Oral History of Bernard Goldsmith

Interviewed by:
William Aspray

Recorded: February 16, 2006
Mountain View, California

CHM Reference number: X3469.2006

Table of Contents

Bernard Goldsmith

Conducted by Software Business History Committee—Oral History Project

Abstract: Bernard Goldsmith (commonly known as Barry Goldsmith) reviews his personal background and he then describes how he entered the computer software business by going to work for RCA. He then started CGA and discusses the problems of financing and building the company in the late 1960s and early 1970s. He goes into various aspects of the professional services business and how customers were obtained and how programmers recruited. CGA entered the products business, but ran into serious complexities on financial reporting with the SEC. CGA was then taken private and sold in two parts: services and products. Goldsmith then started Updata, a company that did a large number of M & A deals over the years. He then began a series of investment funds that he has continued with until today.

William Aspray: I am William Aspray and I am interviewing Bernard (Barry) Goldsmith on February 16, 2006, at the Computer History Museum in Mountain View, California as part of the Software Business History Committee's Oral History Program. Barry, let's start by talking about your parents. What did they do for occupations?

Background and Education

Barry Goldsmith: Okay. My mother did not work, she was a housewife, and my father was an electrical engineer.

Aspray: Were there brothers and sisters?

Goldsmith: I have two siblings. I have an older brother and a younger sister.

Aspray: Did they go on to professional careers?

Goldsmith: My sister did. She is the editor of the Cornell Press for Labor Management and my brother worked in retailing for a while and then moved to the West Coast and worked in the restaurant business and assorted jobs like that.

Aspray: What year and where were you born?

Goldsmith: I was born in Newark, New Jersey in 1943.

Aspray: Were you a good student when you were growing up?

Goldsmith: I always thought I was, but the grades didn't necessarily reflect that. I was probably a B, C student.

Aspray: Were there particular topics that were of special interest to you?

Goldsmith: I'm not sure anything was really of interest in school but I did better in math than I did in English and I was not particularly good with verbal skills or writing.

Aspray: What were your interests as you were growing up?

Goldsmith: I was very active in sports and so I did a lot of that and I think probably just being a kid. I don't know that I had any particular interests *per se.*

Aspray: Did you have some sense of what you wanted to do when you grew up?

Goldsmith: No. I always thought about being a doctor. I always wanted to do something on my own. So those were thoughts that I had, but clearly I didn't think about computers and software because they didn't really exist, not in the world that I was in anyway.

Aspray: Did your parents have special concern for their children getting a good education and going on to college, that sort of thing?

Goldsmith: I would say so loosely. I went to a public high school for one year and did very poorly and then I went to a prep school for four years and then went on to college.

Aspray: Where did you go?

Goldsmith: I went to the Peddie School in Hightstown, NJ.

Aspray: When it came time for you to go away to college, were you interested in going off to college? Was this clearly what you wanted to do or did you give consideration to doing something else?

Goldsmith: I thought about not going to college and working, but clearly my path was to go to college. I had no idea what I would do if I were to work.

Aspray: How did you choose where to go?

Goldsmith: I chose Rutgers first. My father was a Rutgers graduate so clearly he was pushing me to go there. I got early acceptance and figured I could avoid the rest of the process.

Aspray: Did you have any idea what you wanted to major in?

Goldsmith: Business and I did major in business.

Aspray: Your parents were happy with that?

Goldsmith: As far as I know.

Aspray: Before leaving your early life, were there any particular people, either peers or teachers or other adults, who had a shaping influence on your life?

Goldsmith: Yes. I would say there was a math teacher at Peddie that I think pushed me harder than anybody had really pushed me before and I still remember him and I think that he shaped my thinking about how I could approach problems and that there could always be solutions if you worked hard enough on them. And then I had a lacrosse coach when I started playing lacrosse; he had an impact on me in terms of just being a confidence builder.

Aspray: When you got to college, did you take a wide range of courses to just sort of see what things were about or how did you approach your course selection?

Goldsmith: I tended to follow the business curriculum so I took accounting courses, economics courses and then the way I got involved with computers was purely luck as opposed to choice. I was sitting around at the fraternity house one afternoon getting ready to make the election for my next year of courses and soliciting everybody about what the best courses were, what the easiest courses were, and a gentleman by the name of Tom Patrick said to me, "Listen, here's a

course I just took, it's in the school of library science but it deals with computers and it is a great course, and I really enjoyed it." So, I signed up for that course and that was my first exposure to computers.

Aspray: Who taught that? Do you remember?

Goldsmith: Yes, a gentleman by the name of Don King and I don't know why I remember but he was in the school of library science.

Aspray: You did well in that course?

Goldsmith: I did.

Aspray: Did you take other courses in computing or did you use computers at all as part of your coursework as you were going through Rutgers?

Goldsmith: As you can imagine, in the 1960s there were not that many computers around but I did use some. I took some statistics courses and used the computer for some of those and actually had a work project. My brother worked at Bamberger's [Department Store] at the time so we did—let's see if I can remember this right--a Doolittle linear regression model to forecast short term sales between stores based on weather, based on historical sales on a daily basis, and put that on an IBM 1620 machine using I think it was SPS or something and it turned out to be fairly accurate, which was surprising to me. I don't know whether that was skill or luck. So we did some of that in college. We used the computers for some statistical stuff and that was on a 7010 and a 1620, I think.

Aspray: In college, were you a good student?

Goldsmith: Again I thought I was. My marks were probably in the B range. I was not an A student. It's funny because I tried to succeed. I went on to graduate school for a short period of time. I was in a program that you would do five years so you would get an undergraduate and a graduate degree and I never really did the fifth year. I did some graduate courses but started working right out of college. Later, I tried to go back and see whether I could use all the credits that I had to just get a master's degree. This was in the early 1980s and they told me 20 years was too long of a lapse, but I found out that I had taken an art course and gotten an A in it and ended up with a Henry Rutgers art scholarship or art scholar tag on my name. But no, I don't think I did particularly well. In the computer courses I did well and I liked them and enjoyed them

but I enjoyed college life. I played two sports. I played football and I played lacrosse and that occupied a lot of my time.

Aspray: What did you think about your career as you were finishing up your undergraduate years?

Goldsmith: The momentum was that you went and you got a job and there were jobs available so I just went through the placement agency at Rutgers, interviewed with a number of people. I wanted to go on and do programming. I really enjoyed that and that's what I wanted to do so I took three interviews, one with IBM, one with UNIVAC, and one with RCA, and got three offers. I wanted to work for IBM and did a second interview but they wanted to put me in the sales division for unit record equipment, which I did not want to do. I had done the plugboards and all of that stuff but I really wanted to do programming and so I decided between UNIVAC and RCA that I would take a job at RCA.

Aspray: What was the reason for that?

Goldsmith: I'm not sure why I didn't pick UNIVAC since it was interesting to me and it was a good interview. I can't remember why I picked RCA. The thing that surprised me is that somebody would pay me that much money. My starting salary was $5,280 a year.

Aspray: This was in 1966.

Goldsmith: 1966.

Aspray: Just to give us a metric, what was the typical liberal arts student who was graduating and starting their first job getting paid?

Going to Work for RCA

Goldsmith: I think it was in that range. It was in the $5,000 - $6,000 range. I know I went to school with RCA and there were some graduate students that were there that RCA was paying anywhere from $7,000 to $9,000 a year too so probably the undergraduate pay was in that $5,000 to $6,000 range.

Aspray: What facility did you go to at RCA?

Goldsmith: I went to Cherry Hill, NJ, the RCA program where they took college graduates who may or may not have had computer programming experience and they put them in a 10 week course where they taught you programming and operating systems, their computer line and a bunch of stuff, and basically you went away for 10 weeks and lived in a hotel down there.

Aspray: I'm going to leave it up to you to wander through your career at RCA. Tell me about the kinds of things you did, what you learned, what you liked doing, what you found easy, what you found hard and so on.

Goldsmith: Yes. It was a short career. I was there for virtually two years and I loved it. You'd get up at 2 o'clock in the morning to get machine time because that was when it was available. You'd get a call at 12 o'clock midnight saying that the machines were up so if you want to come on down for an hour until the next guys come in you can come. So you'd throw on clothes and you'd head down and then you'd work and then you'd come back at 4 in the morning and try to pore through your dumps and find out what was working and what was not working. The work I did was pretty much technical. It was either making sure the systems were running. It was doing a lot of operating system debugging. I worked a lot on two areas. One was in the emulation area helping to debug the software part of the emulator and then I worked in the sort area. They copied the IBM specs and they were trying to get their sort program to work the same as the IBM spec did so I worked a lot on the sort program as well.

Aspray: What was your interaction with the clients?

Goldsmith: Most of the interaction was with the technical people within the clients particularly at Xerox where we had our own room so there were some RCA people there and you dealt more with operational people. I was not doing any applications programming at that time. It was all either developing utilities or keeping the machines running and the software running.

Aspray: What did you like doing most and what did you like doing least?

Goldsmith: I don't know that I liked anything least at that time. The thing I loved to do more than anything was to debug software programs. I'd much rather debug somebody else's software than write my own. I always thought it was tedious to sit there at a keypunch machine and bang away and match the columns and do all the things you had to do, but I loved learning and it was always fascinating to me that I could make this machine do things.

Aspray: Why was your career there only two years?

Goldsmith: Because I left to start a company, which was, as I said earlier, something I always wanted to do. I actually tried my first time to start a company in-, if I can get my years together here, in 1967 and couldn't raise the money to do it. I tried it with two other guys that I knew from RCA that were technicians.

Aspray: What were you going to do in this business?

Goldsmith: The way we presented ourselves to the few money sources we talked to was that we were very good technicians and that we were going to open our doors and do programming for people.

Aspray: Why didn't this work?

Goldsmith: They turned us down because we had no sales expertise at all. We were really just technical guys with very little business experience and they were not prepared to invest in us at that time.

Aspray: Where did you go for money?

Goldsmith: Just to a couple of Wall Street firms. Computers were very hot at that time in the late 1960s. Jumping ahead a little, the initial name of the company we had was Computer Consultant Corporation, CCC, and we actually had business cards printed and everything but we could not get that name through the State of New York because there were so many companies trying to incorporate with the word 'computer' in their name that the state controller or whoever it was said we're not going to incorporate any more names with computers in them. So we ended up having to go back and change our name but it was a very hot time in the market so it was not hard to get people to talk to. It was hard for us at that time to get the money, but it was not hard to get people to talk to.

Aspray: Let's not talk about the failed venture but the one that actually led to your starting the company.

Starting CGA

Goldsmith: Okay. As best as I can remember, in the winter, January, February time frame of 1968, there were two sales guys at RCA who came to me and said they were thinking of starting a company, did I want to join them? And I said well, if I could be an equal partner I would join them and so we worked from January until May really doing two jobs. In the daytime I worked at

RCA doing all sorts of stuff. I was back in Newark at that time, had come back from Rochester, NY, and in the nighttime we'd get together and plan this new business.

Aspray: Who were the other principals?

Goldsmith: There were two gentleman, one by the name of Harry Ault and the other John Croxton. That's where the name CGA came from.

Aspray: What was going to be the division of labor between the three of you?

Goldsmith: Basically, I was the technical person and they were going to go get the business and be the salespeople. They had contacts with companies to whom they had sold RCA equipment and they felt that they could go to those people and say, "Listen, we'll do programs for you, we'll do systems, we'll do what you need. "

Aspray: What happened as you went out and tried to put this company together?

Goldsmith: Through a contact that my father put me in touch with, we were able to raise $70,000 from a gentleman by the name of Ben Rothberg

Aspray: Was he in this business?

Goldsmith: No. As best as I can remember, and I don't know whether it's urban legend or whatever, he or his family had imported Bayer aspirin to the United States so he was a fairly wealthy person and he was just an investor.

Aspray: How did you find him?

Goldsmith: Through an acquaintance of my father's who introduced us to somebody on Wall Street, a brokerage firm by the name of Sterling Grace, and I guess he was a client of theirs.

Aspray: Was it fairly well understood what the terms would be for investors in this industry? Did you have a model that you followed in doing so?

Goldsmith: No. I think it was whatever deal you could get structured you would take. There were not a lot of people that were willing to throw money at us. There was not an organized

venture community at all so it was really more in terms of where you could find somebody who was willing to do it and so this initial money came in as debt and the understanding with the underwriter was that this was a hot IPO market, he would then take us public, pay this gentleman back and the underwriter would make his money through the public offering and then that's how we would raise money to start.

Aspray: Did it go forward as you expected?

Goldsmith: Nothing ever goes forward as you expect, I will tell you that, but it did go forward. We did incorporate and we started on May 6, 1968.

Aspray: What were the problems?

Goldsmith: Things never start as quickly as you want. People who say they're going to work with you don't really work with you. Business started to trickle in very slowly and so I was doing programming and stuff like that. The other two guys, Harry and John, were out trying to get business. We did probably hire a couple of people in that first year so maybe we got up to eight or 10 people. I can't remember what our revenue was, maybe $250,000 for the first year of business. During that year I got into a conflict with the other two partners. They wanted to pursue additional financing resources and I felt obligated to the resources that we had so we decided, on not such a friendly basis, to split ways and they left in May of 1969.

Aspray: You kept the company.

Goldsmith: I kept the company.

Aspray: This leaves you without a marketing team. Right?

Goldsmith: Right.

Aspray: What did you do about that?

Goldsmith: Well, you change your shirt and put on a lot of deodorant and you go out and you start to sell. Because we came out of RCA and RCA was still trying to sell computers, we knew some of the people fairly well in the New York metropolitan area where we were located. We had probably four or five clients at the time and I think we may have had 12 people. I'm trying to

think. I called everybody together the next day after the split and I think there were maybe 10 or 12 people.

Aspray: I will pursue in a minute more about the company but what happened to those two men who left?

Goldsmith: They left and started another company called Auxco Computer and I think they started sometime in the early 1970s and they did very well with that company and that company grew and there were also some management changes in that company as it progressed but it ended up being sold to Cincinnati Bell sometime in the 1980s, I'm not sure of the time frame. They were a competitor of ours.

Aspray: When you were putting together your contact list for potential clients, did you have in mind particular kinds of companies or industries to go to?

Goldsmith: No. You say "Contact List"-- You make it sound so organized. I was 25 years old then, had never sold anything really before so it's not really a contact list. You're trying to figure out who you can go to, who you know. So the first thing we did was we went to the existing clients and explained what happened because they had come in through the sales efforts of John and Harry and we explained that and really tried to do what we could to make sure we kept them happy as clients. I think maybe there were four or five clients, American Cyanamid, there was a company called Data, Revlon maybe. I'm trying to think of who some of the clients were. And then we just started through word of mouth, knocking on doors. I later started to hire some salespeople but I don't think I hired the first salesperson until maybe 1971.

Aspray: Were you trying to sell particular kinds of programming services or was it "I'm a programmer, I'll do whatever you have to be done"?

Goldsmith: The latter. Most of the work was programming at that time. People were just getting computers. They weren't looking for large systems. For American Cyanamid we did an accounts receivable system which, since everything was batch at that time, would probably consist of four or five programs and a bunch of reports. We were actually doing something very sophisticated for this company called Data. They produced a catalog of electrical components and in this catalog which was as thick as a telephone book there were all of these numbers and prices and they were using an RCA, I think it was called a, Video Comp which was a machine that would take digital input off of a tape, and it was a photocomposition machine and turn it into photo comp pages that could be printed. So we were working on that program in terms of trying to figure out all the different inputs and the way to display them and pagination issues and columns and all sorts of things which at that time was a fairly sophisticated program.

Aspray: You were still doing a lot of the programming yourself?

Goldsmith: Yes. I started doing less and less of it since I was doing whatever back office issues there were, doing the manual payroll and trying to get bills out because there was no accounting department *per se* and then trying to figure out what to do to get additional revenue and what needed to get done to start to grow a company in terms of what resources I needed to help me and clearly I needed a sales resource of some sort.

Aspray: You had hired a couple of other programmers to work with you though?

Goldsmith: Yes. We had hired a couple guys out of RCA and then others just by hiring through employment agencies.

Aspray: Did you have any problem with RCA either because you were going after their customers or you were hiring away their employees? What was the relationship if any?

Goldsmith: My sense is we were a nit to them and they liked having us support their customers because clearly if they had an RCA machine and the more applications they put on it the happier the customers were, the happier RCA was, and maybe it would get bigger machine sales out of it so I don't ever remember an issue with RCA at all.

Aspray: Were there any things that you knew that you couldn't do because of your prior relationship with RCA?

Goldsmith: No. We had no agreements and no non-competes or anything like that. It didn't exist.

Financing CGA

Aspray: Tell me about how the business grew.

Goldsmith: Slowly. Part of what happened during this early period around 1969 was that as part of the breakup with the other founders, there was now an outside investor who owned a good share of the company. Because he helped me in the split to get the company for myself and not the other two guys we did successfully go public. We went public in May of 1969, and we raised, I believe, $600,000: $300,000 of debt and $300,000 of equity.

Aspray: How hard was it to arrange this?

Goldsmith: Well, the IPO so to speak had already been scheduled since that was part of the initial agreement to put the $70,000 in. The market was still hot at that time. It had not yet cooled off though it was starting to cool off. I can remember sitting in the office trying to figure out who was going to be buying stock and not buying stock so it was not an easy underwriting to get done but it did get done and that cash that came in probably kept us from failing during those next couple years.

Aspray: Who did the IPO for you?

Goldsmith: A company called Sterling Grace down at 39 Broadway.

Aspray: They were in this business?

Goldsmith: Yes, and they were a brokerage firm.

Aspray: Were you an attractive customer for them?

Goldsmith: No, I don't think so. The guy who sponsored us was really a financial engineer and there were some things that he did with some of the money we raised that were not in the computer industry that created a major defocus for us for a period of time but no, the stock came out at 2-1/2, went to 3, mainly so my neighbor could buy stock, then went down to a dollar and he bugged me for 10 years why it never got above a dollar when he paid $3 for it. But no, the stock never went anywhere. We were not attractive to any investors *per se* though in the long run they ended up doing well, but we did have this money in the company and then we ended up doing some acquisitions in that period of time of companies that had nothing to do with technology at all. One was a rubber extruding company and another was a management educational consulting company

Aspray: Why would you take over these companies?

Goldsmith: Because I really didn't know what I was doing. I called it my Jimmy Ling complex. That's when conglomerates were big and there was LTV and ITT, where everybody was buying everybody. So from a business perspective it seemed like the right thing to do. I didn't know where the computer industry was going. I was not clairvoyant enough. I was more passionate I think about business than I was about the computer programming aspect of it so it was a great education and it was not too expensive fortunately.

Aspray: Did any of them work out for you?

Goldsmith: No.

Aspray: Did they just go under eventually? Did you divest yourself of them?

Goldsmith: Well, eventually I got rid of this financial person. We parted ways and as part of that parting for me to get all of the company back I gave him these other businesses that we had acquired so then I was now back into the computer business full time and just focused on what I was doing. This was 1972, I believe.

CGA During the Early to Mid 1970s

Aspray: Who were your important early customers?

Goldsmith: Revlon was a good customer. New York Telephone was a very good customer. American Cyanamid was a customer. Those are the ones that I can think of that were the very large customers early on.

Aspray: What was it like to do this on a daily basis? What was your life like in the early years of the company?

Goldsmith: My life was consumed by the company; I was definitely consumed. I would get to work very early in the morning because I was now running this company. We were probably maybe up to 25 or 30 people and so I would be doing that and then I'd be doing some programming, generating revenue myself, hiring some people, hiring some salespeople, trying to run the projects that were going on, so it was pretty much all consuming.

Aspray: What were the hardest things in these early years for you?

Goldsmith: People talk about entrepreneurs not being afraid to take risks, but I didn't view it as risky. I left a job that was paying $5,000 a year. I think I was actually getting more when we went public, gained more money, so I was never afraid of failing for myself. But you worried where the next business was coming from early on. Every day was a new experience. You tried to grow the business but it grew in such small increments that you never felt it was growing so you wondered at times whether you were making progress. During the early stages of doing everything yourself, they were just all consuming. You didn't have time to think about other things. And then

you finally reached the point where you got big enough where you could support bringing in a salesperson and that would help it grow a little larger, then you'd bring in maybe a senior technical person who could manage some stuff so you didn't have to manage it as much, which would allow you to grow a little more, but it happened in such small increments you just didn't see it.

Aspray: You liked working for yourself though.

Goldsmith: Yes, very much so.

Aspray: I noticed in looking at your annual reports that after a while the insurance industry became a big part of your business. How did that happen?

Goldsmith: In around 1975 when, as I said, we were probably about 30 or 40 people, we got an opportunity at Blue Cross and Blue Shield of New York. We bid on some projects and won them and for us those were large projects. The first one started out to be a $300,000 or $400,000 project where we were doing some claims processing software. We did a very good job for them and continued to get more work from them. We then developed a complete dental claims processing system that was probably worth over a million dollars to us in revenues, which was a very big project at that period of time and that's one that I actually worked on. There was a gentleman whom I had hired some time around 1973 or 1974. His name was Larry Robinson who was a salesperson, but he and I were really partners and really treated ourselves that way and became equal partners as we moved forward at least in terms of running the business. And so I went to work at Blue Cross almost full time and Larry ended up really running the business outside of the Blue Cross business. Blue Cross was already more than half of our business, but I was in there trying to get more business and more projects and actually developing and coding and doing things on the technical side while Larry was trying to do the other parts of the business. That got started in probably in 1974 or 1975.

Aspray: Are there things you want to talk about from those early years that we haven't covered yet?

Goldsmith: No. It was such an infant industry. I can remember going to parties and people asked what you did and you'd say software, and they didn't know what it was.

Acquisitions

Aspray: By the late 1970s you were starting to grow, mature as an organization. Why don't you talk about your growth mode during this period?

Goldsmith: Okay. Well, as we were just talking, we got to the point where the mass was such that you could kind of pick your head up out of the muck of trying to survive and run the business on a day to day basis and started to think about managing it and growing it. We started to think about where we wanted to go as opposed to where we were that night when you closed the doors and went home. We started to do some geographical expansion. We also were thinking about the government business. The government business at that time was pretty good and so we purchased a company in Arlington, Virginia, called PsiTran. We did that sometime around 1977 or 1978. Also at that time, and this goes back to the fact that I have always had an interest in software products and getting leverage in the business and never really had the time to do that. We did one product which was an RCA utility in the early 1970s that we did okay with and so we were also at that time starting to play with software products. I hooked up with a gentleman in the Washington area by the name of Bill Witzel, and he and I worked on a strategy for getting into the software products business. There were a lot of individuals who had developed utility-type products for companies, but nobody really knew what to do with these products. They were really not software companies; they didn't have distribution mechanisms. So our thought was that we would buy these products, assemble them and create a software company. And so we bought this company. Witzel was in Washington and we got to the Washington market. We ended up buying PsiTran which also had a product and a services part so we took the services part and put that into our services business, and then took the product part and used that as a base to start a products company. We acquired some other products from guys in the Washington area that they had developed on their own for either commercial or government clients and opened an office in Rockville, Maryland, in the 1976-1977 time frame to start the software products business.

Aspray: Tell me about PsiTran. How did you select them? Did you consider other companies? What due diligence did you do before you purchased this company?

Goldsmith: Okay. It was opportunistically driven. This gentleman that I referred to, Bill Witzel, knew the guy who was running the company, Chuck Sheridan. They were doing okay but not great. He wanted to become part of a larger company, wanted to sell. So I met with Chuck, did whatever due diligence I knew to do at the time which was nowhere near enough to do but we bought the company. It was not a lot of money. I think it was a million dollars, maybe $1.2M if I remember right, and they had some government contracts so we ended up buying that business and working the government contracts.

Aspray: How did you finance the purchase?

Goldsmith: We had accumulated cash. We were doing well as a company. We were a public company. We had this money that we had raised initially. We had more earnings per share than the value of a share so we would earn 60 or 70 cents a share in earnings and the stock would be trading at 12 cents, 15 cents. Nobody cared about us and we didn't do anything to change that probably because we didn't know what to do and we didn't really care and there was no float. There may have been 40 or 50 shareholders. It was not a well-done public offering, but it served us in that nobody really bothered us during the time. We'd have annual shareholder meetings that one or two people would show up for. We had them in our conference room and one woman came every year who was a real estate broker and she was saying, "Listen, when you grow let me show you office space." And that was her contribution and those were the annual meetings. So being public at that time was not really a burden.

Differences Between Services and Products

Aspray: What's the difference between running a service company and running a products company?

Goldsmith: There's a lot of difference. A service company is really in matching and balancing supply and demand and they never seemed to be in equal flow so either you're trying to get business to keep people busy or you're trying to hire people to satisfy the demand that you've been able to generate from the sales side. From the product side, you need to first find a product that you think is going to be wanted by a lot of people. Then you need to develop that product. You need to develop the product so it works, which means you need to have an infrastructure for developing the product and testing it. Then when the product is done you need to convey what the product does to people, which means you need an infrastructure for documenting the product, for supporting it with customer services and then you need a sales force.

The original concept for one of the products we bought was from a guy by the name of Jeff Bergman who went on to found a company called Landmark which was a successful software company. He had a product called Pacmaster, which was a product that would tell you how efficiently your disc space was organized for ISAM files. We had at that time probably eight or 10 salesmen calling on companies that used computers to see if they needed people. So we'd say and by the way, you've got the computers, you probably don't even know if they're running efficiently or not, why don't you take a look at some of our software products? It turned out that the person who sells a service can't really sell a product, it's totally different. The service guy would go in there and say, "How would you like to look at Pacmaster?" And they'd say, "What does it do?" And the services salesman would say, " I don't know but would you like to go to lunch," because they were really a relationship builder where you really needed a technical

person that could talk about what the product did. We learned that lesson pretty quickly in that if the guy liked selling the product he would sell the product and not sell services; if he was selling services he was really unable to sell the product.

So we silo'd the businesses. We moved. That's when we opened up the Rockville office. We took the software stuff out of PsiTran, created a separate company called CGA Software Products and put the products that we had there which were the PsiTran Products, including this Pacmaster product. We also had an English language query product called Inquiry/IMS which we sold to Werner Frank at Informatics at some point in time and we started to create a software products division with its own salespeople.

Aspray: Did they relate to one another? Did they do business together?

Goldsmith: No. We really silo'd them and that decision held true through the whole life of the company. The company would be together as a single company but from a business standpoint we ran them as separate silos. When we got larger they had their own presidents, they had their own financial officers. There was really very little overlap. We would share information about products. We chose to market our products as opposed to market the company so that we were really not marketing CGA *per se*. We would market what our software products were or our services.

CGA Customers

Aspray: I didn't ask you earlier. How did you come to the name CGA?

Goldsmith: Well, when we started the company it was this CCC, Computer Consultants Corporation. Then we got this call from our lawyer saying that name doesn't work, you can't do it and you can't have the word 'computer' in your name so what are you going to do now? So CGA is Croxton, Goldsmith, Ault That's where it came from and it started as I think CGA Computer Associates and then we changed it to CGA Associates or CGA Computer. Nobody ever liked the name but we didn't know how to get rid of it so we kind of modified it at times but we never changed it.

Aspray: It stayed for the life of the company.

Goldsmith: Correct.

Aspray: You talked earlier about having built a utility product for an RCA facility. Was most of your business with RCA operations?

Goldsmith: Early on it was. American Cyanamid was RCA, Data was RCA, New York Telephone was RCA; our first IBM client was Revlon.

Aspray: Did that pose technical difficulties for you?

Goldsmith: Not really. Remember the RCA philosophy was we want our software to be just like IBM's. They didn't quite do it right and it got blown a little. But while some of the operating system interfaces were different, the commercial programs that we were developing used the same language; COBOL and RPG and Assembler were virtually the same for RCA and IBM so that while we had some initial problem breaking into the IBM market because we were viewed as RCA people we were eventually just kind of building up a client base of IBM users and able to get into that market. So we had a little problem doing that but overcame that pretty early in the 1970s.

Aspray: Were some of your early big customers important to you either in helping you with leads or showing other potential customers that you could do a job? You had Revlon. Did Revlon give you help with other customers? Did the fact that you had Revlon as a customer lead you to somebody else who saw what you were doing for them?

Goldsmith: Yes, clearly it's a reference business. You publish who your clients are and the CIOs know each other so there was some of that. The guy at Revlon, Bill Ruckert, helped us a lot. We actually developed a project control system for him that we ended up marketing and using to control our own product development as well. That was an IBM based system. So Revlon helped us a lot in gaining IBM credibility. The work that we did at New York Telephone helped us to get into Bell Labs because we understood some of the language of that application. Domain knowledge always helps when you're talking to people in that niche and so to the extent that we could parlay that we did.

Aspray: What about Blue Cross?

Goldsmith: That clearly helped us. That really fueled our geographic expansion after we did these systems for Blue Cross of New York. They then introduced us to all the Blues around the country because they wanted to sell the system to get the money for the software. We wanted to do it because we could get very large and profitable implementation business. So they introduced us and we sold the systems to GHI, which was Blue Cross of Washington. We sold it to Blue Cross of Chicago, Blue Cross of Southern California, Blue Cross of Indiana, Blue Cross

of South Carolina, a number of Blue Crosses. First of all, what happened is we would go with Blue Cross of New York people and meet the management, which helped us and gave us credibility already. Then we would make a pitch on the software that we had developed and how it could work in their environment. It served as a differentiator for us to get into those clients.

Aspray: Was there an advantage to Blue Cross of New York for you to have other Blue Cross clients?

Goldsmith: It was an advantage. One is they got some money for each sale so it served to reduce the budget of the CIO who obviously felt good about that. It was also I think probably good for them in the Blues environment that they had initiated the development of systems that other Blues were buying at that time and it may even still exist. It was the BCA, Blue Cross of America, association that tied them all together and so that they would get visibility there and that was a positive for them and a positive for us.

Geographic Expansion

Aspray: Why don't you talk a bit more about your expansion geographically?

Goldsmith: Okay. In the services business we had a model. We looked at buying a number of companies and could never convince ourselves that they were worth what they thought they were worth even though if we were selling and we think we were worth that much money we could never get anyone to pay that price. So the model was, for example in Chicago, we would get an assignment at Blue Cross of Chicago so we would go there and we would hire people. So now we had a base of business. We had a one or two suite office. We would then try to find out from the guys at Blue Cross who were the best salespeople who called on them and we would hire those salespeople to help start our office in that town. So our model was to get a client in the town, find out from that client who the best sales guys were, hire those sales guys who came from competitors so now we had access to people and other clients, and we would start that way. With that model we would get break even in, on a month to month basis, within 12 months and cumulative break even in 18 months. So you just couldn't justify an acquisition when you could grow that fast and they got to be pretty good-sized branches, $8M, $10M, $12 million branches.

Aspray: Was it always Blue Cross that was your lead into the city or sometimes was it something else?

Goldsmith: I would say Blue Cross was a major factor. I'm trying to think. In Baltimore it was not Blue Cross because we had PsiTran, which was in the government business and which was

not doing that well and so we didn't know how to fix it from a government perspective so we turned it into a commercial business. But we were in that market so we hired some people. So that was not a Blue Cross one though we ended up doing work with Blue Cross there but Chicago was clearly Blue Cross, Denver and Dallas were Blue Cross. So yes, Blue Cross was a big help.

Aspray: Talk about growth and how you managed it, what your expectations were.

Goldsmith: Okay. From the services side, we haven't talked about the software side at all in terms of how we grew that, but from the services side, the market was growing. It became a good business climate. We were coming out of the doldrums of the 1970s and stagflation and all those things and people were using computers to really differentiate themselves and automate parts that had not been automated before; they were coming out of the back office into the front office. You had technical things happening that allowed computers to become much more prolific in organizations. You had online systems with CICS and you had databases. So there were a number of tools that allowed you to really do effective high ROI applications in companies that you couldn't do before. That was creating a lot of demand and we were satisfying that demand as best as we could. We were growing in the areas that we were in, New Jersey and New York, and then we started to grow in all these geographic areas and we built a management structure that was very good. Each of our branch managers ran it as though it was their own business. They had their own P&Ls. We had a fairly rigorous reporting system so that you had a one-page metric of how the business did. On every Friday afternoon you'd get a flash report of who was on billing, who was off billing, what the revenue was on a monthly basis. I could tell how you did against your budget, if you missed your budget or you missed your projection did you miss it because your rates were down, your beach was down, you didn't have enough people. We had the business well honed from a financial metric standpoint and we had very good managers; that's what allowed us to grow so quickly once we got that model together in the late 1970s.

Recruiting Managers and Employees

Aspray: How did you choose a branch manager?

Goldsmith: How do you hire good people? You get lucky and then you use your skills. Again, because of the way we started, a branch manager would be a selling manager so that we never hired somebody who was not responsible for contributing to the business and you could see whether they can contribute or not. We hired a guy in Chicago by the name of Rich Early. He was probably our third iteration of the hire, the other two did not make it, and he was very successful as a sales guy and then helped grow the business and then became a branch manager there. We did the same thing in Dallas with a guy out of EDS, Mike Shermer. We were able to get very good people who believed in our culture and we had the management systems

in place to support them to allow them to focus on what it was that they had to do to do the business and not worry about the back office so that we had sales oriented branch managers. We had a very good CFO. The stuff that we did from a time-accounting standpoint actually got sold to a company called CompuTron, which ended up marketing it. We had this thing running on an IBM Series 1. So we were well automated and well disciplined from a financial standpoint.

Aspray: You used the word 'culture' just a moment ago. Do you want to talk about the company's culture and how it differed say from perhaps other competitors?

Goldsmith: Yes. I like to think we had a very strong culture. We felt that we were the best at what we did, that the people we hired were the best, as you alluded to it earlier. We often talked about the metrics, that we would hire one or two out of 100 people that we interviewed, that we were very, very selective and that when you became part of CGA you became a part of a special group and we felt that way. We treated ourselves that way, our clients treated us that way for a long period of time and so our culture was that the clients came first, you did what you had to do to get business done and you focused on being the best that you could be at what you did and that held true. Everybody was committed to this business. I don't want to tell you that people put business before family because you don't do that, but you make these priority choices on a day to day and to the extent that people could they chose to contribute to CGA and its growth and that was true whether you were a salesperson, whether you were a recruiter trying to find people or whether you were a technical person out trying to get a job done.

Aspray: Looking at this from the perspective of the job applicant, what would the job applicant find attractive about your company and how would they choose to come to you rather than go to another small firm or to a big firm?

Goldsmith: As I said earlier on, one of the things that we did is we put each of our applicants through some pretty significant testing so our interview process was pretty elaborate and you had to go through three levels of interviewing. It wasn't like the competition where they interview and if you looked presentable and you sounded good they hired you. If you got selected by CGA, that felt good and it'd be almost like a negative sell: I don't know if you can make it here, we'll have to see how you make out on the tests, we'll have to see how you make out being interviewed and so that if you got selected you felt so good about it that you would want to make that choice. You were one of the chosen few, so to speak.

Aspray: Was your compensation model better than other people's?

Goldsmith: No.

Aspray: You were just sort of at market rate?

Goldsmith: Correct. You couldn't pay submarket because you have to put it in the right context, and the context is it matters what you get paid.

Aspray: Was there a type of person who would much prefer to work for a small firm rather than to go to work for say a big computer company or in a big other market sector?

Goldsmith: Yes. Early on we would often hear that CGA is a consulting company, it's small and I've got benefits where I am, I've got security at Manufacturers Hanover Trust so I'm going to stay there. But then the banks started laying off people in the late 1970s and early 1980s and these wholesale layoffs changed the feeling to that there wasn't the security of large corporate America anymore. That helped our recruiting process to be able to get people who had been with a company for 15 years to get them to leave, bring that experience, bring that domain knowledge and join us. So while we did get that objection early on, it lessened once corporate America started looking at their bottom lines.

Aspray: Did you mostly hire at the beginning level or did you hire at all levels?

Goldsmith: It would be rare for us to hire an inexperienced person. While we educated our people and had training sessions at night and over weekends, we would not ask our client to educate the people at least in the technical skills. So we would hire people who were experienced, probably an average of five or six years' experience.

Aspray: What about the person who might be a second line manager who had 15 years of experience? Did you hire those people from outside or did you try mostly to do it through promotion from within?

Goldsmith: The technical managers we hired from within. We had a technical structure where you would start out as being your own person and then you would start being responsible for people on the account, and then next you would be responsible for some people on other accounts, and then eventually you'd get promoted so that you'd become a non billable which was always the holy grail for a technical person, to get off billing and not have to fill out a time sheet for billing, so we did that internally. For branch managers and salespeople, we did hire outside people with experience. We had limited success turning technicians into salespeople.

Aspray: What was the problem?

Goldsmith: The problem is that they were technicians, they were not salespeople. That was the problem, and the twain doesn't meet often. Occasionally we were successful but not that often.

Aspray: What kinds of culture problems did you have hiring people who were already experienced, who'd been in another kind of company, maybe a large company?

Goldsmith: Again most of them were technically oriented so they were more focused on their technical skills and doing the job so that I would say from a cultural standpoint they probably felt better about themselves being viewed as a consultant to an organization, being treated like a programmer in a company, so that I would say that it was probably a positive transition and it didn't create issues for us.

Changing the Services Applications

Aspray: Yesterday in the general discussion that we had, there was talk about how the movement from back office applications to front office applications gave new kinds of opportunities for companies like yours. Can you talk about that?

Goldsmith: Yes. What it basically did is create significantly more demand. All of a sudden all these tools had come out from IBM and from a bunch of other software providers that allowed you to take the power of computing to a desktop with claims processing systems, with sales systems, with marketing systems, so that departments started to spend their budgets on automating to make themselves more efficient which created more demand. So we were now dealing not only with the CIO or the technical organizations but we were dealing with claims processing organizations, the business parts of companies as well. And that opened up more budget, opened up larger systems so products like CICS became very important for us to be able to have those skills to implement some of these systems.

Aspray: Somebody suggested yesterday that there was more opportunity for greater margins on front office applications than back office. Was that your experience?

Goldsmith: Early on I believe that was true because people were paying for a business solution, so that they would hire you to come in and do that solution and the value added was higher. As the business continued to commoditize and it became more of hiring a commodity as opposed to hiring a value added solution then that became less true and the margins started to compress. That created a lot of companies trying to get domain knowledge so that they could offer domain knowledge and value added to get their margins back up but it did create an issue.

Aspray: Let me go back for a minute. I meant to ask you another question about growth and let me ask it now. How did you face this issue of whether you're going to move into a new market or not? I know that in certain cases it was that you had an opportunity, for example introductions through Blue Cross to somebody, but what about your sense of your ability to expand and control what was going on? How did you handle those kinds of management issues?

Goldsmith: I'd like to say it simplistically that we had a very good back office and so we had good financial controls. We always made money. From the point of time when we finally became profitable, we always focused on the bottom line and had very good financial discipline so I think that contributed a lot to it. Datamation had a map that they put out showing the concentration of IBM computers and you could see the red points. You wanted to be in the red cities and that was our goal. We had this map on the wall and we were in New York and we wanted to be in the red cities. We wanted to be in Boston and we wanted to be in Chicago and Dallas and all these cities that were red and that's basically how we did it. So we had the confidence that we could do it, we had the help of some clients like Blue Cross and then we had management bandwidth. As we grew we hired good people below us to be able to go and expand into these cities. So it became, I don't want to say cookie cutter because nothing's a cookie cutter, they're always different, but at least we had a model that gave us confidence that we would succeed and I cannot think of one city that we went after and started that we did not succeed in.

Aspray: But you at least closed offices in Atlanta and Dallas at one time, if I remember correctly.

Goldsmith: Right. It may have been sales offices for software products. I don't know that we ever had a services office in Atlanta and the Dallas office was a good office and was there until we sold it. So my guess is those were probably software product offices. I think in Atlanta we hired a sales guy, Ed Mitchum out of Atlanta and he was not a successful product sales guy so we closed it. I think those offices that we closed were product sales offices.

The Products Business

Aspray: This is a good entrée into talking about growing the products business. Could you talk about that?

Goldsmith: Yes. Big difference. We had a lot of confidence in the services business. We had good financial metrics. You could grow slowly without major financial cost. On the product side it was different. You would have a product but it didn't mean anything. You had to create the infrastructure around it and you had to get momentum with the product, which means you had to invest in salespeople. We decided that what we needed to do was to make a sizable acquisition in the product area that would give us enough bulk to be able to afford the type of infrastructure

we needed to be a successful product company. And so we embarked on that and looked at a number of product companies and finally purchased one in March or April of 1981. We purchased a company called Allen Services Company. They were a services company with a single location in Dayton, but they also had some software products that we thought were pretty good and so that's what justified the acquisition. It was a stock transaction and we paid $19 million in CGA stock for them.

Aspray: What were their products?

Goldsmith: They had a series of three products that were productivity tools for mainframe environments where you had multiple mainframes in a room. There was a console manager so that rather than having 10 consoles on a desk for 10 computers it would consolidate them all into one. Another would consolidate disc space and allow you to share discs so it gave you the ability to share disc resources across computers and manage them in a single location. There was also in development a mainframe security product called Top Secret that they had an agreement with some guys in Canada to develop; there were two developers in Canada working on this product and it was due to be done within the next couple of months.

Aspray: What did it do?

Goldsmith: It provided access control and security to mainframes so when I logged onto a mainframe it would find out that I was valid, it would monitor my password and do those types of things, things that are fairly simplistic today.

Aspray: What products did your company already have at the time of this acquisition?

Goldsmith: We had an assortment of products, none of which were doing well because we didn't have the infrastructure for them. We had a product called Pacmaster, which was the disc monitor I talked about earlier. We had a product called Inquiry/IMS, which was an English query language against the IMS database. We had a product called Universal 1100, which was an English query language against Univac's database. We had a couple of documentation products that came with PsiTran. They were kind of scattered all over the place. Once we did the Allen Services acquisition, they didn't really fit because they were so scattered and not focused, so we sold them. We sold Inquiry/IMS to Informatics, we sold Pacmaster to Sterling Software, and I think we sold DCD to the sales guy. Anyway we sold them and focused on the new products.

Aspray: Did any of the former products make the transition and become part of the package with the new products?

Goldsmith: No.

Aspray: Tell me more about the products business.

Goldsmith: Okay. So now we had some size, we had some scale. The multiple CPU products were doing very, very well and we had just completed the Top Secret product. We had a couple of beta sites and we did something that I think made a big, big difference to the success of the product. We decided to really promote the product. We spent probably close to a million dollars promoting Top Secret through advertising, through direct mail campaigns and through seminars, and that made a big difference for us. That business grew because of that. The software products business grew very quickly. We grew from a couple million dollars in revenue to, I can't even remember, to 30 or 40 million dollars of revenue in a period of four or five years, all based around these products. They were successful enough so that we really didn't need other products *per se.* They were enough to get us going.

Aspray: Did they eventually overwhelm your services business?

Goldsmith: No, because remember we had silo'd them so we had a professional services business that was well run, well managed, with good people, and then we had this product business that was really starting to grow.

CGA Financial Results

Aspray: Let me ask the question in a different way. How important toward your revenue flow were the products versus the services and how did that change over time?

Goldsmith: Well, we ended up where the products business contributed an equal amount of profitability that the services business did after about a four- or five-year period. It was clearly an important part of the business. One of the things we haven't covered is what I said was a pretty inept IPO in 1969. In 1980 we tried to fix that by raising some more money and selling more stock. We engaged Bear, Stearns to take to do a secondary offering for CGA stock. I sold some stock, the company sold some stock, and we raised some more money but more than that we got had a couple hundred shareholders so we started to have some stock price movement. Our stock which had always been around a dollar per share now started to move up and got up to $10, $12, $13, $14 a share. As we promoted the stock to the public and tried to get more shareholders, the interesting part of the business to prospective shareholders was the software products business, not the services business, because the services was a lower margin business and was not as leverageable. Investors saw the rapid growth in the margins in the software

business and that's what attracted them to our company. So it had a big impact on the company and its presence in the market and the market cap and the value to shareholders.

Internally, the service business was still a very important part. I don't think either one ever felt like a stepchild. I think they both felt pretty important. We had hired a guy named Bob Sywolski who was running our largest branch at the time, the New York branch, on the services side. We moved him over to run the software business because that was growing pretty quickly and we had to hire some management and sales teams and other personnel. Allen Services had a pretty good sales structure and a good sales model, which was something that we didn't think anybody else was doing at the time [namely] teleselling. So we were selling our software on the telephone, we didn't go knock on doors, which gave us a very efficient sales model and the software allowed itself to do that in terms that you could install it and see that it worked right away and it had good discernible functionality. So that model was in place and we hired an ad agency, we were doing all of this advertising, we had to hire marketing people, things that we were not knowledgeable about with our services experience. Bob helped navigate that and eventually hired a president for that division as well.

Other Recruiting Techniques

Aspray: How did your job change over time? You have previously mentioned a story about recruiting. Could you tell us that story?

Goldsmith: Sure. I mean, as we've talked a lot, you know, part of the job is balancing the supply and demand and getting people in to be interviewed to be hired is a difficult task, so in New York, we came up with a program we called Guys and Dolls, which was hiring unemployed actors and actresses. They would get on the phone and clearly they were very good with skits that they would develop. When we were talking about one skit, where this actress would call into a company, and the idea was we wanted to get somebody with, let's say insurance skills, so she'd call in to Traveler's or Met Life, and would try to get a list of ten or 15 people in the company, and so she would call and she'd get the secretary on the phone, and she'd say, "I need to talk to somebody, because I need to get the name of somebody in the company." And they'd say, "Well, we can't do that." And they'd say, "Well, maybe you can help me. I was at this bar last night, and there was this guy and, well, I can't tell you the story, but I think his name was John." You know, so they got their secretary going, "Oh, my God. I'm so sorry. Well, was it John Davis?" You know, and meanwhile that person would be writing names down. "No, no. It wasn't that. Maybe it was Chris something." You know, and they'd go on and say, "Maybe it was Chris something." So, but anyway, it was a very successful program, because these guys and gals were so creative and they were so comfortable role-playing. We were able to get a good flow of candidates that way. You know, it was a fun time.

Aspray: Were there any other recruiting tricks that you can talk about?

Goldsmith: We used to go to company cafeterias, try to hang out there, or find people walking around with computer dumps under their arm and give them a business card, and talk to them. You just walked around the streets in New York and did that. So yes, when it was hard to find good people, you did what you could do, because that was really your differentiator.

Aspray: Before we move on to the next stage of the company, one thing I wanted to ask you about was how enduring were some of these products that you're talked about?

Goldsmith: Enduring in terms of the durability of them?

Aspray: In terms of there continuing to be sales and products that you sold for a long time, stayed in the marketplace, and so on.

Goldsmith: Well, we sold the CGA business in 1985, so the Allen Services products, which we had focused on for four years had done very, very well. They continue to do well. They are all owned by Computer Associates. I've been told that Top Secret does about 280 million dollars in revenue each year, and that the multiple CPU products do about 80 million dollars in revenue. So they were very successful mainframe products and they're still making a lot of money for somebody else. But not for me.

Aspray: Why don't you go on and tell us about the next stage in the company's history?

Problems in Financial Reporting

Goldsmith: Okay. We sold more stock, we received some attention from investors. Our stock goes up to $14 or $15 per share. We do this acquisition with Allen Services Company and we accomplish this acquisition through a pooling of interests structure. The way the deal was negotiated is I met Art Allen. He was down in Marco Island, and I met him, and I had looked at the Allen Services business before and decided that this was the one that we wanted to buy. We were represented by Broadview Associates at the time, by Gil Mintz. And so I go down to Marko Island and I say, "Art, I want to do this deal. It's expensive, but here's the way it'll work. We'll give you enough stock so that you're happy, and we will get a positive earnings boost," because they were profitable. "This'll be the number. You can figure it out yourself. If that works, let's do it, and if not, let's not do it." So Art, being who he is, said within a matter of two or three minutes, "Okay, that's the number, and I'll take it, and let's do it." So we did that transaction in March 1981. They registered their shares in April, so that they could then sell their stock.

Three or four months later, we were notified by the SEC that they were questioning the accounting method that we used to combine the companies, which was a pooling of interest. They had evidently rejected another transaction that was structured similar to ours, and when this company said, "Well, how can you reject it? You approved this other one?" they then focused on it, and decided they didn't want to approve it. There were a couple of provisions that they considered to be questionable. The one that they felt was really questionable is that the pooling that we did was a taxable pooling, so that there was tax to be paid in the following year by the two main shareholders. We had said that "If you are unable to sell your stock, because we can't guarantee you can sell it, and you have to pay tax on the value, we'll loan you the money, and since you don't have anything else of an asset, we'll take the stock as security. So if we lend you the money, then you can secure it with the stock we just gave you because you couldn't sell it." The SEC came back and said, "That's tantamount to giving cash in a pooling, because if in fact you don't sell your stock, and you make the loan, and then they default on the loan, then the company gets its stock back, and the sellers end up getting cash. And that violates the pooling rules." We didn't agree with them, obviously. Neither did Price Waterhouse, or Alexander Grant who were the two accounting firms that put the deal together, and they said that it worked. So we ended up battling with the SEC for it felt like about ten years although it was probably just a year. We hired an ex-SEC commissioner to represent us. We went back and forth with the SEC, and after spending about a million and a half dollars, we finally came to a settlement.

That settlement was that they didn't know what the right answer was. But as a public company, we would report both ways. So in our annual report on the left hand side of the page, if you felt pooling was the right accounting, you could look at the pooling statements. If you felt purchase was the right accounting, you'd look at the right hand side. So analysts who have more companies to look at than they know what to do with, and doesn't want to take the time to figure this out, said, "Forget it." So our stock went from-- I don't even know where it was, the high teens, down to four dollars a share. And we had to do this multiple reporting until there was no difference, and since we were writing it off over a five-year period, we'd be saddled with these parallel financials for five years. It turns out that this they made great case studies. Harvard and SMU made case studies out of it, because as you talked about the impact of pooling on accounting, here's an example that showed what it would look like if you did one versus the other. But unfortunately, that hurt us.

So we still wanted to do further acquisitions, but clearly had lost our currency in terms of the stock. We had some cash, but not a tremendous amount, and as we looked around, we saw that we were finally in a position where we felt that the stock market value of our company was below what we thought it was worth. So we then figured that we would try to take the company private, and that we would get rid of this problem, and if we wanted to, we could become public later, without this issue, and focus on building the business. We went to 19 banks to raise the money, because we had, as best as I can remember, probably a 40 or 50 million dollar transaction. We probably had 20 or 25 million in cash, so we needed to borrow about 15 or 20 million for a period

of time. All 19 banks turned us down.   I can remember one bank, Mid-Atlantic, picked up the book that we had put together with financials in it and started smelling it. And I'm thinking, "What is this guy doing?" And he says, "You know, this doesn't smell like grease. If it doesn't have grease on it, we don't back it. We don't invest in it," and gave us our book back. We couldn't raise the money to do it.

Bringing CGA Private

But then I ran across a company called General Atlantic, which at that time managed the money being invested for a single individual, a guy by the name of Chuck Feeney, who owned duty-free stores, and they had been looking at the computer industry. They had heretofore invested in real estate, oil and gas, and retail. They had one investment in a software company, a truck management system that did not do well, but they looked at us and decided that this would be a good investment. They invested 3 million dollars. We then went back to a couple of banks, and one of those banks, Bankers Trust, said, "Well, we don't know much about this, but if these guys, who have all this money, are willing to put 3 million dollars in, we'll lend you the money." So Bankers Trust then loaned us the money, and we launched a management buyout for the company. I rolled my stock over, General Atlantic put some money in, and we bought the company at I think we paid $7.25 per share. We got sued, which we expected, a class action suit saying that it wasn't the right value, so we went back and forth with the lawyers so the class action attorneys could justify their existence, and we settled at another 25 cents. So I think it went from $7.25 to $7.50, and in November of 1984, we basically took the company private, and we then started to focus on building the company.

I didn't realize the burden of a public company until I was private. I mean, not having analysts calling you, telling you what you should do, not having to worry about what the quarterly numbers were, not for your own internal structure and goals and objectives, but because it's some guy that didn't even understand your business who's going to call you the day after the quarter was over and ask how you did. I didn't realize how nice it was not to have that. Then in the summer of 1985, a guy by the name of Joe Liemont, who had left GE and was running a company called Uccel, called us and said, "You know, we really want to do some major acquisitions. You have a product that's worth more to us than it is to you." So we said, "Well, I don't think so. This thing's pretty valuable, but, you know, come take a look, and we'll talk." So he came with another guy by the name of Paul Newton, who ended up running Boole and Babbage, and talked about the products, and they decided to make us an offer for the product, and they offered about 47 million dollars for the products, which was more than we paid for the whole company.

We thought about it. I had some personal issues, just because I had worked so hard, and my family needed my attention, and there were some other issues, so we decided that we would at least explore the offer. We then said, "Well, we've got this services business. What do we do with that?" I think we used Broadview Associates and they found a French company called Cap

Gemini Sogeti that wanted to get into the US. They had bought a company called DASD, had not been successful. They knew of us and wanted to talk. So we went over to Paris and met with them, and they made us an offer. They offered us, I'm going to guess, about 30 million dollars for the services business. Maybe a little more, but in that range, for the services business. At that time you could sell different parts of a business and not have an extra tax. This is the General Utilities Doctrine that eventually got repealed. So we decided why not? It's a lot of money; it's a lot more than we paid. It's a good profit for everybody.

Selling CGA

Goldsmith: So we decided to go ahead and sell the company. We negotiated with the French company, Cap Gemini, agreed with them on a price, negotiated with Uccel and agreed with them on a price, and we were moving forward. We hadn't told anybody yet, but we had committed to sell the services business, and around the beginning of November, I think about two weeks before the transaction was going to close, and we were going to discuss it, Uccel calls us and said, "You know, it's really not $47M. It's $42M." So we kind of huddled and said, "Here we are two weeks before closing. What are you doing to us?" If we do this, the deal goes through that's what happens when a deal gets momentum. So we called them back and we say, "Okay, $42M, that's it. We'll take it." So they say, "Great," so we continue to move towards the closing, but they call us back five days later, we're now just a week from the closing, and they say, "You know, $42M was right before, but now we think it's really closer $37M." So, we can see what's happening, right?

Aspray: Yes.

Goldsmith: So, then I pick up the phone and call Computer Associates, and say, "Listen, here's what's happening," and CA didn't have the money and didn't want both of the products. Uccel would have taken both of them, but I think Uccel didn't really want both of them either, and I think that was part of the problem. They didn't understand the value of the multiple CPU products. They really just wanted the Top Secret product. We went to CA and negotiated a deal with them to buy just Top Secret, and this is now less than a week before the closing. We were still negotiating with Uccel, but we were, to say the least, really pissed at them because it was just not ethical what they had done. We didn't like being on the other side of that. So we waited. The closing was supposed to happen on Monday. We waited until the Friday before Monday, before the closing, and called Uccel and said, "We're not doing the deal."

We went ahead on that Monday, and then told CA we were going to go ahead with the services deal, which was almost done. We were going to go ahead and sell the Top Secret to CA, and we were going to keep the multiple CPU products for ourselves. We're going to CA and we're going to announce this to the company. We call the company meeting for Friday to tell everyone

what's going on. We go out to CA Thursday to sign the documents, and Charles Wang's brother Tony was a lawyer, and he's looking at these agreements, and he's saying, "Hey, wait. Look at this-- look at these international agreements. There's something wrong with this Japanese agreement. If I read it right, we can't sell our products in Japan. I can't have that. So you got to get out of that agreement." So it is now, like 11 o'clock at night, which means I think it was 12 o'clock noon on Friday in Japan, so we're on the phone calling our Japanese distributors, trying to get out of the distribution agreements, so we can go ahead and close this, because we had all the employees coming to a meeting the next morning. Of course that night it's also snowing, so we need to figure out how we're going to get back to our headquarters to make this announcement, get the Japanese thing resolved, and proceed. It turns out that we never got the Japanese thing resolved. We just took, I can't remember, a half a million dollars or something off the purchase price, stayed up all night, drove back and then had a company meeting that morning. But anyway, that led to the sale of the company. We kept the multiple CPU products until April of 1986, when we sold them to Duquesne, which later merged with Legent, and then Legent was bought by CA, so everything we ever did ended up with CA anyway.

Aspray: As was true of so many other companies, right?

Goldsmith: Yes, with no question. I mean, I started two other software products companies, one I sold to Online Software, which ended up with CA, and the other one I sold to Platinum, which also ended up with CA. So everything that I ever touched in terms of, development of system software ended up with CA, and they've done a great job with those products. They've been good.

Aspray: What happened to the employees after the sales?

Goldsmith: I think we had about 1200 people at the time, and I would say maybe 1100 were on the services side, and there were maybe somewhat over 100 on the products side. One of the things that Cap Gemini wanted, is they wanted a whole platform in the United States, and they actually liked the name CGA, Cap Gemini of America, so it worked out great. Everybody on that side of the business went with Cap. Bob Sywolski, who was our president, went back to the services group and became the president of North America for Cap Gemini. All the regional managers stayed, all the branch managers stayed, they kept our back office, so there was no impact at all. For the CA business, we had worked with Charles Wang so that we didn't want to drag it out. We wanted to let people know where they stood. We knew ahead of time who was staying, who was not staying, and so we met with the software products managers in the morning, told them what was happening, told them who was staying and who was not staying, and told them that we would be making this company announcement in the afternoon. Then at the company announcement we told the people to go see their managers to find out who was staying and not staying, and we paid severance to everybody. I would say out of the 100 and some people, they probably did not keep 25 or 30. They had their own back office. They had

their own marketing, shipping, logistics, stuff like that, so they didn't keep those people. They kept all the developers. They kept the entire sales force. They did not keep some of the top management.

Aspray: That's sort of the standard way CA operates.

Goldsmith: Yes, but the thing that was interesting, that at that time they hadn't done a lot of deals. So that had not been their standard way. But it was clearly the way we wanted to do it, and the way that they wanted to do it, and I think it showed CA that it worked well and to me, that's the way you should do it anyway. I think that became the CA motto, and they've gotten a bum wrap for it, but they've done it very, very well. And if you think about the people, I think they'd much rather know where they stand, rather than not knowing where they stand, and I think CA's been good at that. So maybe I'm in the minority on that, but I think they've done a good job, and some of the people that went to CA, a lot of those people stayed for a long time. Some of them stayed for ten or 15 years, and some of them may still be there.

Updata Mergers and Acquisitions Business

Aspray: What happened to your life then?

Goldsmith: My life. The mistake I made is I didn't take a break. I should have, but you know, because we had this multiple CPU product that kind of carried over for four months, I had that, and then I started a company called Updata Software. DB2 had just been announced. We had done a bunch of English language query type products for IMS database and Unisys database, so myself and a guy by the name of Bill Emerson-- there's a whole other part of the business I haven't told you about, which I'll tell you about in a second-- saw this as a potential opportunity to create a query language against DB2 databases for developers and make it easy for them to use it. We came up with a product called DBEdit, and we started developing that product in early 1986 and got it done by I think June or July, and started selling it, so I moved into that business.

There was a whole other part of CGA, which was an applications software business. We bought a company in Atlanta in 1982 and maybe that was the Atlanta location that you were talking about, now that I think about it. Yes, it was, because we moved it to New Jersey. It was applications software for the midrange market, running on this brand new computer that IBM had announced, which was a PC desktop using an Intel 8080 chip, and this company had a whole series of applications software running on this desktop. They had accounting software and construction software, and we built that business up over a four-year period to be about a 10 million dollar a year business, focused on construction management. We moved them from Atlanta to New Jersey, focused on the construction vertical, and a guy by the name of Bill

Emerson ran that business. Bill, to me, was one of the best technicians we ever had. He and I then started Updata Software ProEdit DB2, which is the product we sold to Online Software.

Aspray: Please tell me more about Updata software.

Goldsmith: Okay. I was working with Bill on the ProEdit product that we sold to Online Software, and we made a lot of money. We did well with the leveraged buyout of CGA, and this was the 1980s, the era of the leveraged buyout. So we thought we would do a couple other leveraged buyouts. We bought some positions in a number of companies. One of them was Planning Research Corporation (PRC). Another was SCTC, Systems and Computer Technology, and a third one was MSA, and we were going to try to put together some type of leveraged buyout of those companies. But we weren't big enough to do it and probably not knowledgeable enough; and then the debt market kind of died, so we weren't able to really do anything with those. But people started to ask us to help and said, "Listen, you did a number of acquisitions. Acquisitions are an important part of growing a technology company. Can you help us figure out how to do it?" So my partner, Ira Cohen, who was our chief financial officer at CGA, and I opened up this boutique little company, first called Creekside, and then we figured we were in the same building with Updata Software, so we made it Updata Partners or Updata Associates, or something like that. We started this little M&A business, and we did fairly well, helping people, just he and I, and eventually one other person, and then in 1995 we figured, "Okay, either we're going to make a business out of this, or we're not going to make a business out of it."

So we started to hire some younger kids to come into the business, and we built that business up to the point where we've now done 450 transactions, generated, I think the number is 12 billion dollars in wealth for entrepreneurs who had started technology companies. All in software technology. We've done 130 services deals, we've done some large deals. We sold Legato to EMC for $1.6 billion. We sold some stuff to SAP and to CA. We've done a number of deals with CA, so we've done many, many technology deals.

Setting Up a Venture Capital Business

Goldsmith: Then, in 1997, there was a gentleman I knew who was the CEO of a company called Legent, which was a 600 million dollar software company that got bought by CA. He and I had done some individual investments. We had invested in a company called Career Builder. A guy that used to work for him had this idea of how you could use the Web to recruit people, so we invested and founded Career Builder, which eventually went public and got sold to Knight Ridder and the Chicago Tribune, but we had done a number of these investments ourselves, so we decided we would formalize our investment activity, and we started an investment fund.

The first fund was called Fallen Angels, where we invested in public companies, technology companies that, because of the dot com boom and bust, had been totally neglected and had fallen from favor. So we would take positions in those companies. We didn't realize how much further you could actually fall when 2000 came, but at that time we thought they were fallen. We didn't know at that time they were just wounded, and about to be fallen. We raised a very small fund, 27 million dollars, mainly from guys for whom we'd sold companies, so they were all high net worth guys, and so we did that fund and we did okay. Not great, but we had a positive return on that fund, and then started a little more of an institutional fund and raised our second fund in 2000. We raised 65 million dollars. 2000 was not a great year to be doing a fund, so we didn't invest most of that money -- we invested in one or two companies in 2000, which I wish we hadn't. I think we did maybe one in 2001 and 2002. Now I think we have 17 or 18 portfolio companies. We raised our third fund of $155 million, which we closed in November of 2004, and we've about half invested that money. So Updata has grown from two guys doing M&A advisory work to 40 people doing 20, 25 transactions a year with about 230 million dollars worth of private equity, all in what I call software technology. If you have to plug it in, that's outside of our expertise. So that's who we are.

Conclusions

Aspray: And what are your plans for the future?

Goldsmith: I don't know. I feel like I've been very, very fortunate to have two careers, but I feel like I've got one career left, and I think maybe it's time to be a giver rather than be a taker, so I'm just trying to figure out how to do that. You know, it's easy to give money. But I think, it is much more rewarding to figure out a way to give of yourself, so that's my current dilemma, trying to wrestle with that, and see what I should do.

Aspray: What would you have done differently, looking back?

Goldsmith: I'm going to tell you, I wish I had been smarter. I mean, there are so many things that we did wrong. One of the products that we developed was a product that we called Mac One Write, when the Macintosh came out, because we loved the visual interface, and it was basically a drop and drag checkbook, which eventually Intuit turned into a multibillion dollar business. We putzed around with that for a while, and sold it to somebody else. When you think about the vertical applications that we could have done on the desktop, right? Instead, you know, we kind of did that, and then we sold that to somebody else. If I had more foresight about where this industry was going, had I been more of a global thinker, I think I may have been more inclined to be a grower, versus a trader. Does that make sense?

Aspray: Yes.

Goldsmith: So I would have done that differently. But I still have people coming up to me saying, "Thank you, these were the best times of my life, and I'd love to do it again," and that feels good, and I think that's important. So there are not many things from the business standpoint that I think I would do differently.

Aspray: Are there any observations you'd like to make about the industry?

Goldsmith: Well, it's changing so quickly. I was talking-- I can't remember what the device was, like a 2311, which was to me a big technology jump when they came out with discs, so you didn't have everything on tape, and that really helped you design better applications. I mean, I have more memory in my iPod then was on a bank of those things. So that the technology, as everybody has said, and we all know Moore's Law, is moving so, so quickly. But the other thing is that it's become so global. We talked a little about what I feel I would do differently. As I think about this industry, it is clearly global, and it's really the backbone of a lot of productivity gain in all economies, so that if you can think that way, there are just endless opportunities still. You think about all the stuff that's coming down, the new chips from Intel and everything, and it's hard to imagine where we're going to be in 20 more years, but I feel very fortunate to have stumbled in, from a fraternity brother giving me some advice on an easy course to take, to where I am today; I feel very fortunate.

Aspray: Anything else you'd like to talk about?

Goldsmith: No, not that I can think of. Thank you.

END OF INTERVIEW