thought I could make at that age. I was just 25 years old and the job was with Union Carbide at 270 Park Avenue back in New York City.

Goldberg: I don't want to say anything bad about Union Carbide, but it was not IBM. And at IBM I do not remember how many people were in that programming group, but let us just say 20. If there were 20 programmers in that group, I was probably in the middle. And I thought I was really good. When I went to IBM, I thought I was smart and talented and competent, but one of the things you learned at IBM was that no matter how smart and talented you were, there were people there who were smarter and more talented, or at least that was the way I felt in the 1960s. And it was wonderful, because you learned. There was always somebody you could go to and learn from. And when I went to Union Carbide, I was the guy. So at the age of 25 I knew more than most of the data processing people at Union Carbide. And so it was not a great environment. I kind of struggled there for a year, and did not enjoy it.

Grad: Did you continue to live in Ossining, or did you move back to the city?

Goldberg: Stayed in Ossining.

Grad: You were a commuter then?

Goldberg: I commuted and I went to night school at Hunter College, trying to finish my education, not successfully, but I plugged away at it.

Grad: What were you majoring in? You were taking various courses. Did you have any particular major or pattern?

Goldberg: English. I loved it. It was the only thing that really interested me. I loved to read and English interested me. And I was trying to get away from work.

Grad: That seems to be a contradiction when you think of the kind of work you were doing.

Goldberg: Yes. I was already doing well in my work, so I did not really need to get anything in work, from a bachelor's degree standpoint. So I was trying to do something that would complement it, be a counterpoint. And English was that. English, I loved it. And that is what I wound up majoring in when I finally went back to NYU and graduated. Union Carbide was not a pleasant environment. I worked on a system called Fleet Operations. It was a 1410 system that controlled their trucking fleets around the country. Interesting application. I learned a lot doing it. But it was not a fun environment. They paid me a lot more than IBM paid me. And that was good, because I needed it to make ends meet. So that part of my life was fine. I only stayed there a year and decided it was time to move on. I then went to work for the Auerbach Corporation, headquartered in Philadelphia, but I worked in their New York office.

Grad: And what did Auerbach do?

Goldberg: Auerbach had two businesses. They had a series of reports called "The Auerbach Reports," which I guess was the precursor to the Gartner Group reports in a sense. They reviewed and cataloged the hardware that was available for companies to buy and commented on it, and people subscribed to the Auerbach Reports. IT was good business for them. And then they had a consulting practice with several offices headquartered in Philadelphia. I worked in the New York office, which might have had, I do not know exactly how many, but in the neighborhood of 15 to 20 people. And I worked at the Equitable Life Company on a 360 application; I believe it was actuarial work at Equitable.

Grad: Did that require a mathematical background?

Goldberg: No. It was strictly systems analysis and understanding of the 360. And I had actually learned that.

Grad: Was this your first exposure to the 360?

Goldberg: I had actually gone to school for 360 at IBM while I was there. They had trained me in the 360. I did a little bit at Union Carbide on the 360. And then learned a lot more at Equitable on the 360 in 1967.

Grad: What languages were you using?

Goldberg: I used COBOL, and PL/1. Because at IBM you did not use COBOL, so at IBM I had learned PL/1. But Union Carbide was largely COBOL.

Grad: Auerbach's consulting practice. Was it primarily system analysis and programming work?

Goldberg: Yes. It was systems analysis and programming. But I don't think we did any programming at Equitable. It was all problem definition, and the specification of the solution. And then the programming was turned over to either Equitable programmers or contract programmers.

Grad: That was not what Auerbach was trying to do.

Goldberg: They were not doing contract programming.

Grad: Give me some dates now. You were at Union Carbide from 1965 to 1966, is that correct?

Goldberg: Yes and at Auerbach from 1966 to 1968.

Grad: And you mentioned that you did a project for Union Carbide while you were at Auerbach, as well?

Goldberg: Yes. I was separated from my wife in 1967 and I was paying child support and alimony, and I needed money. I did not have any money. And it was kind of a circle. When I left Union Carbide they had nobody to maintain this fleet system that I had created. And I called one of my friends at IBM, who knew the 1410. His name was Bob Gibson, a really good guy. And he maintained this system for Union Carbide for $400 a month on a contract basis.

Grad: He was an IBM employee?

Goldberg: I do not remember. And if I did I would not tell you. But I think he was. Interestingly, I was the first person who left IBM out of that entire group. And it was kind of shocking to them. And they spent a fair amount of time trying to understand why. And, so I do not forget, for many, many years, I would say probably 10 years, I thought I had made a mistake, because my friends who stayed with IBM, their careers were just wonderful. And they were growing and learning and earning more money. Everybody had great opportunity there, and I was bouncing around a little bit. And so for a long time I thought I had made a mistake. It turned out I did not make a mistake, but for a while I second guessed myself. So I got Bob Gibson an assignment at Union Carbide to maintain the system. He wound up doing something else, maybe he moved to another part of the country, but he could no longer do it. So Union Carbide asked me if I would maintain it while I was working at Auerbach, and I said, "Of course." And I guess this was 1968. And that was actually the difference between surviving and not surviving for a period of about two years. That $400 a month was the difference between being able to pay my bills and not being able to pay my bills.

Grad: All through the 1960s, you really had significant financial issues?

Goldberg: Stress. Yes, absolutely. I think everybody did. Mine might have been a little more than others, but, yes. I was very young. I had two kids. I was divorced. And I was 27 years old at the time.

Grad: So, how long did so stay with Auerbach?

Goldberg: Almost two years. And it was a straightforward consulting professional services model. They were charging Equitable for my services, and they were paying me. And I think I mentioned the numbers yesterday, but if I remember them exactly, they were charging Equitable $300 a day for my services, and they were paying me $15,000 or $16,000 a year. And when I did the math, I saw the markup. I was pretty good at what I did. I was a good technician. And I could not imagine why I could not do what Auerbach did. So I sat down with one of my co-workers in Auerbach in New York, and just started talking about leaving and starting a company. His name was Stan Ashkinos. He had worked on the Lunar module as a contract programmer. Great technical guy. Good guy, you know. Honest, hard working, very smart, and one of the best systems guys I had ever met. So we thought it was the right opportunity, the right time. And to show you the level of naiveté that I had in those days, we decided to ask the guy who ran the office at Auerbach to join us in starting a company, thinking I do not know what, because the first thing he should have done was to fire us, which he did. Do you want me to tell this story?

Grad: Sure.

Starting Software Design Associates

Goldberg: O.K. His name was Paul Levine. And Paul thought this was a good idea. But he was much more senior than Stan or I, so he was going to be the head of the new company. And Stan and I were O.K. with that, because we agreed that we were all going to be one-third equal partners. And then we needed somebody to put in the money. So whoever put in the money would get a piece of the company. Paul actually had worked for and done a lot of consulting with the City of New York, the Department of Social Services, and thought that he could sell a contract back into the City of New York for our new company. Stan and I knew some people who ran a public software company called EDP Associates. The CEO of that company was Sheldon Dansiger. Nice guy. And our paths continued to intertwine over the years. EDP Associates, for whatever reason, decided to invest some of their money in our company. They had gone public. I think they raised $425,000, which was kind of a standard in those days. People did not raise tons of money. That was the capital they raised in their public offering. So they agreed to put up $25,000 for I think it was 25% of our company. But Paul felt that he was more senior and he had this contract and therefore was worth more than Stan or I. I kind of agreed with him, but Stan had a temper tantrum, felt that this was a violation of trust, that we were doing this together, and in a very angry moment Stan decided to walk. And Paul turned to me and said, "Are you staying or leaving?" And I went with Stan. I decided that if Paul had done this once, he could do it twice. So I left.

Grad: You were still employed at Auerbach at this time?

Goldberg: Yes. I was working there days. And we were planning the business at night. Paul went on to start a company called The Systems Discipline. I think it ultimately failed, but I do not know. Stan and I went on to form a company called "Software Design Associates." EDP Associates did invest in our company.

Grad: So they did not invest in Paul's company?

Goldberg: I do not know. I do not remember, is a better answer. But they did invest in ours.

Grad: Same $25,000?

Goldberg: Same $25,000.

Grad: And what share did they get, do you remember?

Goldberg: I think it was 25% and then Stan and I went off. He and I were equal partners. And we got our first office in a building called 40 Park Avenue, which sounds like an office building, but it was actually an apartment house. It was used by a search firm that had gone out of business; it had a one-bedroom apartment in the building that was furnished with desks as an office. But it was like a little one-bedroom apartment. At the end of the year they threw us out because we did not realize that there were not supposed to be commercial enterprises in the building. But that was our first year. And it was a very difficult year.

Grad: What year is it?

Goldberg: 1968. We started the business on November 15th, 1968, so 1969 was our first year.

Grad: So at this point you had no income from Auerbach.

Goldberg: No income from Auerbach. But I still got $400 a month coming in from my little consulting business.

Grad: You had that on a personal basis not through Auerbach?

Goldberg: Personal basis, not through Auerbach. And we were now paying ourselves salaries through SDA of, I think, $17,000 a year. That was the salary. And it was O.K. I could make ends meet at that, with my $400. And Stan was married and had two kids. He was older than I was. He was seven years older than I was. I was 27 and he was, I think, 34. I am not sure about other people of my era in terms of their level of naiveté, but I had a fairly high level of naiveté. I had a few contacts now, because I had been out doing some consulting assignments.

And I was awfully good at what I did, so I actually thought that people would call me. And, of course, when you start a company of any kind, nobody calls you. And so I sat in the office at 40 Park Avenue, waiting for the phone to ring. Now I am exaggerating a little bit, because I did call people.

Grad: When you walked out of Auerbach you had no contracts?

Goldberg: We had no contracts. Of course, I went back to Equitable and they said they would be happy to do business with us, but it would be down the road. I realized pretty quickly that I needed a sales talent in the company, because I was a programmer. Stan was a programmer. So we went out and hired a guy. His name was George Forrester. So George came in and he set up a 3 x 5 card file of prospects. And I watched him set it up. And I watched him pound the telephones, and I watched him get appointments. And I went out on the appointments with him. And at the end of six weeks, George came into my office and said that after observing Stan and me, and looking at himself, he felt that he should be president of the company because he was older, smarter, more experienced, and would do a better job than I would do. And he was probably right. The truth is that at that moment in time he was probably right. But I was not going to work for George. So we asked George to move on.

And I took George's 3 x 5 card file, and I imitated what he did. I pounded the phones, made appointments, made sales calls, and we started to get business. So I credit him with having given me a six-week crash course in telesales and sales organization, which stayed with me for a long time. Other sales people whom I hired subsequently trained me, as well, and I was very fortunate to have a lot of good salespeople working for me who taught me the business. But I had no sales training or management training. So started out calling the big companies in New York, meeting people, and selling one programmer here, two programmers there. Stan and I would hire the programmers at night and put them to work during the day.

Grad: But you were not doing the programming that you were selling.

Goldberg: Correct. I stopped doing it and Stan became the technology partner.

Grad: Was he actually doing programming?

Goldberg: Yes.

Grad: So you were getting paid, but you were bringing the money in through your marketing and management, not through actually doing the work?

Goldberg: Yes. I was non-billable. He was billable.

Grad: How did you make that decision?

Goldberg: It was a very easy decision, because he did not want to do any selling. It was not that he wasn't good at it, but he really did not want to do it. What he wanted to do was write code. And although I enjoyed writing code, I also thought that wanting to be president of the company, it was pretty straightforward. We never had a moment of disagreement on this.

Grad: It was not a conflict?

Goldberg: It was not a conflict at all. I mean, it was not even a difficult conversation, you know. It was like you go do it. I said, O.K. So I went and I became the CEO.

Grad: Let's look at what you had at that point in time. No management experience.

Goldberg: No management experience.

Grad: Only observance of management people.

Goldberg: Yes.

Grad: No financial or accounting experience.

Goldberg: No.

Grad: Your sales experience was a six-week crash course.

Goldberg: And observation and going on sales calls.

Grad: A strong technology background.

Goldberg: Yes.

Grad: And obviously you had a personality that you brought to the table.

Goldberg: Yes. And I grew a mustache.

Grad: That made all the difference, I am sure.

SDA Customers and Projects

Grad: You now have SDA. You are the president of it. You started to get some contracts. Do you remember any of your early customers?

Goldberg: Manufacturer's Hanover Trust, Equitable Life, Western Union.

Grad: These were typically programming assignments or design assignments? What kind of things were you doing?

Goldberg: Burt, we would have swept the floors. But they were largely programming jobs. To be serious about it, we were very tiny. There were bigger companies that we competed with that were better at this than we were, because they were better at sales. They had better staffs, bigger staffs. So to characterize our early years, we did a lot of programming assignments that were off center. We did not do the classic 360 COBOL programming applications. We would do the Univac 1108 FORTRAN stuff. We would work on PDP 8's, and PDP 11's. We would do a lot of stuff that the big companies had a hard time finding skills for. We developed a skill at recruiting people who had those unusual skills and then finding the little niches where we could put them to work in big companies. So to get a foothold in the industry, we took whatever we could get, and since the bigger guys were going after the vanilla stuff, we went after the more technically oriented stuff.

Grad: Those were smaller projects and therefore the larger companies were not interested in doing those?

Goldberg: Yes. Or it was just too hard to recruit the people and it was not worth the effort for them.

Grad: How could you be successful recruiting them if they could not?

Goldberg: I just think it is because it mattered more to us, and that was where we focused. And we developed a little bit of a network where the people that worked on those systems knew each other and would refer each other to us. And we would pay them referral fees. You know, it did not take long.

Grad: Talk about the referral fees.

Goldberg: I do not remember the exact number, but if somebody referred a programmer to us who took a job in those days, and they stayed for some minimum period of time, we would give them $2,000. And $2,000 in those days was a lot of money. But the alternative was to pay a search firm which I guess in those days would have been $5,000. And we got somebody that came with a Good Housekeeping Seal of Approval, so it was a win-win. We started doing that very, very early. It later became standard in the business, but we were pretty early at it.

Grad: But you hired salaried employees.

Goldberg: Yes. The entire company was full-time salaried employees. If they did not work, we did not get paid but they still did get paid. This was pre-contractor, pre-independent, in the late 1960s, early 1970s in our sector of the industry. SDA, through its history, was a full-time, salaried employee company.

Grad: You were not working as a broker?

Goldberg: Correct. We hired them. We trained them. We developed them. We tried to have a career path for them.

Grad: You said you trained them. What did you do?

Goldberg: If customers needed a skill that we did not have, we would send our people to school to get it.

Grad: Wow! You did that reasonably often?

Goldberg: We could not afford not to do it. But the economics did not work all the time. If we thought it was a market that we wanted to have some people experienced in, then we did it. What we usually had to do was give the customer some free time, as well. So we would send the person to training. Give the customer like two free weeks of programming, and then they would start to pay. But the economics worked out pretty well, because at the end of a few months, we were back in positive territory, and we had established a new market or a new opportunity.

Financials of SDA

Grad: Were you making money? You show that your revenues in 1969 were $240,000. Was that profitable?

Goldberg: No. We lost money.

Grad: But you paid yourselves salaries?

Goldberg: We paid ourselves salaries, but we lost money. So we went back to EDP Associates in late 1969, or early 1970, and asked them for more money. They gave us an additional $25,000 as a loan. And they extracted equity for it, a significant amount of equity, but we still controlled the company. And we burnt through that. There was a pretty bad recession in

our business in 1969 and 1970. I actually credit the recession for the success of my company, because other companies that in 1967 and 1968 were doing very, very well, had built overheads. And when 1969 and 1970 occurred, several of them went out of business. And because we had no business at that time, we had no overhead, and we were able to get through 1969 and 1970 in pretty skinny fashion, because we had been pinching our pennies all along. But we did reach a moment of truth. I will tell you two stories.

One of the first things that some entrepreneurs did was that they did not pay their withholding tax. And I was not a sophisticated financial person, so that is what I did. We did not pay our withholding tax. So one day, I got a visit at our first office at 40 Park Avenue, from an IRS agent. And he could not have been nicer. He sat down and he explained the facts of life to me, that we were breaking the law. And he made an arrangement for us to catch up and he said to me, in the most polite, nice way, that you really do not what to see me again. And so we stopped doing that. We started paying our withholding taxes.

In mid-1970, Stan was convinced that the company was going out of business. He looked at our receivables. He looked at our payables. He looked at our salaries. I think we had cut our salaries. And he could not figure out how we were going to survive, and he decided to put his resume out and go look for a job. I asked him to wait. I said, "Just give me a couple of weeks and if I can't figure it out, I can't figure it out." So in those days I think we had about a dozen people at North American Rockwell, and I think they were in Maryland. But I think the office I was selling to was in New York. So I went to my client at North American Rockwell, and I explained to him that we were changing our billing practice. We were going from monthly billing to weekly billing. And he shocked me by saying, "O.K." What in effect it did was to give us three weeks of cash before we thought we would collect it, and that was the difference between survival and failure, because otherwise we would have gone out of business.

And so I often look back and I laugh. And when I talk to my friends in the business about turns in the road, and moments in time, it turns out that entrepreneurs who survive find a way. In my case, it was a simple matter of changing a billing cycle and having a cooperative customer. Others do other things. But, you know, it is pretty common. And I would say from 1971 on it was a straight curve upward. The recession ended. The company had customers. We had a history. We had a track record. I could go out and say we were three years old. I grew a mustache because at 27 I had a baby face. And when I was selling to banks I thought I needed to look older, and a mustache made me look a little older. So if you look at old pictures of me, I had a lot of hair, but it was not ego. It was really because I did not want to look like a wet-behind-the-ears kid. So we still sold to the biggest companies in New York. And it was interesting that we could get them to buy from a company that was as small and fragile as we were.

Grad: Were there particular competitors you were running into that you kept losing to, or kept competing against?

Goldberg: The hardest competitor, and probably the best of the companies, in those days, was PMI (Programming Methods Inc.) . I think PMI was the company that we liked to see the least. They were much bigger than we were, and they had good salespeople, and good structure. And we would win occasionally from them. It was not like they beat us all the time, but they

were pretty good. With the others we would win sometimes, they would win sometimes. So companies like AGS Computers, Larry Schoenberg's company, Barry Goldsmith's company (CGA), Computer Horizons, which was run by a guy named John Cassese. He was the CEO of that company through the 1980s, and I think he only stepped down in the last five years. And then there were others, Automation Sciences, which did not do well and went under. And Automation Concepts, which we did pretty well against; that was Fred Harris's and Mike Rothbard's company.

Grad: What kind of rates were you charging for programmers at that point in time, for a systems analyst? Do you remember at all?

Goldberg: 2.4 times their daily salary. That was a sixty percent gross margin. That was our rate. Now we did not always charge it. Sometimes we charged less. Sometimes we would get more. But that was our business model. Our business model was 2.4 times the daily salary. We budgeted 4% down time above holidays and vacations. So we had holidays, vacations, and then we could deal with 4% down time. If the down time got above 4%, it became troublesome for us.

Grad: This sounds like a very financially astute business plan. Where did you learn to do that?

Goldberg: OJT. On-the-job training.

Grad: You had still not taken any accounting courses or anything like that?

Goldberg: I never have taken an accounting course.

Grad: Did you have a CFO or a financial advisor?

Goldberg: We hired an office manager, and then ultimately a controller, but by the time we had a controller, it was pretty far down the road. This business was pretty easy to grasp. And remember I have always had a kind of a facility for math and numbers. Maybe not science, but definitely math and numbers. I am not an idiot savant, but I am very, very good with numbers. And so this business lent itself to that kind of thinking, because it was all about daily rates, salaries and overhead. I mean, it is not a very complicated business.

Grad: We use the word metrics today. What you are describing is the kind of metrics that more sophisticated businesses develop. It is surprising to hear you using those terms, thinking about that in that timeframe.

Goldberg: Well, I can tell you the way we thought about it, or the way I thought about it. We were trying to achieve a 10% pre-tax profit. And then we wanted 2% to go into branch office expansion. So I felt like if I could take 2% off the top line, and I could make 8% after that,

everybody would be happy, including me. And that 2% I used to open branch offices in other cities around the country.

Grad: So you kept the same model going forward?

Goldberg: Forever. It lasted for the life of the company.

Grad: And you developed it during this time period?

Goldberg: Yes. And the numbers never changed. The salaries would go up. The billing rates would go up. And the model held firm through the 1980s.

Grad: After the 1969, 1970, 1971 period did you have any particular specialties or was it still whatever things that were left around?

Application Areas

Goldberg: We had no specialties. We built an accounts payable system for Fairchild Publications. And we never got our final check even though it was a fixed price contract. I cannot believe I actually remember this, but it was a $12,000 contract. The human brain is an amazing mechanism. And I remember the treasurer of Fairchild was a guy named a Phil McGovern, and he was my client. This is now 1971 or 1972. And he did not send me the check. And I called him up and I went down to see him. And I said, "Phil, you know, I would like to get our final payment." He had the check in his hand and he said, "We turned your system on. We have been using it. But I have wanted to say to somebody, your check is stuck in our system. And I thought you would be the first one I would say it to." We did commercial loan accounting for Manufacturer's Hanover Trust. And we were all over the lot, no specialties although because we were headquartered in New York, we developed a lot of financial services applications. We worked for the big brokerage firms. We worked for the big banks.

Grad: Were you involved in any of the technology or system design aspects, or were you strictly running the business?

Goldberg: I was strictly sales and management. But what was very interesting was that I had an opportunity to pick up on the technology because of that. I was a good listener as a salesman. And so I knew what Merrill Lynch was doing with technology. I knew what Manny Hanny was doing. I had a wonderful education in how big companies thought about data processing. Where they were spending their money. What their priorities were. How they felt about IBM. How they felt about where the world was going. So, while I was not involved at a code level, I was always involved at a level of what was hot, where the market was going, because I was always trying to figure out where the human capital needs were going to be. If people were converting to CICS, or converting to IMS, or going to DB2, I wanted to know as

soon as possible so that I could begin to think about how we would deal with it within our staffing, and how we would do sales and marketing. Because if DB2 was going to become hot, I wanted my sales collateral to say DB2, and I wanted my recruiters to know where to get DB2 programmers. So I spent a lot of time doing what you would call just market research on sales calls.

Grad: Were you continuing to be the primary sales person for the company?

Goldberg: Yes. I hired sales guys. I always had sales guys who made the cold calls. But I was the guy that went out to visit the clients.

Grad: Were you the closer?

Goldberg: Yes, in a way. Now, there is no closer in professional services the way there is a closer in software. What happens is they will say, "Yes. I love you. Let's sign a blanket agreement. And if I have requirements, we will call you." They never do call, but what happens is you kind of cement the relationship, which allows you to sell your services.

Grad: Did you find yourself going back to these clients or did you use your salesmen to go back and see if they had a particular need?

Goldberg: We would do tiered sales. My sales people would sell at the project manager level and within the department. I would sell at the VP level.

Grad: So for the individual projects, the sales people would make the sales, but you would have established the general relationship and the pricing structure?

Goldberg: Yes, almost exactly. They would set the prices for individual jobs, but I would have the relationship at the vice president level, so I knew where the next project was coming from. And then the sales people would go try to sell that.

Growth of SDA

Grad: Using some of the notes you provided, let's talk through the 1970s for SDA. I will quote some of the numbers you have written down here, if I may. 1969 revenues are $240,000. In 1970, $400,000 in revenue. In 1971, $880,000. In 1972, $1.4 million. In 1973, $1.8 million. In 1974, $1.7 million. So you have a downturn. In 1975, $2.4 million. In 1976, $4.2 million. You were a private company during this entire period?

Goldberg: During the whole time, we were private.

Grad: Did you ever go public?

Goldberg: Never.

Grad: In 1976 you show revenue of $4.2 million.

Goldberg: I stopped there in my notes. Revenues continued to grow at about a 50% per year rate for a long time after that. The company just kept on growing until 1980, 1981. The 1970s were incredibly good to us, after 1972. Every year it was just better and better. We had one setback in 1974, because I tried to get into the products business. There was a little blip of a recession that year. But I did a deal with a UK company for a general ledger product, which did not work out. It was a distraction, and it took my eye off the ball a little bit. But other than that one year, which was a blip, from then on it was 50% a year every year.

Grad: Do you have any idea about your staff size, your ratio of programmers for each million dollars of revenue, how many technical people would you have, or how many total personnel you would have?

Goldberg: You know, the salaries kept changing, and going up over time, but I am going to guess in the early 1970s it was $40,000 revenue per programmer.

Grad: Twenty-five people to get one million dollars in revenue?

Goldberg: Right.

Grad: I gather you kept the staff relatively slim other than the technical people. You had hired an office manager. You probably had some secretarial help and one or two or three sales people. Is that about the right level?

Goldberg: Yes. We had one sales person in those days for every ten programmers. That was the way I tried to keep it.

Grad: So it was a small company. It still was not a big organization.

Goldberg: Yes, but Stan and I had always felt that one of our differentiators was to provide some technical management help to our staff and to our clients. So it was a company that had what I called technical directors that were non-billable, who were there to work with our consultants and work with the client for free. So we had more technical overhead than many of our competitors.

Grad: So you could afford to do that. Your 2.4 times salary gave you room to do that?

Goldberg: Yes.

Grad: You also indicated some other items. You talked about the formation of the company. You talked about the funding. Did you ever need additional outside money after that second loan?

Goldberg: No. And to close the loop on the story -- EDP Associates was a public company. And our business was beginning to grow pretty dramatically in 1974, 1975 and 1976. And theirs was not growing. It was going in the opposite direction. So I proposed to them, since they owned almost half of our company, "Why don't we just put the two companies together?" And the only proviso I had, which was a pretty big proviso, was that I would be the CEO. There were four partners in EDP Associates. Sheldon Dansiger, the CEO, was fine with that. And their sales guy, the VP of sales, a man named Will Hale, he was fine with that. But the other two partners were not. So they had a meeting in their room and decided that they did not want to put the companies together. And that was the best thing that ever happened to me. It was an incredibly fortuitous decision on their part, because I owned 50% of SDA. I would have owned a lot less of the combined companies, and around two years later they were gone. And we wound up being very successful. What I was able to do as their business deteriorated, was that I paid them back the $25,000 equity and the $25,000 loan, at a profit to them, and was able to buy my stock back, because they needed the cash, because their company was going down. So their bad fortune was my good fortune. We were doing really well, so we bought our stock back and they eventually went out of business. And Sheldon Dansiger came to work for SDA as a technical director.

Grad: Did Stan and you still have equal shares in the company?

Goldberg: Equity had not shifted. We were equal partners until 1981.

Grad: So no outside funding during this entire period?

Goldberg: No. We were very profitable so we did not need any outside capital to grow faster.

Grad: Were you tempted to raise outside money although the 1970s were not a good period.

Goldberg: There really was not an opportunity.

Customer Relations

Grad: You have used the term "customer traction" during the 1970 to 1975 period. What did you mean by that?

Goldberg: It was a period where there was a lot of loyalty in the business. It was a relationship business. And we developed some very strong relationships with some good buyers of professional services that we did not have at the beginning. By 1975, I had really solid relationships with companies like Manufacturer's Hanover Trust, Guardian Life, and others. And it just gave us a feeling, by 1975, that we were going to be a successful company. We did not have to go out and sell new customers all the time. We were doing continuing work in larger numbers for big buyers of software services.

Grad: Do you have a story or two to tell about a particularly successful customer relationship, or a particularly disastrous one during that period?

Goldberg: I had a great relationship with Guardian Life that lasted for many, many years. There were lots of humorous stories. I had a programmer who was an old IBM programmer who worked for me. I guess I should not say his name. Good guy. Very smart. He was on a contract at Manufacturer's Hanover Trust. And I got a phone call from a VP at Manny Hanny, who said to me, "Jay, you have to do something for me. Do me a favor." I said, "What's that?" He said, "Lee is asleep at his desk." And I got upset because this is obviously my bread and butter client and one of my contractors is now asleep at his desk. And I said, "I will get down there. You know, I will fire him. Blah blah blah." He said, "No, no, no. We really like him. We do not want you to fire him. And if I wake him up, it is going to be embarrassing for everybody. Just call him on the phone and wake him up. And then talk to him about the fact he can't be sleeping on the job." So I called him and I could not wake him up. So I had to actually get one of my other contractors to go over to Lee's desk and shake him and wake him up. But I thought it was interesting of the customer, that he liked the guy that much that he really did not want to lose him.

Grad: Are there any stories of really serious failures or serious problems that brought you concern or anguish, during the period?

Goldberg: Yes. I had a sales person who was starting his own company on the side, using one of my clients. He was selling some services for SDA at Western Union. But he was also selling services for his new company at Western Union.

Grad: What did you do about the guy?

Goldberg: I fired him. There was nothing else to do.

Grad: Did you have non-compete clauses or time-out clauses with your sales people, with your technical people?

Goldberg: Yes. We had non-solicitation clauses and non-hiring clauses and non-compete clauses with everybody.

Grad: With your clients, as well as with your employees?

Goldberg: Yes. But they sometimes worked and sometimes they didn't work. Here is one of those cases that to this day I am not really sure I did the right thing. We had a contract with Equitable Life that said that they could not hire any contractor who was working for them through us for a period of six months. And one of my programmers quit and went to work on the same project for Equitable Life. And I called the project manager and I said, "You can't do this." And they said, "We have already done this." And I said, "We have a contract." And they said, "We don't care." We had a relationship with this company, not just with this particular person, but with Equitable. And I said, "Well, how could you say you don't care? We have a contract. You are a big company. Don't you honor your contracts?" And they said, "We don't care." So I said, "Well, I am going to go to the vice president who I know." And they said, "Well, that's O.K. You can go there, but you will never do any more work at Equitable Life." And, of course, I went and we got paid a search fee for the person. And we never did any more work for Equitable Life. And to this day I am not sure I did the right thing, whether I should not have just let it go. There were lots of these things that occurred day to day. It was a great learning experience for all of us. I am sure others would tell you the same story. Every day was a different set of decisions.

Grad: Did you feel that clients were less ethical than the programmers?

Goldberg: No. I think the clients were very ethical. There were occasional individuals at client installations who were not, but these companies, these were big companies and I think they were incredibly ethical.

Grad: They did not use their weight or power to try and screw you on these things?

Goldberg: They used their weight and power to try to take advantage of us all the time. But it was not unethical. It was up front. It was totally up front. They knew they had a lot of power and leverage. The business was very much based on trust and relationships. If somebody did not do a good job at one of our clients, we would replace them. We would pick up whatever the cost was for the overlap in the work until the second person got up to speed. We paid a lot of attention to quality and to try to make sure that if we did screw up that we fixed it. And the customers became accustomed to that.

Expansion of SDA

Grad: Let me move ahead. You are now in the mid-1970s. Your revenues are up to a respectable amount of money. You are a significant company. You have a reasonable number of employees at this point. Now you speak about expansion, so what happens in the late 1970s?

Goldberg: Well, geographic expansion was the next step. I was opening, I think, two offices a year.

Grad: Why?

Goldberg: It was there for the picking. The business was growing. The market was expanding. The way our model worked was that for $250,000 I could open an office. I could get the cash flow to break even within a year, and be cash flow positive in the second year, and I would get my money back at the end of two years. If you looked at it from the standpoint of ROI, it was silly not to do it.

Grad: Could you have put that same energy to expanding in New York and the New York area? Or was it definitely easier to go to these other areas?

Goldberg: We did both. It was not an either/or situation. We hired additional sales people when our New York operation was growing. When we say New York, we also had an office on Long Island. We had an office in New Jersey. We had an office in Connecticut, and we had an office in Manhattan.

Grad: Even at that early time, you had four offices in New York.

Goldberg: Yes.

Grad: How did you pick the new locations to go to?

Goldberg: It was not very scientific. We knew what cities the market was good in. We were a company that focused on large companies, large buyers. Other companies like Computer Task Group focused on large buyers in small cities. There were others that focused on other types of markets, like manufacturing or the Federal Government. We had a Federal office that did not work out. That was one of the businesses that we were unsuccessful at. We knew commercial businesses, big companies. So we went to the cities that had large data processing centers that we knew we could sell to. But the more important thing was in that city we had to find the right operator. We had to find the right branch manager. So we would not go to a city until we had the man or woman to run the office. That was the first step. Once we found the person, we were comfortable making the investment.

Grad: How did you find that person?

Goldberg: We recruited. We would use search firms. We would advertise. We would use networks. Occasionally we would transfer people to new cities, any way we could.

Grad: But you generally wanted someone who came from that city?

Goldberg: We preferred that, because presumably they knew the market. They knew the customers.

Grad: But it would be someone who was already with a company doing something similar?

Goldberg: Yes. Typically it would be. And that person would very often have a non-compete, and we would have to wait out the non-compete. Sometimes we would bring them into New York for six months while they learned the business. Then they would go back to Phoenix or go back to Chicago and start the office.

Grad: What were the first few that you opened? Do you remember?

Goldberg: Yes. We grew geographically. First we opened them around New York. Then we went to Philadelphia. Then we went to Boston. And then we went to Washington. And then we went Chicago, Phoenix and L.A. We moved around the country. Not all of them were successful. We had a very hard time on the West Coast. We could not figure out how to do business on the West Coast, both in L.A. and San Francisco.

Grad: What was the problem? What was the difference?

Goldberg: I think it was more of a contractor mentality, more of a defense type business.

Grad: Were there more brokerage contracts?

Goldberg: Yes. More brokerage, lower billing rates and more government procurement stuff, which we were not really knowledgeable in. Our pitch was much more of a service and relationship sell.

Grad: One of the questions that came up in yesterday's discussion, was that for a quarter of a million dollars to start a new office and be able to get your money back in two years, that seems like a good deal. But the point you did not mention yesterday was the risk that the office would not succeed. And therefore if only one out of three succeeded and two out of three failed, that would have been an expensive proposition.

Goldberg: But that was not the metric. Two out of three succeeded.

Grad: So that is why it worked.

Goldberg: And I was only opening two a year, so I was never betting the ranch. From my early days on, I was never a gambler in business.

Grad: Were you one of the first ones to start opening up these branches around the country? Were the other competitors doing the same thing?

Goldberg: We were probably a little more aggressive, but I think other people were doing the same thing. We were probably more aggressive and we had more of a cookie cutter than most.

Grad: That cookie cutter is what you had developed as a model.

Goldberg: Right. There was one other differentiation with us, and I cannot tell you why it worked. But I think it has to do with this risk issue. We did not have the huge accounts that you heard about yesterday. Barry Goldsmith at CGA had a ton of people at Bell Labs, and a ton of people at Blue Cross. Larry Schoenberg at AGS had a ton of people at AT&T and Bell Labs. We had none of that. Our biggest customer might have used 10 or 15 people. And it was maybe overly cautious on my part. I think it hurt us during the boom years. But I never wanted to be in a position where if one customer shut down, that it would really damage us. And I think that probably came from the economic pressures early in my life and early in my career. So we were never at risk. If any of our customers had shut down, we would have been fine. The down side of that was we had a lot of customers with a few people, and not a lot of concentration, which was a different model from most of our competitors, and may be why the geographic expansion was more natural to us.

Grad: It set up more of a pattern for your cookie cutter?

Goldberg: And you cannot find an ATT to use 50 people in Philadelphia or in Phoenix. So my suspicion is that may be an explanation for why we went well with the geographic expansion.

Grad: Were you continuing to do work for a significant number of non-IBM machines at this point in time?

Goldberg: No. By this time, we were mainstream. A lot of System/370 stuff. We had converted to mainstream.

Grad: Had you started to do online applications? Had you started to use CICS and IMS or some of the other database systems at this point in time?

New Revenue Models

Goldberg: As soon as it was clear that it was becoming a technology that industry was adopting, we would get people trained. We would go recruit. We were trying to be at the leading edge. That is where the market always was. The market always was at the leading edge. But simultaneously, I started something called contract maintenance. I was looking for recurring revenue. The problem in our business was there was no recurring revenue. So I went to large companies and I made an offer to them that I would take on maintenance of their big application systems. And if I could not save them 25% of their current costs, then we would walk away. And it was a great pitch. And I believed I could do it, because they would have five or six people working on maintaining a big old mainframe system, and they were totally unproductive, because the way they structured it they would have one guy working on the front end, one guy working on the back end, you know how it worked. And they were totally unproductive, waiting for some problem to occur. And I knew by leveraging the people better, that I could cut those costs dramatically. We actually sold it to two or three customers, and it worked like a charm. But what it did do was it differentiated us and I got a lot of vanilla work developing systems as a result of having opened the door with contract maintenance.

Grad: You talked about the expansion of the offices. There were 17. Were those the successful ones, the 17, or did you open up the 17 and then close some of them?

Goldberg: I think at the peak of the company we had 17 offices. That was in the early 1980s.

Grad: Were there any kind of specialization in the offices or were they just a general practice?

Goldberg: A general practice.

SDA Products

Grad: You spoke about some of the distractions you went through and some of the products you tried to go into. Why did you do that?

Goldberg: It was this idea of recurring revenue and trying to build some kind of more valuable business is the right way to put it. I was involved in ADAPSO starting in the middle 1970s and rubbed elbows with guys in the software products business; that seemed like an awfully good business. So early as 1976, I tried to get into the software products business by buying a general ledger package. I hired somebody and bought a package that did lights out data center management which was my first real product. The general ledger package didn't work out at all.

Grad: Whom did you buy it from?

Goldberg: It was a software company in Manchester, England, but I don't remember the name of the company. I brought in Lloyd Baldwin to run it and it was okay, but it wasn't terribly successful. It wasn't going anywhere and I really felt like the products business was an important part of our future. Bruce Coleman was working at Informatics and I was trying to build some critical mass. He had some products that he was trying to get rid of so he sold me Intercom, Minicom and Datacom which were three TP monitor products running on different sized computers that competed with CICS. We didn't really think the products had a future because we knew CICS was the system of the future but we were buying a bunch of customers and then I bought a code generator called Score from Informatics and what I was trying to do was leverage the Score product onto my professional services business and I thought we could go after customers with a Cobol code generator which was what Score did and do projects cheaper, faster, better by using the code generator than by doing them by hand. All of the profits from SDA from I'll say 1980 to maybe 1983 got reinvested back into the products business with no success at all.

Grad: The purchases from Informatics were in 1981?

Goldberg: Yes.

Grad: Between 1975 and 1980, this is when the general ledger software and data center management product was acquired?

Goldberg: Yes. The general ledger thing was quick. It was my first foray. It was a bad experience. We then shut it down. It didn't cost a lot of money. It cost us a little bit of time which is why the sales that year were a little bit down but it wasn't terrible, I didn't lose a lot of money on it, but the other products were costly, very costly. They were costly because I lost money in them and they were costly because, if I think about it today, if the number was let's just say for argument's sake $3 million, and I think it was actually more than that that I lost, but if that was the number that was 10 offices and so the opportunity cost of that foray into products was a very costly mistake.

Grad: You've given your revenue numbers through 1976. Do you have annual reports or did you do anything of that sort? You obviously were keeping books.

Goldberg: I probably have financial statements and I'll see what I can find.

Grad: By 1984, what were your revenues?

Goldberg: Twenty-five million dollars.

Grad: So you had continued to grow. You grew six times over that 10-year period. At the end of that period, was there any significant part of your revenue coming from products?

Goldberg: No. We had shut them down. We sold the data center management product to University Computing, we sold the TP monitors to a developer who just took them with the customer base and I think we just shut it down the rest. So there were no products. We actually had a division, SDA Products it was called, and we just shut it down.

Grad: Where were you spending your time during this period?

Goldberg: I was still running professional services.

Grad: Were you still making the big sales?

Goldberg: Yes. And I was trying to clone this for the product sales as well. I brought in a guy named Gus Mansur to run the products division, but it still didn't work out. It was a very hard business and we weren't very good at it, and I knew that we couldn't run it within the professional services company because the cultures were so different. So it had its own offices, its own structure and its own CEO and in spite of all that it failed.

Grad: Did you ever come up with a model or a metric for that business similar to the one you had for the professional services business?

Goldberg: Yes. I think our metrics were okay but we could never crack the code on the sales side of the business. I could argue that we never had the right products and I think that that was a big part of it. We ran user groups and we had pretty good customer renewals on maintenance. We actually were pretty good at the business, but it's not like we had a product that everybody wanted.

Grad: You never developed a product of your own?

Goldberg: Never developed a product.

Grad: Did you spend significant money in trying to improve or enhance the products that you had bought?

Goldberg: Yes, we did. Unfortunately.

Grad: That's where a considerable amount of your money went?

Goldberg: Yes. Maintaining the TP monitors, as you can imagine, was an expensive proposition. Intercom was a great product and the customers were extremely dependent on it. So it wasn't like you could just pull the plug. You weren't shutting down an accounts payable

system, you were literally putting a company out of business; and a couple of the customers like NSA used Intercom for years. It was a terrific product but CICS was the transaction processing product that was dominating the market.

Grad: There was a contrast between CICS which controlled about 90% of the transaction processing market whereas IMS at IBM was sharing the data base management market with about four or five other major competitors. It was a dramatic difference. Switching subjects, how many employees did you have by the mid-1980s?

Acquisition Discussions

Goldberg: Four hundred I would guess.

Grad: Located around the country?

Goldberg: Yes.

Grad: By this point, on the professional service side, had there been a significant change in who were the key competitors?

Goldberg: Not really. As I remember, it was the same cast of characters. They had just all gotten bigger. PMI had been sold and in fact I think that the guys who founded PMI had already started Lambda by that time.

Grad: Talk about your decisions, thinking about selling the company versus going public. What was your thinking? The financial environment had changed in the 1980s from what it had been in terms of there being people investing money in companies.

Goldberg: You say that but it wasn't so in my world. In the professional services world, there was very little interest in companies like ours. There were venture capital firms but nobody was investing in the professional services business.

Grad: There were no IPO's?

Goldberg: No. In the 1980s there was nothing going on. CGA was public, AGS was public, Computer Horizons was public. A bunch of the companies had been public from their heritage in the 1960s, but no new ones were going public in that era.

Grad: That's very important. So there weren't any new companies going public at that point in time?

Goldberg: Correct.

Grad: Were you acquiring other companies? Was there many acquisitions going on in the professional services area?

Goldberg: We might have bought one or two really little companies along the way, but it was only incidental and it wasn't organized and it wasn't planned and nobody was knocking on our door to buy us. In 1981 or so, Barry Goldsmith called me and wanted to buy the company. We actually negotiated a price. My partner, Stan, was tired. There was no great need for his services as a programmer anymore and he didn't like managing. He wanted to get out of the business so he and I sat down. He wanted to sell and I didn't want to sell, so the price that Barry offered us became the value of the company and I bought Stan out and he was a great gentleman about it. He gave me five years to pay him. I paid him out of the profits of the company to acquire his stock. I distributed some of it to employees in the company.

Grad: Was that the first time you had outside stockholders?

Goldberg: No. All the branch managers had options and other people owned stock in the company. But Stan and I split in 1981. That was the first time we thought about selling. Then Dave Campbell from Computer Task Group and I talked about merging our companies. He was in Buffalo. We actually got very far down the road. CTG was going to have two-thirds of the combined companies, SDA one-third. I was going to be one of the senior executives in the company. We talked about having a plane at Westchester Airport so I could go to meetings in Buffalo and I just got cold feet because I just didn't want to be a partner in a company that was located in Buffalo when I was in New York and I wasn't moving to Buffalo.

Grad: This is 1980 to 1983 and you were still living in New York City?

Goldberg: Living in New York City, remarried, two more kids, so I now had four kids, and then Larry Schoenberg and I who had known each other for a long time started talking.

Grad: Before you go there, let me ask you a question. What did you do about your own salaries, about options, about things like that for yourself during this period of time?

Goldberg: In the late 1970s I started to realize we were going to be successful and I started paying myself a reasonable salary for what I did. I don't remember what the number was. It might have been $75,000 a year. I didn't take a lot of money out of the business and I never did. Even in the early 1980s when the company was doing well and was very profitable, I took a salary out like everybody else did but my asset was the stock in the company.

Grad: Options were really not meaningful for you?

Goldberg: Well, I think I owned 70% of the company. I had bought out Stan and I think other people owned 30% of the company in options.

Being Acquired by AGS

Grad: Please talk about the relationship with Larry Schoenberg.

Goldberg: Larry was the chairman of AGS Computers named for Abrams, Graf and Schoenberg. We just talked about putting the two companies together. I didn't want to do it for stock and Larry had access to cash. That was another issue with previous acquisition discussions. There wasn't a lot of cash sitting around and my view in those days, because I was risk averse, was why would I want to own stock in a company that somebody else was running? I'd rather own stock in a company I was running. So I wasn't going to sell for stock. Larry had the ability to get cash and offered us a pretty nice cash deal. It was a very clean, easy negotiation and I was at a place in my life where I had been doing this for 15 years, hadn't ever taken anything off the table and just decided it wouldn't be so bad to cash in. I was 42 at the time.

Grad: The price they offered was how much per revenue dollar?

Goldberg: It was $12.7 million and we were doing about $25 million of revenue so it was 50 cents per dollar of revenue.

Grad: What kind of profits did you have at that time? Do you remember?

Goldberg: Yes. We were doing 8% pretax margin. So we were doing $2 million a year. So, if you think about it that way, Larry paid us a little over six times cash flow, and remember we were growing at a 50% a year rate. I think any time you can buy a company with a fast growth rate at 6 point something times cash flow that's a great deal. Larry was very happy and for me that was the market, that's what people were paying, so I feel like he paid retail and at the end of the day we were both happy.

Grad: The negotiations though did take quite a bit of time if I remember correctly.

Goldberg: That was our style. That was just because we were very casual about it. There was no broker.

Grad: You did not use Broadview Associates or anyone like that?

Goldberg: No, and so there was nobody moving it along with urgency and frankly Larry needed to get his financing in place. He had to get the cash. I think he went and borrowed the money to do the deal so some of it was Larry just getting the financing.

Grad: You weren't hurting to get out. Nobody was pressuring you?

Goldberg: No. The business was doing well. There was no urgency to it.

Grad: Did you consider an IPO at that point in time?

Goldberg: There was no opportunity.

Grad: To your knowledge did any of the professional services companies go public in the first half of the 1980s?

Goldberg: I don't believe so, at least none of the ones of our size. I don't remember when EDS went public or some of the big government contractors might have gone public but in this arena, the $25, $30, $40 million companies, as far as I know nobody did.

Grad: What happened after the company was acquired?

Goldberg: Larry left me alone for two years. SDA ran as a separate business and everything reported up through me and after 18 months it was pretty clear that I wasn't staying at AGS, but not because we had had any bad moments. We just never talked about my staying. My contract was going to be up so I realized that I had to start preparing for the changeover. I had somebody working for me named Seth Hanover and I began to migrate the responsibility for the company to Seth and after two years I left.

Grad: When did Seth join SDA?

Goldberg: In 1970.

Grad: What roles did he play?

Goldberg: He was a technical director and then he was a branch manager and then he was a regional VP and then he was chief operating officer of the company.

Grad: It sounds like he was more your number two man than Stan was. Is that a correct statement?

Goldberg: Yes, but not in the early 1970s. He worked his way up. He was a programmer. By the late 1970s, yes.

Grad: Did you have a CFO during that time?

Goldberg: I did. I hired him from Larry.

Grad: Who was it?

Goldberg: Larry fired him, so I don't want to mention his name.

Grad: Did you sort of do your own financial work?

Goldberg: Yes.

Grad: You didn't need a CFO in quite the same sense as most companies?

Goldberg: Well, I needed somebody to generate the numbers and that's what he did and we had a lot of metrics so I needed somebody to do all of that. We didn't have a lot of the tools you have today so a lot of it was done by hand and we had a lot of measurements and metrics that we used so I needed somebody to do that.

Grad: These were management measurements.

Goldberg: Yes, productivity, down time, costs of things, complicated. Our commission structure was pretty straightforward, so we didn't have a complicated commission structure.

Grad: You were pretty much driven by these numbers. You could look at those and see what was going wrong or what was going right.

Goldberg: Yes. Everything was easily measurable.

ADAPSO

Grad: I'd like to switch direction now. I'd like to talk about ADAPSO, the trade association, and when you joined it what you did. Would you do that?

Goldberg: Sure. In the middle 1970s, New York State was attempting, maybe exploring would be a better word, putting a sales tax on everything. New York City was in trouble and the state wasn't doing well; so one of the things they looked at was professional services and software companies and if I remember correctly they actually did an audit of one company and were going to charge sales tax and it was a very threatening thing because the statute of limitations on taxes is I think three years but it's three years from the date that you file the return and nobody in New York State in professional services had ever filed a sales tax return. So the threat was that the state could go back to your first day of doing business and charge you because you're responsible for collecting it. So this was a pretty big issue and Dave Campbell was involved in it and some other people and they got a group together. It turned out it was in ADAPSO so it was really my first introduction to the trade association and it got me hooked because it was an important issue and these were people that I had competed with and respected and so I joined ADAPSO in 1975 or 1976.

Grad: Had you known any of these people socially or through any other connection prior to that?

Goldberg: Only competitively. I certainly knew Larry Schoenberg competitively. I knew Barry Goldsmith.

Grad: You knew the companies but did you know the people?

Goldberg: Yes, I knew them personally but only as competitors. I had seen them around but I hadn't really spoken to any of them and in those days ADAPSO was dominated, at least in the area that I was in, by the software products guys. There were a few professional services firms, not a lot, and a lot of software products guys. It was organized, if I remember right, into four sections so I joined the software section which you were involved with at the time and met some absolutely fascinating, wonderful people, still friendly with some of them, and became hooked.

Grad: On the tax issue, how was SDA involved? Were you a test case or anything?

Goldberg: We were going to be the test case because in those days we didn't have a products business and everybody else in the group had another piece of their company that complicated the picture. So we were the company that was the most vanilla professional services firm at that moment in time and we talked about hiring Ted Sorensen who had been Kennedy's aide who then worked at Paul Weiss. He was going to represent us. We went to New York State, negotiated and eventually they just decided we were right and that the services should not be subject to sales tax.

Grad: That was a successful introduction to the trade association.

Goldberg: Intervention by a trade association and the leverage it brings, yes.

Grad: You were then joining the software products section, which was mostly product oriented. What sort of activities were you involved in initially in those first few years at ADAPSO?

Goldberg: It was I guess the same kind of stuff. There were accounting issues, revenue recognition issues, sales tax issues. I don't think the independent contractor issue had come up quite yet and early on I think it was you, but I'm not sure, suggested the formation of a roundtable. There was one in existence so sometime around 1980 or 1981 I started the second ADAPSO Presidents Roundtable. Again I think you got me started on a path of moving into the management of ADAPSO. I'm not sure exactly what my first job was but Larry said he started the professional services section. My recollection is that I actually started it and I became the first president so I think that might have been my first important role at ADAPSO.

Grad: Up to then you were not on the ADAPSO board?

Goldberg: I was on the board of the software section and then became the first president of the professional services section.

Grad: Were you active on the contracts committee?

Goldberg: Yes. Thank you for jogging my memory.

Grad: Wasn't that about the same time frame?

Goldberg: Yes. That was actually the first thing I was involved in with Esther Schachter [now Roditti]. I kind of represented the professional services group in developing those model contracts that she produced, for software products, for OEM contracts and then we did professional services.

Grad: I think that was the second or third contract.

Goldberg: In the sequence, yes.

Grad: Do you remember any of the other projects, some of the financial issues?

Goldberg: I was involved in a few things. One of them was the negotiation with Arthur Andersen. We felt that Andersen should split its company or get out of the consulting business. We felt like the Chinese wall they claimed to have didn't really work and we spent a fair amount of time on this. It was an awkward situation because we thought that they should be members of the professional services section and members of ADAPSO, but at the same time we didn't like the way they were doing their business and were trying to get them to change. I think John Fairfield was the Andersen guy and we spent a lot of time trying to get them to change,

unsuccessfully. There was a fair amount of time spent on the PC lawsuits and fights over piracy that I was involved in just before I guess the professional services section had started. Esther Dyson was involved in that.

Grad: Another one of the discussions going on was splitting off the microcomputer software area from the software products group.

Goldberg: Which I was in favor of. I thought it should have been its own section but I was outvoted. I became chairman of ADAPSO in 1987.

Grad: Between 1980 and 1987 you were in the professional services section.

Goldberg: I went on to the ADAPSO Board, became vice chairman in 1986. George Raymond was the chairman. It was a very difficult year because it was the year in which Jerry Dreyer was replaced. I guess I called Luanne Johnson and asked her to come in and run ADAPSO on an interim basis.

Grad: Were you responsible for the hiring of Dreyer's replacement?

Goldberg: Yes. I don't remember whether it started with Jack Courtney or with me but I was very engaged in that.

Grad: You then became involved in the overall ADAPSO activities--with the government work, with the products work, with the processing services work. So you had to take a somewhat broader view?

Goldberg: Yes, and my vision included merging with IIA, the Information Industry Association. I felt that information and software were going to converge and we had two associations, but only really needed one, one set of overheads, one board. So I worked very hard for a year to get the two associations to merge. I think the ADAPSO board was willing and it got to a point where we were meeting, I think it might have been at the Waldorf Hotel in New York City and we had simultaneous board meetings going on just as if it was a merger of Fortune 500 companies and their board voted against it. I felt like it would have been a nice legacy for me to have left behind because I thought it was the right thing to do but it didn't work, it failed.

The other big issue in those days that came up in professional services was the issue with Section 1706 of the Tax Code which defined the rules for an independent contractor and in the industry my companies and most of the ADAPSO companies had used full time employees so granted we were biased but if you looked at it objectively and you read the rules for what the IRS considered an independent contractor to be and then you looked at what companies that were using them were doing, it was pretty clear that they were in violation of the rules. So we tried to get the government to either change the rules so that it was an even playing field or

enforce the rules and of course they did neither and that might have been a mistake, I'm not sure, but it forced a lot of the companies that were doing independent contractor work to join another trade association. I think we would have been better if we could have convinced them to join ADAPSO. I think it would have been better for everybody.

Grad: What was the name of the other association?

Goldberg: NACCB, National Association of Computer Consulting Businesses or Brokers. I'm not sure. And that became a pretty strong association.

Grad: I gather that there was a great deal of conflict within ADAPSO during this period of time. Was it Section 1706 related or was that mostly afterward?

Goldberg: I don't think there was a lot of conflict among the professional services companies. I think there were issues within ADAPSO about what the role of the trade association should be. So, for example, if I remember correctly, the PC software guys wanted us to be litigious. They wanted to use ADAPSO to litigate things like piracy. The professional services guys wanted ADAPSO to be litigious, if that's the right phrase, on 1706. There were issues with immigration and I think there were schools of thought within the trade association that we really shouldn't be litigious, we shouldn't negotiate, we really should be a lobbying organization. It's my recollection that it was more that kind of stress and disagreement not so much over the 1706 issue. I don't think there was a lot of disagreement about the issue of 1706. The issue was should we be going after these other companies or should we, as a trade association, welcome everybody in and then try to negotiate within the association? I think that was more the issue.

Grad: In your first three, four, five, six years at ADAPSO, what value did it give to you?

Goldberg: ADAPSO was my MBA. It had a set of programs in the 1970s and early 1980s that were run by my peers and I spoke at some of them and I listened at most of them and the topics were all topics that were beneficial to an entrepreneur running a business. They ranged from compensation plans to sales and marketing programs to pricing. We shared enormous amounts of information with each other, not anticompetitive in any way, just really how do you run your business.

Grad: Were they educational?

Goldberg: Yes. Larry Schoenberg would speak, I would speak, Dave Campbell would speak, people whom I respected. The joke in my company used to be that they hated when I went to these meetings because I would always come back from an ADAPSO conference and change things because I had heard something or learned something or figured out a new way to do something and I would come back and say we've got to try this, we've got to go do that.

Grad: Even though you had a model that had been working well you felt that this was a significant addition?

Goldberg: It was a fabulous educational association.

Grad: It seems clear to me that it broadened your horizon and that between 1976 and the mid-1980s, you had a different view of what the whole business was like.

The Presidents Roundtable

Goldberg: And ADAPSO produced lasting friendships. Our roundtable helped me through lots of difficult business issues and personal issues.

Grad: Would you mention some of the names of the people in your roundtable?

Goldberg: Well, it's evolved. The original group was Bob Jones from Computer Dynamics, Dick Hampson who had a federal contracting business, Dave Campbell, Dave Eskra, John Maguire, Larry Welke, Larry Schoenberg.

Grad: Of those, how many are still in your roundtable today?

Goldberg: Well, Larry is still in it, Dave Campbell is still in it, I'm still in it, and that might be it. Alan Hufft from UCC was in it. It was a great. It's always been a great group. It's lasted 24 years and the group today is even better.

Grad: Do you meet twice a year now?

Goldberg: We meet twice a year. Rick Crandall, who used to be CEO of Comshare, is in it. Gideon Gartner, founder of the Gartner Group, is in it. Tanya Amochaev from QRS Systems and natural language is in it. She is one of the greatest gals in the business. Judy Hamilton, who ran Data Quest and Bob Cook are members.

Grad: What did the roundtable do for you?

Goldberg: Well, the roundtable was a place that you could go twice a year and talk about stuff that you could not talk to a board of directors about. Whether it was partnership issues, financial issues, strategy issues, should I sell, should I buy, it didn't matter. This was a group of trusted advisers that you could talk to about a divorce, you could talk about problems with a child or you could talk about how much to pay a VP of sales. It was unique, a very unique group, and obviously now we're at a different stage in our lives. I would say out of the 10 people in the

group there are probably only five of us that are still gainfully employed. So the issues are different and the conversations are different but I'm going to my next meeting in March.

Grad: It continues to be valuable to you?

Goldberg: Incredibly.

ADAPSO Revisited

Grad: Is there any connection with ADAPSO or, as it is now called, ITAA?

Goldberg: No, and it's actually been a source of irritation for me that I've never been put on their mailing list.

Grad: It doesn't send you anything?

Goldberg: I've also spoken to other past chairmen of ITAA. It's been remarkable to me that they would have no interest in guys that spent so much time and so much energy and had such affection for the association.

Grad: You were the President of ADAPSO. The name was changed to ITAA somewhere along the line there. Was that about that time that Luanne Johnson, Luanne James then, became the executive director after George DeBakey? .

Goldberg: It was a couple of years later. Luanne says I called her and asked her to do it. I don't remember that but it's probably true.

Grad: How long have you maintained your relationship with ADAPSO and what did you continue to do there?

Goldberg: I stayed involved for a while. I wasn't on the board but I would go to meetings and then I guess when I started to run Money Management Systems in 1989, I was commuting to Boston, and it was a software products company and I just didn't have the time. I also think whenever a new guy takes over he has no interest in the old guard and I was really a member of the old guard. It's an interesting dynamic with associations because you work your way up, you become chairman and then there's kind of no place for you to go because I wasn't going to take up a board seat, it was important for new guys and new blood, so I think everybody has this kind of dilemma. It's just a shame that they didn't reach out to guys like Bob Weissman, John Imlay, Rick Crandall. There were some amazing people that were chairmen of that association. Bob Weissman and I think almost all of them have kind of wandered away and at

any moment in time my guess is that if ITAA picked up the phone we would have all been there in a heartbeat.

Grad: By the early 1990s, you were not heavily involved in ADAPSO anymore?

Goldberg: Correct.

Money Management Systems

Grad: Now let's go back to your business activities. You sold AGS and then spent two years there under your contract and now that's over and what happens next?

Goldberg: I left in 1986. I bought a software products company from Ziff-Davis called Money Management Systems, through Bob Wallach, who used to be in ADAPSO. A lot of my business activities wound up through relationships that I developed at ADAPSO. Bob Wallach called me up saying that he had this company that Ziff-Davis is divesting, we should buy it. I bought it with a financial partner, a Wall Street firm. It was a bond trading software company. I commuted from New York to Waltham, Massachusetts, once a week for three years, and then sold the company in 1989.

Grad: What did Money Management Systems do?

Goldberg: It was a DEC (Digital Equipment Corp.), VMS operating system-based, bond trading software system.

Grad: That's why the investor was interested in it.

Goldberg: Yes.

Grad: Were they a user of that system?

Goldberg: No. He was a friend of mine from the Young Presidents Organization. I was in YPO as well.

Grad: When did you join YPO?

Goldberg: I joined YPO in 1981. You had to qualify before your 40th birthday, you had to join before your 44th birthday and they threw you out after your 50th birthday.

Grad: You were there for a period of time.

Goldberg: And they gave me a rocking chair with my initials on it which I still have. It was another great experience similar to ADAPSO but not as focused on technology and in fact when I talk to young entrepreneurs now I tell them they need something outside their companies like either one of those organizations.

Grad: Before we forget, please talk about your graduation in 1978.

Goldberg: I graduated from NYU at night - with honors. They had so many graduates that they selected somebody to go pick up the diploma on behalf of the graduating class and I was chosen to receive the hollow tube on behalf of my class in Washington Square Park which was really nice. It was a great experience for me. Yes, it's a nice story. My mother would have been happy.

Grad: You were a part-time night student and you were still selected to do that?

Goldberg: Yes, and then I got asked to go on the board of the Faculty of Arts and Sciences and so it's kind of amazing. Now, I'm giving money back to NYU. While I'm not on the board of the university, I am involved in all of the graduate and undergraduate programs in arts and sciences. And my wife, Mary Cirillo, and I just started a program for women in science and technology at NYU to try to encourage women to go into a science or a technology career. Mary Cirillo used to be the head of operations and technology for the global bank at Citicorp. She bought software from me and eventually married me. We got married in 1996.

Grad: Money Management Systems was a products business like those that had failed at SDA?

Goldberg: Yes.

Grad: What was different here?

Goldberg: I had a good product. I bought it out of Ziff-Davis. There was a big competitor in the business called Warrington. I believed that the VMS technology was far superior to the batch technology that Warrington had and we went around selling the product and we were pretty successful. In fact, if you think about it, it was an early ASP model because what we did was we would sometimes actually run the software as an application service provider. We ran bond trading software for banks that didn't want to bring the software in house on our DEC hardware and then when their bills would get too high they would buy a license to the product and put it on their computers so this is now in 1986, 1987, 1988. It's a model that everybody's using today so we were a little bit ahead of our time. I ran the company for three years, really got tired of commuting, and SunGard bought the company in 1989.

Grad: How much did they pay for it?

Goldberg: Twelve million dollars.

Grad: What did you pay for it?

Goldberg: A million dollars in cash and a million dollars in notes or something like that.

Grad: It was not a public company?

Goldberg: No, a private company.

Grad: What percentage of the company did you own?

Goldberg: Half.

Grad: The investor owned the other half.

Goldberg: I owned 40%, he owned 40%, and the employees owned 20%.

Grad: Was there a conflict situation or anything as far as making decisions?

Goldberg: Oh, no. It was great. He was a great partner. We're still friends. My partnerships have been very fortunate. I'm still friendly with the guys that I used to do business with.

Grad: You sold it to SunGard in 1989?

Goldberg: Yes and they didn't need me to run it. They took it into SunGard and they actually wound up buying Warrington subsequently and so I don't know what happened to the product but they own the business now.

Zeitech

Goldberg: I then decided that my 5-year non-compete agreement with Larry Schoenberg was up. It was five years from 1984. So I financed and became the chairman of Zeitech. I brought in a bunch of old SDA people to run it and we started an SDA clone.

Grad: Wasn't Larry Schoenberg upset about your taking some of these people from AGS?

Goldberg: Oh no. They were no longer working for him at that time. I didn't recruit anybody out of AGS. They had all moved on because what Larry did in 1986, he integrated SDA into AGS and that was the kiss of death and a lot of the people left and they were available, working for other companies. No, I wouldn't have poached them from him. Thank you for asking me that. So they were available from other companies. I started Zeitech and I financed it.

Grad: Where did your financing come from this time?

Goldberg: My checking account. At this point I had made enough money because of the sale of SDA and Money Management. I was successful enough so I put up the cash. People in the company also owned a piece of the company.

Grad: Can you say how much cash you put up?

Goldberg: I think in total it was a little over a million bucks and my guarantee on a loan at the bank and I only spent part time on it. It wasn't like no time but I wasn't full time. I had a CEO.

Grad: Who did you bring in as your CEO?

Goldberg: A guy named Mike Ornstein.

Grad: Where did you know him from?

Goldberg: He had worked for me at SDA.

Grad: Was Seth Hanover involved?

Goldberg: No, he was not involved in Zeitech. He was off doing other things. Zeitech started in New York City and it's the exact same model as SDA. The only difference was that independent contractors had become a reality and so Zeitech was largely employee based but did have some independent contractors. We tried as hard as we could to protect ourselves, yes.

Image Business Systems

Goldberg: But it wasn't a full time job for me, and in 1990 Dave Campbell asked me to look at a company because he was involved with IBM which owned 10% of Computer Task Group. IBM had invested in a company called Image Business Systems alongside Warburg Pincus and it

was an RS 6000 document management software system. I went and looked at it and the Warburg Pincus guys asked what should they do because the company was running out of money. After I looked at it I actually advised them to shut it and they said that they couldn't for various reasons.

Grad: The relationships with IBM?

Goldberg: Yes. IBM was a very large investor in Warburg Pincus. They said we really don't want to shut it and they asked me if I'd run it and I agreed.

Grad: Why did you agree if you thought it was something that should be closed?

Goldberg: I can't tell you why. It was a bad decision. But it was a challenge; it was interesting software. The company was a mess and it was even worse when I got there. For example, they had leased four Mercedes Benzes; they had just signed a lease for 40,000 square feet of office space with a letter of credit. It was really a mess and I spent the first two years trying to just get rid of people that didn't belong there, bring in new people, clean it up and the software didn't work, the customers were angry. It was hard, but it was exciting.

Grad: I'd like to talk about this more because you have Zeitech, as I gather, starting to grow successfully.

Goldberg: It was doing fabulously well but that's not what guys like me do.

Grad: You wanted something that would challenge you and Zeitech was successful but not a challenge. Is that fair statement?

Goldberg: Yes, that's absolutely fair, and to say that probably I need a little chaos in my life is probably also fair. I loved the challenge of it because I had never taken on anything that was broken. I had either started things and when I bought Money Management Systems it was doing okay. It did better after I bought it, but it wasn't broken at all. This company, IBS, was really broken and a year later almost everybody was gone. I had replaced the team. I can't get into the details of this but IBM led me to believe that this would be the product they were going to ride and in fact in, I think, 1993 we took the company public and before I did it I went to IBM and I told them that I'm going to take this company public. We owed IBM a lot of money and they were going to be taking a lot of money off the table in this IPO. And I said to them if this isn't going to be your product you've got to tell me now because they were our sole distributor.

Grad: This is pre-Gerstner at IBM?

Goldberg: This is pre-Gerstner. They had a mainframe-based imaging product and this was going to be their client/server-based imaging offering and it was a good product. It worked and it

had customers and it was in the marketplace. We sold a $2.8 million contract to Humana Insurance for claims processing and you could actually see this imaging software working in their claims center. It was good software by the time we were going public. In April of that year I spoke to IBM and I said don't let me go public if you're not going to back me because we're all going on this prospectus. And we went public. I don't remember the time frame but within six months IBM announced their own client/server-based imaging product. I don't believe it was intentional, I don't believe it was malice. I actually believe that it was in a different part of the company, and that the guy I spoke to just didn't know.

Grad: Their own product running on the RS 6000?

Goldberg: Yes, and what happened was that this one announcement put IBS out of business because every opportunity that we were looking at either IBM had brought us to the opportunity or we had brought IBM to the opportunity and every deal stopped. We did everything we could to cut the burn rate and try to rebuild the sales and distribution channel but to no avail and the company went out of business in late 1994.

Grad: How did you close it down?

Goldberg: The company just shut down. We notified our customers, notified our employees and just closed the doors. One of the employees took the software and the maintenance contracts which is often what happens; so the customers had support and the product wound up lasting for many years in a different form. It went to a company called Jemtech, which eventually got merged into a company called Scrittura, which just got bought last year by somebody else. But the product had legs and it lasted a long time.

Grad: They never die. Right?

Goldberg: They don't die. So I learned an awful lot from the experience about cutting expenses more quickly, about not putting your eggs in one distribution basket, about how things can happen at large companies. It was a stressful and difficult experience.

Grad: It seems that you represent in your experience that a number of software companies' relationships with IBM were very stressful and not necessarily successful. The joke has always been that the elephant doesn't really know where it is stepping.

Goldberg: Right. I lost a million bucks. It was economically stressful. I hated it. Yet as hard as it was and as disappointing, I never blamed anybody there because I never believed for a minute that there was knowledge or malice. I really think IBM was just so big that when this guy said we don't have a product he believed that he didn't have a product and in some lab somewhere they were building a product.

Other Activities

Grad: Were still active in Zeitech?

Goldberg: I was active in Zeitech. I also had started a consulting firm in the UK in 1997 actually called Lexstra PLC, a different model, low margin, low overhead, body shop, 100% independent contractors

Grad: Why did you do that?

Goldberg: I had a good partner, a guy named Larry Levine who I'd known for a lot of years. I love London. It wasn't a big investment. We've got more than our investment back. The company is still alive. He's got about 60 people on billing and I don't know what I'm going to do with it but it takes up zero time and it's worth some money.

In 1996 we sold Zeitech to Career Horizons which became somebody else which then became Modis, a large public professional services firm.

Grad: Which does a tremendous amount of work for SAP.

Goldberg: Yes. Modis is a big company so Zeitech got folded into Modis.

Grad: What kind of a price did you get for Zeitech?

Goldberg: I think at the end of the day it was $30 million.

Grad: Was that your single largest payday?

Goldberg: It was. Although if you looked at it in constant dollars, who knows? They were pretty close but yes, it was.

Grad: In spite of the loss of money at IBS, from a personal standpoint, by 1996 were you investing your money significantly?

Goldberg: I'm a very bad investor. I wish I had Larry Schoenberg's skill, but I'm very conservative and I'm a very bad investor. I don't make a lot of money in investing my money. I really don't. The only money I've ever made in my life has really been through my businesses.

Grad: Have you lost a lot of money investing?

Goldberg: I sometimes do. I'm not very good at it and the reason is that I don't pay attention to it. It's not an area of interest for me.

Grad: You started OpCenter in 1997?

Goldberg: Zeitech was gone and it was time to do something else. I started a venture fund called Hudson Ventures, because I decided I didn't want the travel and the headaches of being a CEO anymore, but I wanted to stay active and I thought a venture fund was a good way to do it. I decided that there was an opportunity in professional services still but I now had a non-compete with Career Horizons that prevented me from selling programming services so I financed a company that sold services to the glass house, non-programming data processing services. That company was called OpCenter, not as successful, not as good a market as I thought; it was a difficult market and that company was sold in 2003- 4 to a company called Enterprise Engineering. I'm still on the board of that company and I own stock in that company.

Grad: No big payday.

Hudson Venture Funds

Goldberg: No big payday at all. And Hudson Ventures is now in the process of raising our third venture fund.

Grad: Let's talk about Hudson Ventures for a bit and then a little bit about your personal life and then we'll close up here. You put some of your own money into Hudson Ventures Fund?

Goldberg: Yes. Our first fund was an SBIC. It was $14 million of investor money. Five million dollars of that came from my partner and me with 9 million dollars of it from friends and family.

Grad: Who was your partner?

Goldberg: Larry Howard, Dr. Lawrence Howard. Larry and I knew each other. We were on the board of a public software company together; we knew and liked each other, decided to invest together, discovered this SBIC format, thought it would be a good format, and started the venture fund.

Grad: Just the two of you?

Goldberg: Plus **f**riends and family, another 9 or 10 people. So we had $14M of private capital, $28M of government capital. We got licensed as an SBIC and it was a $42 million venture fund. We did some early stage stuff. It was a great time to start a venture fund because I didn't know anything about investing and as I said earlier I'm not a great investor so you would say why

would you do this? But I thought I was a pretty good judge of software and technology and that I could mentor. So I thought that those two skills would help and they did. From 1996 to 2000 the rising tide raised all ships and so we actually did pretty well. We weren't a superstar but we did pretty well. We learned on the job and had we started at a more difficult time we probably would have failed, but our mistakes were somewhat covered up. We had a couple of really good investments; we invested in webMethods in the A round. We put in a quarter of a million dollars, subsequently put in another $200,000 and took out $45 million.

Grad: That's a good payday.

Goldberg: Yes. So we had webMethods and we had a few other deals that we did that were pretty good. So the first fund did okay and I learned the business. In 2000 I brought in two new partners and we started a fund that was $40 million of private capital and $80 million of government capital.

Grad: Did you stay with the SBIC model?

Goldberg: Yes, and that fund is Hudson 2. It's now in its sixth year. It's going to wind up being a good fund especially for a vintage 2000 fund because that was a very harsh year. It was the worst possible time to start a fund, but I think at the end of the day it's going to be fine and we've just begun, as we speak, fundraising for Hudson 3 which we're targeting at 150 million dollars. But the SBA has shut down the SBIC program, so Hudson 3 is going to become a straight, private equity, early stage venture fund. We're going for the classic limited partnership investors.

Grad: What kinds of companies have you been investing in?

Goldberg: Well, it's interesting because, as you might expect, because of my background we're doing a fair amount of services investments. One of our investments in Hudson 2 is Bigfoot Interactive which is an e-mail marketing services company. I've got an investment in Marketing Technology Solutions which is a services company. I've got a company out in California called inQ which is a hybrid between software and services and then there are some classic software deals.

Grad: You've tended to stay with the software and technology side?

Goldberg: One hundred percent.

Grad: This has been a period of time when it has not been very favorable for those kinds of companies but you've done okay.

Goldberg: We're doing well.

Personal Activities

Grad: You've spent a lot of time I know for many years with various charities and so forth. Can you describe some of those?

Goldberg: Yes. I kind of felt that one of the things I tried to achieve in my life, and I didn't achieve it, but I thought balance was an important thing and so I didn't work weekends. Even in the early days of SDA I tried very hard to devote time to my family. I lived in New York and worked in New York so I didn't have to commute. I could put in a little extra time at the office during the week. I didn't take work home with me. I didn't work as hard as many of my competitors although obviously I worked hard and in 1976 I got involved with the Albert Einstein College of Medicine; I was involved for many years with the Hebrew University of Jerusalem and I've always had a number of charities that I've been heavily involved with and they've been focused on education and health care. And so that has evolved today and now I'm on the board of the Albert Einstein College of Medicine, I'm the past chairman of the Diabetes Research Institute where I've been involved for many years and I'm on the board, as I said earlier, of the Faculty of Arts and Sciences at NYU, I'm also on the board of something called The Governors Committee for Scholastic Achievement which gives scholarships to New York City high school kids. I'm on the board of Montefiore Hospital as well, less involved there but I am on the board.

Grad: You mentioned something about the Arbitrage Fund.

Goldberg: And I'm on the board of the Arbitrage Fund which is a public mutual fund that invests in arbitrage, merger arbitrage, but I'm a passive director there.

Grad: Your current family situation?

Goldberg: Mary Cirillo and I got married in 1998. She's wonderful. She had a great career. She's been on the board of several public companies. Today she's on the board of three public companies: Thompson; HCPI, which is a health care REIT company; and a company that just went public called DealerTrack. She's on the advisory board of the New York City Ballet. She's on the board and was past chairman of the Roundabout Theatre. She's as busy as I am in her world and we've got a wonderful life together.

Grad: Do you do a lot of traveling at this point?

Goldberg: No, since we're pretty busy. But we do some. We went to China this past year. We do some but it's hard to find the time.

Grad: Are you working half time at this point?

Goldberg: More than half time. I'd say 70% to 75% but that will go back to 100% when we raise our new funding.

Grad: If you get the money for the new fund, that's going to keep you pretty busy?

Goldberg: Yes.

Grad: Do you have any plans for retiring?

Goldberg: No.

Grad: Do you still enjoy working?

Goldberg: Well, I'll tell you what. This is kind of a very difficult moment in my life because next month I go on Medicare and the idea that I would simultaneously be applying for Medicare and starting a venture fund with a 10 year commitment is very schizophrenic and at times I think I'm nuts but the fact is I really love what I'm doing and I love working with young entrepreneurs. Part of what was fun about this past couple of days was just reminiscing about what it was like to be 27 and running a little company. Well, I'm dealing with that every day. I'm dealing with 30 year old, first time entrepreneurs and it's not the easiest business being a VC but that part of it is really wonderful. So I think as long as I enjoy it I'm going to keep doing it.

Grad: You play golf?

Goldberg: Yes and I'm not bad at it. I'm pretty good at it.

Grad: You're an avid golfer.

Goldberg: I love golf. I love the camaraderie and I love the social aspect of it.

Grad: Jay, thank you for sharing your recollections.

Goldberg: Thanks, Burt. This was fun.

[References: Selected materials from Jay Goldberg will be referenced here.]