



Oral History of James Houtz

Interviewed by:
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James Houtz

Conducted by Software Industry Special Interest Group

Abstract: Jim Houtz describes his personal and educational background and his career in sales with Burroughs and IBM as a young man leading up to his founding of CyCare Systems, Inc. (originally called Computer Consulting Service) in 1967. He describes the innovative methods he used to fund his start-up business and how he reached the decision to switch from a general purpose service bureau to specializing in medical group practices. This led to expertise in processing insurance claims which Houtz built into a large company with offices in 12 to 14 cities in the U.S. and Canada. He eventually formed a clearinghouse, which he called CyData, which processed not only insurance claims for CyCare but also for a number of their competitors and ultimately was processing approximately 33% of all medical insurance claims in the United States. He talks about the benefits of his membership in ADAPSO and in an ADAPSO-sponsored Presidents' Roundtables. He describes the acquisitions CyCare did to build the company and then discusses his venture investing and other activities after selling the company to HBOC in 1996.

Burton Grad: This interview is taking place on May 18th, 2010 and is part of the oral history project of the Software Industry Special Interest Group, which is affiliated with the Computer History Museum located in Mountain View, California. It is being conducted at Jefferies and Company at their headquarters at 520 Madison Avenue in New York City, New York. It's being videotaped and recorded. I'm Burton Grad and I'm interviewing Jim Houtz. Jim, we're going to start by going way back to your family background. Tell us about your parents, where they came from, your siblings, where you were born, those sort of things.

Family Background and Education

Jim Houtz: My father was in the wholesale grocery business in Sioux City, Iowa. He started a business after World War II and wouldn't hire people unless they were veterans. We had a small company of about 25 or 30 veterans I worked with as a kid and learned how to drive a truck and one thing and another.

Grad: Where did your parents come from?

Houtz: Sioux City, both of them.

Grad: Were they born there?

Houtz: They were born in Sioux City and got married when they were 17 and 18. They had three children, myself, my younger brother and my younger sister.

Grad: Had there been many generations in the United States or were they second generation?

Houtz: We traced back the Houtz family. Three brothers came over from Germany and my great-great-grandfather ended up as a minister in Pennsylvania. He'd written a couple books in a little town called Houtzdale outside College Station. Then my grandfather went to Sioux City, which is where my dad was born.

Grad: So the family goes way back there?

Houtz: Yes, it goes back quite a ways.

Grad: That's terrific. When and where were you born?

Houtz: I was born in 1936 in Sioux City, Iowa.

Grad: You were the oldest?

Houtz: I was the oldest grandchild on both sides of the family and, consequently, was given a real dandy of a name, after my two grandparents, Howard Claire Houtz. From as long as I can remember, I was always called Jim.

Grad: Oh, so your name is not James?

Houtz: No, it's not James.

Grad: Oh, my goodness. You had two younger siblings?

Houtz: Right. Brother and sister. Brother is a retired lawyer and my sister is a developer.

Grad: Real estate?

Houtz: Real estate.

Grad: You grew up, then, in Sioux City?

Houtz: Sioux City. Went to Sioux City East. Played football and basketball there and then I went to college at the University of South Dakota.

Grad: Were sports a significant thing for you all through high school?

Houtz: Very significant.

Grad: What position did you play in football?

Houtz: I played center and middle guard. I was a good athlete but I was a slow, good athlete.

Grad: I see. Well, you're about 6'3"?

Houtz: I was 6'3" then. Weighed a few pounds less.

Grad: Any other special interests while you were in high school, things that you were really focused on besides sports?

Houtz: Primarily sports. I had a couple of coaches in high school that really helped shape some of my beliefs and my attitudes. Very important part of my life.

Grad: In terms of taking responsibility? What sort of things?

Houtz: Well, I remember one of the high school football coaches before one game excused everybody on the team except the seven guys that played in the line. We were playing our major rival and he sat us down and talked to us for about 15, 20 minutes and then ended by saying, "Whether we win or lose tomorrow is going to be dependent upon what you boys do, the seven of you." He really put it on us. It wasn't: "We want to play well." It was: "Hey, we want to win. You guys have to make it happen." From that, I realized that things that happened to me, good or bad, are pretty much my own doing.

Grad: Did your parents provide similar kinds of lessons? What did your parents instill in you?

Houtz: My dad was a firm advocate of working and kind of the rule was, if you're playing ball, you play ball but, if you're not, you're working. So all summers I would work at some job some place.

Grad: Mostly for him in his business or other places?

Houtz: Most of the time for him.

Grad: How young were you when you started doing work for him?

Houtz: 12.

Grad: So it's quite a work ethic you have from the beginning.

Houtz: When I was about 14, I was driving a truck in southern Nebraska and around Sioux City.

Grad: So he had a fairly good sized area that he was covering?

Houtz: Oh, yes. About four or five states.

Grad: Was he a successful business man?

Houtz: He was until 1954 when he got caught in a flood and he lost his inventory, which isn't a big number now but, then it was \$150,000 and that put him out of business. When I graduated from high school, his comment to me was, "Well, you're on your own now, Jimmy," but I kind of knew that already.

Grad: Had you always expected to go to college?

Houtz: I went to college for the wrong reasons. I went to college to play ball.

Grad: But you always expected to go to college because of that?

Houtz: I expected to, yes.

Grad: So had the previous generations gone to college or were you the first generation?

Houtz: My grandfather went to college, one of the few people his age that went to college.

Grad: That's why I was wondering. There's quite a transition that goes on there, even with people who were born here. So I gather from what you're saying that your academics in high school weren't outstanding?

Houtz: My academics were okay. I got all Bs and a few Cs, a few As. I didn't work very hard at it. Didn't have to.

Grad: That's an interesting thing to learn. That's an interesting contrast, though, because a work ethic, particularly working for your parents, which I did for my grandparents in a laundry, you work hard. And, if you don't, you get told very quickly.

Houtz: Oh, you work hard, yes.

Grad: But you worked hard, I gather, at your sports?

Houtz: I worked very hard at sports.

Grad: But I gather you didn't work that hard as far as the academics were concerned at that time?

Houtz: I didn't have to. It was pretty easy for me.

Grad: Okay. What about your decision about where to go to college.

Houtz: Well, I went to college to play ball and I was going to be a coach and I did very well as a freshman in basketball and football. In spring football, I really tore up my knee bad. I busted two ligaments, ripped a bunch of cartilage and I remember laying in a hospital bed thinking, "I'm going to have a hard time getting a really good job as a coach unless I've played in college." I started thinking, "I wonder if that place I'm going to has a business school?" They did, fortunately, have a really good small college business school.

Grad: You went to University of South Dakota?

Houtz: Yes.

Grad: Where was that located?

Houtz: Vermillion, South Dakota. It's about 35 miles from Sioux City, Iowa.

Grad: So you were living on campus there?

Houtz: Right.

Grad: How did you finance going to school? Did you get a scholarship?

Houtz: I had a scholarship my first year.

Grad: Then lost it because of your knee?

Houtz: In those days, when you got hurt, they did two things. They dragged you off the field and cancelled your scholarship.

Grad: In which sequence? <laughs>

Houtz: They did both of them. Another fellow and I bought a business in our sophomore year and we cooked up a 300 hamburgers, put them in Coke cases and took them around to the dorms every evening between 10 and 11 and sold them at the girls' and boys' dorms and in the fraternity houses.

Grad: Did your parents contribute to the expenses of your college?

Houtz: The responsibility was my own. My dad probably on a couple of occasions gave me \$100 but he didn't have any money to give me.

Grad: That must have had quite an effect on you. You were 18 years old and your father is suddenly out of business.

Houtz: Right.

Grad: Do you remember how you felt at that time?

Houtz: It was tough because we didn't grow up rich as kids but we had everything. In fact, my dad moved out of town and, during the last part of my high school education, I lived with my grandparents so I didn't have to transfer high schools with just one year to go.

Grad: How did your mother handle this change?

Houtz: She did okay. My dad was really in charge of everything.

Grad: Must have been really tough.

Houtz: It was tough.

Grad: With some people we've interviewed, the families were hit by the Depression. This is a period in the 1950s when businesses were doing well. But the flood was the problem. What a terrible thing.

Houtz: Right.

Grad: So you took a business major at the University of South Dakota and you started your own little business there right away?

Houtz: Right.

Grad: I gather that was successful?

Houtz: It was very successful. In fact, at that time, if you graduated from college, the best job was with IBM. They paid \$450 a month. Next best was with Burroughs, they paid about \$425. The average was \$350 to \$375 a month.

Grad: You remember those kind of numbers?

Houtz: Yes, I do. In our business, we each made that much a month apiece.

Grad: Just in your own business?

Houtz: Yes. And I thought, boy, if I could find a job like this when I get out of college, I'll just do it permanently. It was a good job.

Grad: So you graduated in 1958?

Houtz: Right.

Grad: With a bachelor degree in business administration?

Houtz: A Bachelor of Science degree.

Military Service

Grad: Okay. Had you been in the ROTC while you were there at school?

Houtz: I had been in ROTC but, when I busted my knee, I thought I was 4F. When I went to take my physical, the doctor said, "Hey, man, you're warm. You're 1A." So, instead of waiting to be drafted in August, I volunteered for the draft in May and I went in for two years.

Grad: You went into the Army?

Houtz: Yes.

Grad: What kind of assignments did you have?

Houtz: There were no hostilities going on at all at that time.

Grad: Vietnam was just getting started...

Houtz: Wasn't even started. I was at Fort Sill all the time on a temporary duty assignment.

Grad: So the whole time you were there at Fort Sill? You didn't go overseas or anything?

Houtz: No.

Grad: What kind of work were you doing?

Houtz: We were doing athletic things. We did a lot of refereeing. We took care of some of the fields and then we played basketball in the winter and then, summer, we did the same thing and played golf.

Grad: How were your knees by then? Were they recovered enough you could play these things?

Houtz: They recovered. I could play basketball as good after about a year as I ever could. Problem was, I couldn't play well enough before I hurt my knee. I was a reserve on the freshman team. I didn't start. Football was my better sport.

Grad: You didn't go back to football?

Houtz: No, I never played again.

Grad: How did that feel emotionally, not playing sports? I've found, when I talk to people where sports was central to their high school existence, that changing or dropping that because of injury or anything, left a void there.

Houtz: That was a bigger shock than when my dad went into bankruptcy, really.

Grad: Really?

Houtz: It was really traumatic for me because I had my plan all laid out and I could see that that wasn't going to work. In some ways, it's the best thing that happened to me because I got into business school.

Grad: I think you probably made one or two dollars more this way.

Houtz: Oh, yes. When I got into business school, there were some courses, like accounting and statistics, that some very smart people had trouble with. I didn't have any trouble at all with them. I thought, "Boy, this stuff's easy."

Grad: Were there any courses you did have difficulty with in college?

Houtz: No, I don't think so.

Grad: So you became a good student.

Houtz: I had to work at it. I graduated with a three point average.

Grad: That's very nice.

Houtz: Five years from now, it'll probably be 3.5. <laughs>

Grad: Memories get better and better and better. Were you married at that point?

Houtz: I got married when I got out of the Army.

Grad: Someone you had known from home?

Houtz: Somebody I met in Sioux City. I knew her for six weeks and we got married. We had four people at the wedding and the minister.

Grad: Where did you get married?

Houtz: Sioux City.

Grad: Why so few? You had a lot of family, you had a lot of relatives.

Houtz: Well, we had a lot of family, a lot of relatives. But, you know, people that get along have a lot of things in common and we had a lot in common, we were both poor. We just felt, from the financial standpoint of the families, we'd just go ahead and get married. Her mother was very, very upset with us but, after she had a reception, everything was okay.

Grad: You got married in 1960?

Houtz: It was probably about 1961.

Grad: And her name?

Houtz: Joyce. And we're still married. I'm not sure it's going to work out but we're still married. <laughs>

Grad: Next year?.

Houtz: It'll be about 50 years.

Grad: Golden anniversary. I'm sure you'll do something very special.

Houtz: We'll figure something out.

Sales Career with Burroughs and IBM

Grad: So where did you live? Now, you're out of the Army, you're finished with Fort Sill.

Houtz: I worked for Burroughs in Sioux City.

Grad: So you looked for a job while you were still in the Army?

Houtz: No, when I got out of the Army, I looked. I interviewed with Burroughs, IBM and I think I talked to some people from Univac.

Grad: Why the computer field?

Houtz: Because I wanted to go into sales and I was close to an accounting degree and I felt, hey, I should be able to make a living selling accounting machines.

Grad: It's an unusual decision because your family had been in the grocery business. You had gotten into the sports while you were at Fort Sill so when did you decide that computers were the thing you wanted to be in?

Houtz: I didn't really decide I wanted to be in computers. What I really decided was that I wanted to be in sales. I felt that, if I went into accounting, I could probably work for somebody for 30 years and get a gold watch when I was done. But if I went into sales, if I was good at it, and I had reason to believe that I would be, then I felt I could advance faster in whatever company I was with.

Grad: Why'd you think you'd be good at sales?

Houtz: Because, in the summers in college, I went out with a bunch of guys and we sold encyclopedias on army bases and air force bases and I made \$2,800 during the summer months selling encyclopedias, which was far superior to what anybody else had made.

Grad: That's interesting. So you saw that in yourself?

Houtz: Yes.

Grad: You had your hamburger business at college. Did you consider that a sales job primarily or not?

Houtz: No, it wasn't a sales job. It was just being there.

Grad: Just a matter of delivery.

Houtz: In fact, I sold to the girls' dorms and the first week, the girls would come down at night and they'd be dressed up in their date clothes and real professional. About the second week, they'd come down in robes and the third week, they'd come down in nightgowns and not much else and I thought, "Boy, this is great." <laughs>

Grad: So you didn't think your selling ability was really what was making it work?

Houtz: No. It wasn't selling. It was showing up.

Grad: Before we go ahead with your Burroughs experience, tell us about family, children and so forth.

Houtz: We have two daughters, Janna and Jody. Janna's married and has two boys. They'll both be in high school next year and they're outstanding athletes. They're different from their grandfather in that they're good athletes and they're fast. It's amazing to watch them play. My other daughter is not married. She works in Scottsdale right now.

Grad: Where does Janna live?

Houtz: She lives in Scottsdale, also.

Grad: So they're all down in Scottsdale.

Houtz: Right.

Grad: We'll come back to when you moved out of Iowa. Okay, you got out of the Army after your two years and applied for a job. Did you have any commitment for ongoing service? Reserve or anything like that?

Houtz: No, I did not.

Grad: So you had a clean deal. You were out before the Vietnam War.

Houtz: Right.

Grad: With no obligations.

Houtz: I had no obligations. I was on active duty for 21 months.

Grad: Were you offered jobs by both IBM and Burroughs?

Houtz: No, I was not. I was offered a job by Burroughs and IBM didn't have a slot. They didn't make me an offer at that time.

Grad: So what was your first location in Burroughs? Where did you first go?

Houtz: Sioux City, Iowa.

Grad: So you and Joyce set up housekeeping there?

Houtz: Right. We had a part of a duplex we rented.

Grad: Had you been able to save money while you were in the Army or from your previous work while you were in college?

Houtz: No.

Grad: So you didn't start with a lot of money.

Houtz: No, I didn't start with any money at all. Whatever we got in the Army we spent. It wasn't much. Usually by about the 10th of the month, we were broke. Payday was on the first.

Grad: Tell us about going to work for Burroughs.

Houtz: For my training, I went out to Rapid City to work about four months with one of the best sales people in that group. After that, I moved back to Sioux City.

Grad: What products were you selling for Burroughs?

Houtz: I was selling adding machines and posting machines. At that time, Burroughs really wasn't into computers. They were just getting started into it.

Grad: Who were you selling to?

Houtz: In Sioux City, I sold about eight machines. I sold to two trucking companies. I sold to a local printer.

Grad: Was it a general territory?

Houtz: It was a general purpose territory.

Grad: So it wasn't bank specific or anything like that?

Houtz: No. I had a set of manuals that had information about various industries and I would read those. I loved being a general purpose sales person. It was great.

Grad: So this was a very happy experience for you?

Houtz: Yes, it was.

Grad: One of the things I've always been interested in about people who are good sales people is handling rejection. Even if you're good, you probably lose more than you get, for various reasons. Was that a problem for you?

Houtz: You know, I think, from the experiences I had – my dad going out of business, busting up my leg, major things that happened to me that I really didn't want to happen – somebody telling me, no, they didn't like something I was trying to sell was insignificant.

Grad: It wasn't something you took personally?

Houtz: No. In fact, if I lost a deal, and I didn't lose very many, I would just go into the next one and work twice as hard and usually come out a winner.

Grad: Did you have any technical challenges or anything of that sort in learning the machines that you were dealing with?

Houtz: Not the adding machines. With the accounting machines, there were some technical things you had to learn but we had schools we went to. We went to a two- or three-week school in Detroit before we got started. You installed your own systems. At the first auto dealer I sold I really learned what accounting was in a business environment with all the

journals. When I walked out of there, I felt, "I can install a system anywhere." So, at Burroughs, you sold and installed your own deal.

Grad: You didn't have systems engineers?

Houtz: No. Not at that time.

Grad: Did you stay in that kind of a territory and with those kind of products the entire time you were at Burroughs?

Houtz: I stayed in it the entire time, about three years.

Grad: And you were successful at it?

Houtz: Yes, I was.

Grad: So you made some money?

Houtz: I did make some money, not a lot. When I started in the job, I made \$430 a month, that was my initial salary. My third year, I made about \$8,100 or \$8,200 which was double what I started at so I was happy with that.

Grad: Was Joyce working also or not?

Houtz: She worked a little bit but not much.

Grad: When was your first child born?

Houtz: About 10 months, 11 months after we got married.

Grad: I see. You wasted a lot of time, I can see. <laughs>

Houtz: Yes, we did. <laughs>

Grad: Okay. So you were successful, making more money. You joined there in 1960 it says in your notes. You were there until about 1963.

Houtz: Right.

Grad: Why did you decide to leave?

Working for IBM

Houtz: I decided to leave because I really didn't like the guy I was working for. Burroughs had zone sales managers. They were great but not our branch manager. I started to look around at other opportunities in the city and, about that time, I got a competitive piece of literature on a new IBM product, which was a magnetic ledger card posting machine called a 6400 and I thought, "That's what I should be selling."

Grad: You felt that was a better product to sell to the kind of markets you'd been selling to?

Houtz: Yes.

Grad: That was not a major IBM product, though.

Houtz: They had a lot of mechanical and electronic problems with that product but it was so much better than the products I'd been selling with Burroughs in terms of performance. It was unbelievable.

Grad: So, again, it wasn't computers.

Houtz: It still wasn't computers.

Grad: So that was not what appealed to you because, by this point, the early 1960s, computers had started to come out.

Houtz: They had started to come out but the 6400, from what I could see, would be a can't-miss product.

Grad: So what did you do?

Houtz: I called IBM in Omaha and went down and interviewed with them. The manager, the guy that was interviewing, asked me a lot of questions and finally he said, "Now, which do you like best, selling or installing?" I just laughed. I said, "You've got to be kidding me." <laughs>

Grad: Spoken like a true salesman.

Houtz: Right. Anyway, they hired me. I went to Cedar Rapids and I had a very successful year. After a slow start, I sold about six or seven systems in one year.

Grad: Did you have to move?

Houtz: Yes, I moved to Cedar Rapids.

Grad: Joyce have any problems with that?

Houtz: No, she supported me all the time, whenever we moved.

Grad: These were magnetic ledger cards?

Houtz: Magnetic ledger cards. Then, after being in that division about a year and a half, they called a sales meeting and said, "Hey, we're disbanding the division you're in. We want you people to move to the DP division." So I ended up in a DP division and went to school.

Grad: This is about 1965?

Houtz: Yes.

Grad: So was that moving to computers or still the same kind of product?

Houtz: To sell computers and the same kind of products. Then IBM moved me to Dubuque, Iowa which was great because there was a two-man sales team up there, of which I was one, and there were about five or six engineers and systems analysts. We were 90 miles from our boss, okay? I had a pretty good year up there.

Grad: Okay. So now you're in Dubuque and now, for the first time, selling computer products as well.

Houtz: From that point on, I sold primarily computer products.

Grad: So that was the System/360 you were selling?

Houtz: Right.

Grad: That had been announced in 1964.

Houtz: Right. I sold from the System/360 from model 20s on up.

Grad: So small end stuff.

Houtz: And I also sold the 1240, a bank processing system and a couple other products.

Grad: Were you successful?

Houtz: Yes.

Grad: Did you enjoy it?

Houtz: I really enjoyed it.

Grad: Again, sort of a general territory, though?

Houtz: General purpose territory, right.

Grad: You weren't in any particular industry?

Houtz: No.

Grad: All right. So now we're up to 1967.

Founding of Computer Consulting Service

Houtz: Right. I had a client, who I had sold a ledger card system to, and then when I went in the DP division, I went back and sold him a S/360 model 20. They wanted me to come to work for them. It was a company that manufactured toy replicas of John Deere tractors. You see them all over.

I said, "I don't think I really want to go to work with you guys. There's five of you brothers and you're fighting all the time." Anyway, they kept after me so what I told them was, "I'll tell you what I'll do. I'll come to work for you for two years." I said, "What I'll do is I'll work full-time the first month and it'll be a graduated basis so the last month I work for you, it's four hours a week and, during that time, I'll put your system in, I'll hire a staff for you, and I want to start a general purpose service bureau at the same time." I said, "I want you to pay me the same amount every month for that 24 month period." So they thought about it for a while and they came back and said, "Could we get a copy of your W2 for last year?" Because I'd asked them to pay me

exactly what IBM had paid me the previous year, which was about \$15,000. So that's what we did. They said okay. That was my first client.

Grad: So did you actually form your own company at that point in time?

Houtz: Yes, I did.

Grad: Did you incorporate?

Houtz: It was just a private proprietorship.

Grad: You originally called it Computer Consulting Service?

Houtz: Right.

Grad: What was the initial financing?

Houtz: The initial financing was that contract I had with this manufacturing company. I also had \$1,500 in cash and I had 10 shares of IBM stock, which had a loan value.

Grad: Oh, so you borrowed against that?

Houtz: I borrowed about \$3,500 against that \$5,000 stock.

Grad: But you had \$15,000 a year coming in?

Houtz: Right.

Grad: What was the name of the company?

Houtz: Ertl Manufacturing.

Grad: Ertl Manufacturing. That's a strange deal. Where'd you come up with that idea?

Houtz: Well, when I left Burroughs to go to IBM, I almost went in as a junior partner of an insurance agency but I went with IBM instead, which was good. But I always wanted to start a business or have my own business. These guys kept after me to come to work for them and I finally figured out, well, this could be an opportunity to do what I want to do. So I sat down with

them and told them, "Here's what I want to do. You guys have your own business here and I admire you for that but I'd like to have my own business, which I think is a general purpose service bureau." And that's how I got started.

Grad: You had been selling products.

Houtz: Yes.

Grad: What made you think that you wanted to run a service bureau? Had you known people who had run service bureaus?

Houtz: No, but I read a little bit about time-sharing and people sharing computers, even in 1967. I thought, hey, I ought to be able to do that. I just thought it was pretty much a natural.

Grad: I guess my question is this. We've interviewed, as you know, over 100 people. Many of them had a significant technical orientation. They got into computers because they wanted to program or whatever.

Houtz: I didn't do that.

Grad: I can see.

Houtz: I programmed our first applications on a Model 20 but I got into business because I wanted to build a business and I wanted to be able to build something and say, "There, I did that" when I walked away.

Grad: Let me push that a little bit with you, if you're willing to. With your father having the business go under, was that a factor in your either wanting to prove something or wanting to have your own business? Was that an element, do you think, or not?

Houtz: No, the fact that he went under, I don't think influenced me one way or the other. I think the fact that he did have his own business and I saw some of the benefits of that and I thought I could do the same thing.

Grad: So it was a positive thing rather proving something.

Houtz: Right. I wasn't trying to prove anything.

Grad: Were your parents still in touch with you? Did they still live in Sioux City?

Houtz: My dad died when he was 49.

Grad: Oh, my.

Houtz: And that was tough, okay?

Grad: That wasn't a factor in your decision?

Houtz: That wasn't a factor, no.

Grad: So you really had it in your mind, even from the time you were at Burroughs.

Houtz: He had told me, "You're on your own now, Jimmy."

Grad: You took that very literally?

Houtz: Right.

Grad: So you had the idea of being your own boss, having your own business.

Houtz: At the Presidents' Roundtables I've sat in on with ADAPSO, in every one of them, we'd always have a session on why did you start this business. And I thought everybody else started because they wanted to make a lot of money but I was different. I started because I wanted to build a business. But, as we discussed in those groups, it almost invariably came out that a third of them started because they thought they had some red hot idea that they were going to build a great product. A third of them started for the same reason I did, they wanted to build something. A third of them started because they were out of a job. That was consistent through all the Roundtables.

Grad: Interesting. We'll see tomorrow [Ed. Note: at the meeting of Service Bureau pioneers sponsored by the Software Industry Special Interest Group of the Computer History Museum]. We'll talk with those six people. Okay, let's keep going with this. So you start the company, Computer Consulting Service. Do you have any employees at that point?

Houtz: No.

Grad: So it's a one-man show.

Houtz: One-man show. One of the first things I did was go to one of the companies I sold a system to, a credit union, and said, "Hey, I'm going to start an office and I need a time-sharing system. How would you like to share your system with me?"

Grad: What did they have? A Model 20?

Houtz: Yes, a Model 20. They got the Model 20 out of their office into a separate office. Starting out, they were using most of the time. Two years later, we were using 80% of the time and they stayed with us for, like, 10 or 12 years, always at the same price but we bumped up the systems.

Grad: What was your deal with them?

Houtz: They split the cost of the system.

Grad: So 50/50 on the system cost.

Houtz: Yes. They had their own operator.

Grad: So you didn't take over and run the machine for them?

Houtz: No, I did not.

Grad: That's an interesting mixture because, in many cases, the service bureau would take over the machine.

Houtz: We didn't do that, no. Well, we took over the management of the machine but they had their own programmer, their own operator. The guy became a good friend over time.

Grad: So you had nothing to do with their applications?

Houtz: Nothing. Nothing to do with them.

Grad: Okay. Talk about your first clients other than Ertl.

Houtz: The first client was a group practice in Dubuque, Iowa, Medical Associates. At that time, they had about 20 physicians. Today, there are probably 150 - 200. I went to them and a local bank was trying to sell them a system or sell them the services. The manager wanted to go with me, but there were concerns because we didn't have a customer yet. As I

heard later, one of the older doctors spoke up in the meeting and said, "Hey, we all had our first patient. I think this kid will do a good job."

Grad: So what did you sell them?

Houtz: I sold them accounts receivable. All we did was accounts receivable.

Grad: Where did you get the application?

Houtz: I built it.

Grad: So you had to write the application?

Houtz: I wrote the application.

Grad: Had you written an accounts receivable program before?

Houtz: Just at Burroughs, for a posting machine.

Grad: But with the S/360, you hadn't written any applications?

Houtz: No, I hadn't written any applications. Well, that's not true. At Ertl, I wrote several applications: inventory, billing, bill of material.

Grad: But more on the manufacturing side.

Houtz: More on the manufacturing, right.

Grad: What gave you the guts to think you could write the accounting application? Well, you knew accounting pretty well.

Houtz: I knew accounting well, okay? I didn't have any problem writing the accounts receivable.

Grad: You were using COBOL?

Houtz: No, I used RPG.

Grad: Oh. That's right, they had RPG on the Model 20, didn't they?

Houtz: Right. It took you about 40 hours to learn all there was to know about that language.

Grad: RPG was wonderfully easy.

Houtz: I read the manual. I had done several applications at Ertl already.

Grad: So you knew how to use RPG and you were comfortable with it?

Houtz: I used it, right. And, at that time, I did hire a programmer and an operator.

Grad: So that was your first employee?

Houtz: Yes. But I did most of the programming for the first application.

Grad: How big a deal was it? You were selling a service, an application for accounts receivable.

Houtz: It was a big deal. At that time, it was \$2,000 or \$3,000 a month.

Grad: So they were going to pay you on a monthly basis. Did you charge them anything up front?

Houtz: Yes, I did. I charged them \$2,880. Then, when they started processing, we gave them a credit.

Grad: Against that?

Houtz: Against that.

Grad: So, in fact, the \$2,880 was covering your upfront time to build the application?

Houtz: Right. And 15 or 20 years later, whenever somebody at a seminar asked me, "Why do you charge \$2,880 for every client?" I said, "Because we've been doing it since we were in business. We needed the cash flow to get started. We've never signed a contract where the client didn't convert so we keep on doing it."

Grad: So you would give them a credit against that for their first year.

Houtz: Right. So we got that clinic. Then we sold City of Dubuque. We sold them a bunch of things, a very complicated budgetary accounting system and payroll.

Grad: Still using RPG?

Houtz: Still using RPG. Accounts payable. Sold them three or four applications. Then we sold to a bakery.

Grad: Did you have any particular contacts there? How did you get into some of these places? Had you been there before when you were with IBM?

Houtz: No, I just went over and started talking to them.

Grad: Cold calling?

Houtz: Yes. Then we sold what was probably without a doubt our best application, a route accounting application. Route accounting is, you know, where you keep track of what the sales people take out on the truck, what they bring back and you do a reconciliation. We'd process every night, load the data for them and print reports. It was a very, very sophisticated application.

Grad: Who designed these applications?

Houtz: IBM. We got IBM manuals. <laughs> We had IBM manuals for a route accounting system that laid everything out. It was on a different machine – I think an 1130 Fortran machine – and we built it on that system. Plus we visited two other bakeries, one that had accounts receivable, one that had route accounting and they showed us everything they were doing. So we had a great game plan. We built that system and, after we got it running the way it should, from that point on we ran it for 11 years without making a change. Eleven years. It was just a solid application.

Grad: Yes, those IBM application manuals were very, very helpful.

Houtz: We might have gotten some help from their accounts receivable one, too.
<laughs>

Grad: Well, when I was working at IBM during the 1960s, one of the things we were doing was giving away software. We weren't charging for software because we just wanted to do anything that would get people to buy the systems.

Houtz: Right. And we had a lot of those manuals.

Grad: I was working on the 1130s at that point in time and, yes, we did a lot of them. That's great. I'm sure a lot of other service bureaus were using them. Well, that's a good question for tomorrow. I hadn't thought about that one.

Houtz: The route accounting manual on the 1130 was just unbelievable. We did things that they wouldn't use until they had been on the system two or three years. Once they needed it, it was there.

Changing the Name to CyCare Systems

Grad: When did you change the name of the company and why?

Houtz: Well, everybody knew us as CCS and we got to a point where we wanted financing because we wanted to grow. And we realized that our name was not very good, so we had a name the company contest. We got the name of every competitor in the industry. About the only name we could get through the state review board was CyCare and we didn't really like it at first but, as we got into it, we realized this was really a good name.

Grad: Where did the Cy come from? Just made up?

Houtz: CyCare Systems, CCS, which we dropped, okay? Because, when we made our new logo, CyCare was the logo. It was really a brilliant move.

Grad: Did the Care part have to do with medical or anything like that? I was just wondering if there was any particular reason you had used the word care.

Houtz: No. What we found out about naming a company was you wanted to make it short, you wanted it to be easy to remember, unique and it should be something non-descriptive of the business because your business is going to change. So the CyCare didn't really have anything to do with healthcare but it turned out to be appropriate.

Grad: I was wondering if there was a connection. When did you incorporate?

Houtz: We probably incorporated pretty early.

Grad: So you incorporated CCS before it was CyCare?

Houtz: Yes.

Grad: Let's stay with that just a bit. Talk about the finances and what went on between 1967 and, say, 1970 as a marking point.

Houtz: The only cash we had in the business was \$1,500.

Grad: You did borrow some money against your IBM stock.

Houtz: We did do that. I tried to borrow money or get a line of credit with the three banks in Dubuque and they said, "No, you don't have a business, sorry, we can't loan you anything." So I went out to a little country bank in the same city where Ertl Manufacturing was, a place called Dyersville, and they gave me a \$5,000 line of credit.

Grad: What did you need the money for?

Houtz: Just to get going and buy things.

Grad: You were paying for half your machine time.

Houtz: Right. And we had space, you know, you need to buy file cabinets. You need to buy components.

Grad: So just regular office kind of stuff.

Houtz: Yes, to get going.

Grad: Were you taking a salary out of the business at that point?

Houtz: I took the same salary I had from IBM.

Grad: So that \$15,000 really was going to you, personally.

Houtz: Yes.

Grad: Rather than being used for the business. That's what I was wondering about.

Houtz: It was going into the business and went back to me.

Grad: You didn't have a lot of money to start with, so now you've got use of the S/360 Model 20.

Houtz: Didn't have any money to start with, really.

Grad: But you said you did hire a programmer. So somehow you had to find enough money to pay a programmer.

Houtz: Right.

Grad: Who else did you hire, and when did you hire them?

Houtz: About four, five years into it.

Grad: That's much later. I mean the first three years.

Houtz: The programmer I hired wasn't working. He was a good kid, but he didn't really want to work that hard. So he left, and I went after a systems guy that I had previously talked into going from a manufacturing company where he was the DP manager to becoming a systems rep for IBM. Name was Dick Burgmeier. I talked Dick into coming in to work with CyCare, which he did.

Grad: So he was your first really permanent employee.

Houtz: He was the first high level employee and he took over operations and development, and I focused on marketing and finance.

Grad: Good combination.

Houtz: Yes, it was good.

Grad: You could do the technical work, but he was better?

Houtz: He was farther down the road than I ever got.

Grad: That's terrific.

Houtz: But about that time we rented some space in a new building right across the street from the bank, and the bank official – a guy about my age – came over and said, "Just want you to know that our board of directors has approved a twenty thousand dollar line of credit for you." I was dumbfounded. In fact, Burgie said, "It's the first time I've ever seen you at a loss for words." <laughs> But, anyway, that was our first real line of credit and that helped a lot.

Grad: So when does this line of credit show up, about 1970, or so?

Houtz: It's in about the 1970 period. A lot of things happened in that period. I mentioned the route accounting system we had put up. And the president of that company became a good friend and a good mentor to me. He was an older guy. He was president of his trade association, and he insisted that I go join some kind of association that sold computers or services and I didn't even know anything existed. And that's when I joined ADAPSO.

Grad: So this is about 1970?

Houtz: It was in the 1970 to 1972 timeframe.

Grad: Were there other service bureaus operating in Dubuque at that time besides yourself?

Houtz: Yes, there was an accounting firm that had an S/360 Model 20, and they had all kinds of general ledger clients, and they tried to compete with us in applications. But with all my application manuals and knowledge, we would just lay out systems that would be far superior to what they would come up with.

Grad: Okay. That was one. Were there others that you knew of?

Houtz: That was the only one.

Grad: How about some of the nearby cities around, Sioux City or Rapid City, any of these other places?

Houtz: In Minneapolis there was a competitor doing what we started doing a little bit later. It was a service bureau.

Grad: But you didn't know these people?

Houtz: We did not.

Grad: Did you meet them socially?

Houtz: No, I did not. I knew the person in Dubuque. In fact, he made a tentative feeler about merging, but I wasn't interested in that.

Grad: Okay. By this point now, we're at 1970. You had just the one employee, or did you have others by then?

Houtz: Well, we did some data entry work for John Deere, which, at that time, was a big contract for us. We had about five or six data entry operators. We had probably another systems analyst and programmer. We had probably two programmers.

Grad: Any idea what your revenue was in 1970?

Houtz: No. I remember we had a goal to do a million dollars a year and I remember when we finally hit a million dollars a year, it was awful. It was just a big letdown.

Grad: Do you think you hit it around 1972?

Houtz: 1972 or 1973. It was a real letdown. No bells went off. <laughs>

Grad: So you were making a good living. Were you able to increase your salary by this point in time? Because after two years, you were out of the deal with Ertl, right?

Houtz: I don't think we increased my salary for quite a while.

Grad: But you no longer had the commitment from Ertl. Now, the other outfit where you were using their computer, didn't you start to run out of cycles?

Houtz: Yes. We went from a S/360 Model 20 to Model 30s, and then we grew. At one time we had three Model 50s.

Grad: But were these outfits splitting the costs with you?

Houtz: No, we were being paid from our processing fees.

Grad: But were they still paying that? You said the original deal was they would pay a certain amount of money every month for the use of their machines.

Houtz: No matter what system we had.

Grad: Oh. They just kept paying the same amount of money. So that was fairly minimal money by the time you got done.

Houtz: Right. When we went to disk drives, they paid a little more for disk drives. When we brought in tape drives, they paid a little more because they wanted to use the tape drives for back up.

Grad: So all your machines, when you got them, were on lease?

Houtz: Right. Well, we leased the three Model 50s, and we bought some second-hand systems.

Grad: Did you get them from leasing companies?

Houtz: From leasing companies, right.

Grad: At a lower price, so that got better pricing for you. And you were still running RPG or had you now switched to COBOL?

Houtz: We were running COBOL now.

Grad: Okay. We now come to 1970, and you joined ADAPSO shortly after that, probably.

Houtz: Early 1970s, yes.

Specializing in Medical Group Practices

Grad: Your notes here say that you then started to specialize in medical group practices.

Houtz: Right.

Grad: Why?

Houtz: Well, we had six or seven clients in Dubuque, all in different industries. You'd think they'd run a lot of the same programs, but they didn't. We didn't have any two companies in one industry. It appeared to me that we were just on a treadmill.

Grad: You were churning.

Houtz: We weren't getting anywhere. And so we thought we needed to specialize in an industry. I looked at the city government package, which was actually better than our medical product, but there was no excitement in talking to the city government, there was no growth. We could have done that, but we chose not to. Our best application system was our route accounting product, but I checked how many bakeries there were like that in the United States, and there were, I think, like fifty. So I started trying to do a market analysis of medical group practices, and I found out that the states of Minnesota, Wisconsin, and Illinois were in the top six in terms of group practices in the nation. So I realized, well, we've got a market right here. So we decided to specialize in medical group practices.

Grad: Who's the we?

Houtz: Burgmeier and I.

Grad: So Burgmeier was really your number two guy.

Houtz: I really made the decision, but he went along with it. He told me later he didn't really believe we made the right decision until we got our nineteenth clinic signed up. <laughs>

Grad: That's an interesting comment. Had you hired any other salespeople by then, or were you still the primary salesperson?

Houtz: I think we had another other salesperson; we had probably two or three.

Grad: Did you have someone doing the accounting work by then, the bookkeeping, at least?

Houtz: I was doing the accounting for quite a while. Then we finally hired a CPA from an accounting firm to come in and do it. Ron Gray was his name, and he did a good job.

Grad: Okay, let's get into the medical group practice and how you built that. So what did you do? How'd you start it?

Houtz: Well, we identified about a dozen to fifteen group practices that had twenty or more physicians in that three- or four-state area, and I took our accounts receivable product out and showed it to everybody hoping to sell it to them.

Grad: So you were using the accounts receivable as your entry point.

Houtz: Right. And not only did none of them buy it, they weren't even interested. <laughs> And so I had to find out why, and what they told me was that their real problem was handling the insurance forms, doing the Medicare forms, the Blue Shield forms. And they needed help. So I went back to Medical Associates in Dubuque and went into the clinic and I told them what I wanted to do. I analyzed their insurance department, to figure out how they worked and what they were doing. I came out of that with the idea that we're going to print a Medicare form on a computer. We were probably the first one in the United States to do it. In fact, the government even provided the forms. So we did Medicare and Blue Shield.

Grad: Did they pay you for that work, or did you use them as simply a guinea pig?

Houtz: They didn't even sign up for it until we sold about fifteen other clinics.

Grad: So they let you come in and study it, and analyze it, and debug stuff there, but they didn't want the application.

Houtz: They didn't want the application. They didn't think it'd work. I then took it out and sold it. I had at least fifteen groups sold on insurance before I could convince Medical Associates that it would work for them, and then finally they went to it.

Grad: So that was your door opener to all the medical practices.

Houtz: Once I got the insurance, then I started going out and selling it and, like, the first ten clinics that we sold, we'd have some major application we had to put in. Like we had to modify the insurance processing to keep track of which claims we'd filed and hadn't filed. We did all that. We started to run into some problems with, "I can't give up my ledger card." So we figured out a way to run ledger cards on microfiche, and said, "Hey, this is a standard part of the product." And once we did that, we got up to ten clients. All of a sudden we've got about six installed, and some of them were pretty screwed up, so we had to go back and get those installed right. And we had a lull for about seven, eight months. We didn't sell anything, but we

got those first ten running right, and then in a period of about fourteen months, we went from ten to thirty-five clients.

Grad: Whew. All within that four-state area, including Iowa?

Houtz: Pretty much that four-state area.

Grad: Let's continue from that point on. You were describing the medical group practices and how you made your sales. And all of a sudden, after a quiet period, it really blew open.

Houtz: Right.

Grad: Why did that happen?

Houtz: We had ten groups signed up and were installing them. They were in different phases of installation and we went into the next year thinking we were going to sell another ten or fifteen, but by September we'd only signed up two additional groups. It was because the groups weren't that good as references because it took a while to get them installed and get up and running. Over the years our installation techniques really improved. In those first ten I don't think we were that good. But once we got those ten installations so that they were all positive references, with those positive references, with the microfiche, with the insurance reports – and we were actually sending claims to a lot of different carriers – we just had a much more viable product offering and a stronger reference base, and that's when we took off. From September of that year to the December of the following year, we went from ten to thirty-five groups, which was a big increase.

Grad: What kind of pricing did you have with these companies?

Houtz: I don't remember all the exact prices, but we charged so much per accounts receivable statement, like, I don't know, twenty-five cents apiece. Insurance reports were like twenty-five to forty cents apiece.

Grad: So it was usage-based pricing.

Houtz: It was usage-based.

Grad: Did you have them guarantee a minimum amount per month, or anything of that sort?

Houtz: Well, as we became more sophisticated in our pricing, we charged x dollars per month, per physician. So if they had a group of twenty physicians, and went to thirty physicians, their base price would go up by fifty percent.

Grad: And then in addition, you would charge these usage fees.

Houtz: Usage fees, right. A combined pricing plan.

Grad: One of the wonderful things about a service bureau, of course, is you have this ongoing revenue stream.

Houtz: Right.

Grad: And people tend not to leave you.

Houtz: If you do a good job, they don't leave. In fact, what we found for a while was that everybody was going to go turnkey. But we turned that around, and we put turnkey systems in, but we extracted the insurance reports and the statements and ran those out of our center in Dubuque.

Grad: We'll talk about turnkey in a minute.

Houtz: Okay.

Grad: You had to get more machinery as you were building up this larger number of accounts. Right?

Houtz: Right.

Grad: You also, for the first time, if I understand you, effectively had proprietary software.

Houtz: Yes, we did.

Grad: Before it had been one-off's and you now had a reusable package.

Houtz: The first ten groups we did some custom software for each one, but we incorporated it in the system, and you could use it, or not use it, with the advent of selective processing options. So we had maybe a couple hundred options in the system.

Grad: Were these opt-ins, or opt-outs?

Houtz: Either way.

Grad: Could go both directions.

Houtz: I think we installed clients eleven to twenty without making any additional software changes.

Grad: So you had all the functionality you needed at that point.

Houtz: Yes, we did.

Grad: How about the reports? Did they have to be different for the different clients?

Houtz: No, it was pretty much the same.

Grad: They would take the standard reports.

Houtz: Yes.

Grad: And you were using COBOL.

Houtz: COBOL, right.

Grad: Did you use any of the database management systems at this point in time?

Houtz: We didn't use those until we went to our distributed processing product which is a little bit later.

Grad: So you weren't using a DBMS.

Houtz: When we did go to database, we used TOTAL, which was one of the first.

Grad: From Cincom.

Houtz: Right.

Grad: Let's talk briefly about ADAPSO, and your joining ADAPSO. Why did you do it, and what was the value to you?

Houtz: The value to me, personally, was unbelievable, because I was in a new industry, which everybody else at ADAPSO was, also. We were encountering things that none of us had ever encountered, but the people in ADAPSO were all very open with what they did and how they did it, probably with the exception of ADP, which was very secretive about everything. But, for example, I think part of the concept I had about specializing, came from the ADAPSO meetings. They'd have seminars on being general purpose or specializing. And, hey, you'd better specialize in something if you want to be around for very long. And get out of the custom software business. You got to have a package or a product even if you're not selling it as a product, you're selling it as a service. It's at least something you can use over and over again for a lot of different clients.

Grad: You don't have that out-of-pocket cost of rebuilding it every time.

Houtz: Right.

Grad: Did you continue to sell other applications during that period of time?

Houtz: No. We quit selling our route accounting product but continued to run it. We ran a route accounting product for eleven years.

Grad: So you kept running the six customers you already had.

Houtz: Right.

Grad: But you weren't going out and finding new ones except in your specialty area. You bet the whole store on that particular market, didn't you?

Houtz: Yes, I did. In fact, the president of one of the most prestigious insurance agencies in town called me, and I'd tried earlier to sell them. He said, "Hey, Jim, we've decided that we want to do something with you, and could you come down and talk to us about it a little bit?" I said, "Geez, I'm really sorry, but we're specializing in medical group practices," and he was kind of put off about it, but that's what we were doing.

Managing the Business

Grad: Did you need money during that period of time?

Houtz: Yes, I did.

Grad: And I have a note here that you used something called industrial revenue bonds? Tell me about that.

Houtz: Well, I don't know where I heard it, but I read some place in a magazine about industrial revenue bonds, and you could use them for computers. So I went to an underwriter out of Cedar Rapids, and found a guy that did bonds. He worked for Dain Bosworth, and he knew all about the industrial revenue bonds, and he said, "Yes, you can qualify." I had to go to the city and get them to agree to sponsor the bonds. We were going to raise \$2 million at about seven percent interest, which was really a good rate at that time, and then pay it back. I can't remember whether we paid it back all at once, or we paid it back in increments, but we had to pay the interest monthly. So they went out and did the underwriting, and they got a \$1.4 million sold, and the market kind of cratered. And the underwriter said, "I think we ought to close this off. Take the \$1.4 million." And that's what we did.

Grad: Now, this is the early 1970s. There was a fairly serious recession that took place in the 1970, 1971 time period.

Houtz: Yes, there was.

Grad: So you probably got hit by that.

Houtz: We got hit a little bit, but it didn't really hurt health care that much.

Grad: No. I meant as far as raising the money for the bonds.

Houtz: Oh, yes.

Grad: And you used that money primarily for buying hardware?

Houtz: Almost exclusively for buying hardware.

Grad: What hardware did you use it for?

Houtz: I think we used it for the 4341s.

Grad: So by now you have your own physical offices, your own machine rooms, and so forth.

Houtz: Right.

Grad: All your own operators.

Houtz: Right. We ran twelve-hour shifts. Computer operators worked three days a week. We got an article published about us in one of the magazines about how we ran around the clock seven days a week.

Grad: You were running the whole weekend.

Houtz: Oh, yes. We did.

Grad: Now was this the point when you started doing remote data entry? How were you physically getting the data?

Houtz: From day one, with the exception of the first clinic, we always had the clinic do the data entry. We started out with Honeywell data entry devices, magnetic tape. They'd enter it all day long. They'd transfer it to us every night. And then we'd run the reports at night, and the next morning we'd go to the bus depot and all the reports were delivered usually by noon the next day. We had a couple of very large clinics that we would shuttle the reports over to.

Grad: You weren't delivering checks or anything like that, so that was why it was okay to do this.

Houtz: Yes.

Grad: As for your communications, you didn't do anything special with CICS, or any of the other communication systems?

Houtz: It was all remote batch.

Grad: On your machines, what operating systems were you using? Were you using DOS or OS?

Houtz: Oh, we used DOS almost exclusively. We might have used OS, but I don't think so.

Grad: Did you have much involvement in the technical side from that point on? Was Burgmeier doing that for you?

Houtz: We had such a great technical staff. Burgie went out and hired some great application programmers. He hired a guy by the name of Harry Moore who had been a systems engineer for IBM for many years and then went into their systems programming staff. He knew how things worked internally, and he was unbelievable. When we brought up our first minicomputers, they wrote some screen handlers, which weren't common then. They wrote some recovery products, which weren't common at that point, so we had some real technological advantages.

Grad: Let's talk about the organization structure in the mid-1970s .You were the CEO?

Houtz: Right.

Grad: Did you have a president, or a COO?

Houtz: Burgie was COO, really.

Grad: Not just development.

Houtz: No. Burgie ran development, and the computer room, and service and I ran sales and marketing.

Grad: In accounting, you had someone reporting to you by then.

Houtz: In accounting, we had a CFO.

Grad: Any other senior officers by then?

Houtz: I think about that time we brought in a sales manager.

Grad: Reporting to you directly.

Houtz: Yes, right.

Grad: So, in effect, sales manager, CFO, Burgmeier.

Houtz: Right.

Grad: Who had the operations and the technical development work.

Houtz: Burgie.

Grad: Customer service.

Houtz: Burgmeier had people reporting to him.

Grad: He had all the operational stuff.

Houtz: Right.

Grad: Okay. Were there problems in finding the right people, working together, any of those kinds of issues?

Houtz: I stayed involved in the hiring process of all the officers and managers for quite a while. We tried to hire the best person we could find in the industry. In fact, we had about eighteen to nineteen people that left CyCare to go on and become presidents or owners of their own firms. The first couple that did that really, really ticked me off, but after that, I realized that it was a mark of accomplishment.

Grad: Yes, that's a real accomplishment, too.

Houtz: It really was. But we did have some problems when somebody wasn't performing. We tried to have a spring drill every year. A spring drill is, whether you're doing well or not so well, you go through and identify those people in the company that aren't performing. The years we didn't do that, the next year we didn't do as well, but the years we had spring drill, we usually had good years following that.

Grad: How many people did you let go? Five percent, ten percent?

Houtz: It might be seven or eight people, something like that.

Grad: So how big was the company then? What kind of revenues were you doing by the mid-1970s? Do you remember?

Houtz: I remember in 1981, when we went public, we were doing about \$14 million.

Grad: That's later. So we're probably talking \$3 to \$5 million, at the most, in the mid-1970s.

Houtz: \$5 to \$7 million.

Grad: Okay. Was it profitable?

Houtz: It was marginally profitable. It had to be a little profitable, or we couldn't go forward.

Grad: You had a lot of machine costs.

Houtz: Yes.

Grad: And operator costs. One of the things about a service bureau, there's a lot of built-in cost.

Houtz: One of the things I got from ADAPSO was having a model, and I remember at one point our computers costs were 78% or 79% percent of our costs. And we had some pretty candid discussions. "Hey, that's got to be down closer to 40%."

And that's what we strived for, so we built a model, you know, just on a piece of paper, saying that we want computer costs around forty percent. We want development to run ten, administration just six or seven, sales and marketing, and the profits the rest. And we never did quite hit that, even the last four or five years we were in business.

Grad: Well, that was one of the problems. The wonderful thing about it is you're going to have that recurring revenue in the future, but the risk is you have to spend the money up front.

Houtz: Right. That's why we leased most of our stuff.

Benefits of ADAPSO Membership

Grad: Let me get you back to ADAPSO, and then I want to start talking about acquisitions.

Houtz: Okay.

Grad: Give me stories about ADAPSO, people you talked to, things you did there that made a difference to you.

Houtz: I remember my first experience with ADAPSO, I go to this meeting and there's a group of six or seven guys sitting in a room about this size. How are we going to keep the banks out of the business? What are we going to do to make sure that they don't come in with their enormous capital and just overwhelm us?

Grad: Keep them out of what business?

Houtz: Data services business.

Grad: Okay.

Houtz: And I'm standing there thinking, "You're not going to be able to do that. What, are these guys nuts?" But they did. They got some kind of legislation passed, and I used their model or their guidelines fifteen years later in another industry, claims, to get some legislation passed. They got legislation passed that kept the banks out of the data services business and gave all these small companies a chance to grow and succeed. I thought that was absolutely amazing.

Grad: That's a terrific story. Give me another one.

Houtz: I talked about one of them already, which was the need to specialize, and I caught on to that real quick. Another one, I remember going to a seminar. A guy was talking about how great it was to do \$5,000 a month custom programming jobs. I remember people challenging him, saying, "Well, you know, you got to get product." And he said, "No, no, no. This is really the right way to do it." I went to the program the next year, where the same guy is complaining about losing a \$5,000 a month custom job to somebody that's got a package. So that made it very clear we've got to have proprietary products. We've got to keep improving them. They talked a lot about recurring revenue. The two or three times that CyCare, over the course of its 29 year history, got into trouble, was when we got away from recurring revenue and spent a little too much time selling turnkey systems.

Grad: Many of the companies try and change their models, and sometimes they work, and sometimes they don't. John Rollins from AZTECH changed models several times. It'll be interesting to see which ones of his were successful, and which ones weren't.

Houtz: We changed, we changed back.

Grad: Sometimes people say, "Oops, I shouldn't have made that step." And if they can recover quickly enough and haven't spent too much money, they're okay on that.

Houtz: Right.

Grad: Were there people in ADAPSO that you found particularly helpful to you?

Houtz: Oh, geez. Here's another ADAPSO experience. We're sitting in a meeting with about six or seven guys. "What are we going to call software?" We had other names, "brainware," everything you could possibly think of. And it might have been Larry Schoenberg that said, "What's wrong with just calling it 'software?'" <laughs>

And then there was John Imlay who said, "I'm going to go out, and I'm going to get a hundred articles published about software." And we laughed at him. "You're not going to be able to do that, John." But he did. The one he was the most proud of was a half-page article in the *Christian Science Monitor*.

Grad: Oh, is that right? I didn't read that. I remember when they got the cover story in *Business Week*.

Houtz: Oh, yes.

Grad: "The Empty Computer." That was about 1981, 1982, somewhere around that timeframe. Okay. So ADAPSO was an ongoing thing for you. Did you join any of the Roundtables?

Houtz: Over a series of years, I belonged to three different Presidents' Roundtables and I found them invaluable.

Grad: Describe what a Presidents' Roundtable did, please.

Houtz: Well, Gil Mintz put the first one together. I was in that first one and he had like ten companies. We were all in computer services or data services of some type. But none of us were competing directly with each other.

Grad: You were all in different geographies.

Houtz: Yes, some in different geographies, but in most cases, serving different industries.

Grad: Okay.

Houtz: None of us competed, but everybody was really open about everything, and we would have meetings, and we'd say, "Okay, our next meeting we're going to go over development plans." And I remember one meeting where one member, I won't mention his name, but he got up and described what he was going to do in his development process. And Larry Schoenberg, sitting in the back, says, "You got to be out of your mind to do that." <laughs> And they had subsequent conversations and Larry convinced this guy to do his development in a totally different way. That was the kind of group it was. I mean, you'd go to that group more prepared than you would to make a sales presentation. You'd go to really impress your peers, and they'd rip you a new one, because, hey, they knew what they were talking about, and they would really, really help you.

Grad: I've been told by people that this was, in effect, a peer group board of directors with a knowledge level that no board of directors had.

Houtz: No board of directors had as much, probably.

Grad: Did you have a board of directors by this time?

Houtz: Yes, I did.

Grad: How large and who were on it?

Houtz: We started out with a board of directors. Bernie Goldstein came on our first board, which was really fortuitous for me.

Grad: How did you persuade him to do that? Where was Bernie working at that time?

Houtz: He was between Tymshare and when he became chairman of the board with another company.

Grad: National CSS.

Houtz: Right. He was between those two assignments, and he had tried to acquire us.

Grad: With United Data Centers?

Houtz: No. With Tymshare.

Grad: Oh, when he was with Tom O'Rourke in Tymshare.

Houtz: Right. We had an electronic electrocardiograph system, where we were doing EKGs, which we thought would tie into our clinic product. We got it running and we were doing a hundred and twenty EKGs a day. George Grodahl came out and spent a day with us, and he saw something he really liked because he called Bernie, and Bernie showed up the next morning. Bernie took from about ten o'clock in the morning until one thirty, through lunch, to get to his offer. And I think it was like a million and a half dollars, and I said, "Let me explain this back to you." I said, "You want us to sell you the company, and basically it's for a million and a half dollars, and you'll pay that up front. Is that right? Do I have it right?" He said, "Yes, that's right." I said, "No." <laughs> Short, short.

Grad: Why did you say "No?"

Houtz: Because we saw a lot more opportunity than that. George Grodahl started to bust out laughing. He said, "Boy, you really sold them, Bernie." <laughs> So after that I started doing acquisitions with Gil Mintz who Bernie ended up as partners with.

Grad: He later on joined Gil Mintz.

Houtz: I think Bernie was already on our board by that time. I went and talked to him and said, "Hey, here's our plan. We'd like to ask you to come on the board." And his comment was, "Well, I've got enough money. If you could compensate me in stock, I'd consider it." So that's what we did.

Grad: Terrific. That's a good story.

Houtz: We had probably one of the most prominent executives from Dubuque, President of a company called "Flexsteel Furniture Company." And we had one other board member, and I can't remember who that was. There were about five of us.

Grad: You didn't make it much bigger, then, later on.

Houtz: No.

Acquisitions

Grad: Okay. Let's go to that first acquisition. Gil Mintz had a company called Broadview Associates, I believe.

Houtz: Right.

Grad: So who initiated the first acquisition? How did that happen?

Houtz: Well, we were doing really well in group clinics, and we made the mistake of deciding to go into the hospital business. That was our strategic plan.

Grad: What kind of applications were you looking at?

Houtz: We were doing physicians' systems. The hospital systems are really quite a bit different.

Grad: This is insurance claims, again.

Houtz: Insurance again. But it's a different system in hospitals. So I talked to Gil Mintz, because I'd heard of him. Broadview wasn't a big company, just Gil and his secretary. I don't even know if she was full time or not. I went in to New York and visited with him and he found this prospect for us, and we worked out a deal to do the acquisition.

Grad: Okay. How much? Did you pay cash? Did you pay stock? What did you do? Do you remember?

Houtz: I think we paid about \$2.5 million to \$4 million, payable partially in stock. We were a private company. I think it was a combination stock and cash deal. Most of our deals were that way.

Grad: Where were they located?

Houtz: They were in Spokane, Washington.

Grad: That's not a very good location from your standpoint.

Houtz: <laughs> It was a long ways away.

Grad: So did you keep the management? Did you change it? What did you decide to do?

Houtz: I knew when we acquired them that the three partners were not getting along, and I figured with my magic personality I'd be able to solve that. Well, I was dead wrong. So what we ended up doing was sending our vice president of sales out there to run it.

Grad: Oh, my.

Houtz: And then it started working out okay.

Grad: You speak of hospitals as being a negative from your standpoint, so why do you say that?

Houtz: We looked at it as a parallel marketplace that was close to clinics and we never really realized that it was almost like a totally different application, much different in scope.

Grad: So it was a stand-alone business, not complementary in the sense you expected it to be.

Houtz: Right. Only thing complementary was it used the same hardware. So we never really were successful in the hospital business.

Grad: Did you sell many systems?

Houtz: No.

Grad: So when did you cut your losses, and how did you do that?

Houtz: We cut our losses by getting out. The biggest client we had decided to build their own system, and we were building a product around a minicomputer, and we did a terrible job on it, and it bombed. And so the hospital decided to leave and we kept the physician business piece of it and said, "Okay, we're going to get out of the hospital business."

Grad: So it was pretty close to a dead loss.

Houtz: It was not good. There were some good things about it. We picked up a lot of recurring revenue in the clinics, but it wasn't a big hit.

Grad: Previously you had focused on the four states.

Houtz: Right.

Grad: So now Seattle put you in a completely different geographic location.

Houtz: By this time we were in California and in Atlanta.

Grad: Had you opened up offices in those locations?

Houtz: We opened an office in Atlanta, did pretty well. We opened an office in San Diego and did well.

Grad: So setting up another office in Seattle wasn't a big problem.

Houtz: It wasn't a big deal.

Grad: Did you send some of your people out to open those offices, or did you hire locally for those offices?

Houtz: We hired people, brought them back to Dubuque, trained them for six months, and then we'd send them back out there.

Grad: So they were from the location.

Houtz: We sent a person down to Atlanta, but most of the sales people were from Atlanta. The people in San Diego were from the San Diego area.

Grad: Did you create a technical staff at those locations, or just a sales and support staff?

Houtz: We put an implementation staff, technical people to install, but not any programmers.

Grad: The programming you were doing back in Dubuque.

Houtz: It was all done in Dubuque, Iowa, right.

Grad: So you've got a pretty good-sized operation. It's growing by this point in time.

Houtz: Right.

Grad: All right. Even though the first acquisition didn't turn out quite the way you had hoped, when did you make your second? Soon thereafter, or did you wait a while?

Houtz: I think we waited a while, but we learned a lot from that first one. We spent so much time arguing about the chart of accounts, and things that really didn't help get customers. We realized that any subsequent acquisitions we made, we had to have all the post-acquisition things laid out and agreed to before we did the deal, which we always did from then on. We always got agreement on chart of accounts. Got agreement on who was going to stay, and who was going to leave.

Grad: So did you do this before you made the offer?

Houtz: We made it kind of concurrently with doing the offer.

Grad: So you had a due diligence and development period.

Houtz: Right. We might make an offer: here's what we think the business is worth. But before we firm it up, we need to do the due diligence, and let you know what you're going to do after we do the deal, and let your people in the company know what they can expect. For example, if you've got an accounting staff, we need to know going in, and you need to know going in, whether we're going to keep them or let them go. We didn't want to do an acquisition and then go in and say, "Okay, these the people are leaving," after we did the deal. We tried to do that before we did the deal.

Grad: I'm going to take you up to 1981. You try to grow in different ways, by acquisitions and you try to use minicomputers.

Houtz: Right.

Grad: Were there other ways you tried to grow, besides acquisitions? Was there other technical work you did?

Houtz: Well, we built an EKG product.

Grad: Okay, you mentioned that.

Houtz: And about the time we built the EKG product, in the Group Practice division we were building a patient scheduling system. With the patient scheduling system we had the same response as we did on our first insurance system. <laughs> Take it out and show it to people. Not interested. But we finally got two of them installed and the results were unbelievable. We would take people to see the installations, and this one gal who was a nurse would be doing scheduling appointments. She'd say, "People call in here all during the day

wondering who their appointment was with. With this scheduling system, I can look it up and tell them where they have appointments in the group right away, whereas before I had no way to do that. And furthermore, I don't get my hands dirty, because I'm not dealing with handwritten documents." She said, "This is wonderful." And she was so bubbly. I mean, people would walk out of there literally having mentally bought the system.

And we had another client in Kentucky that did cost analysis on it and they figured that they increased their revenue by one percent just because of patient scheduling, which was a big number. We just had stories like that. So like insurance made our system sales take off, so did patient scheduling; for about a period of four years, we were the only ones that had it.

Grad: That's fascinating.

Houtz: When the scheduling product took off, we said, "We've got more there than we can handle, but the EKG product needs a few hundred thousand dollars more to make it work. So, we're going to drop the EKG product." That's what we did.

Grad: Just dropped it. Did you sell it to somebody?

Houtz: No. There wasn't that much to sell. We helped everybody off onto other systems.

Grad: 1981 is another checkpoint because that's when you go public.

Houtz: Right.

Grad: So by that point, how many companies had you acquired? Do you remember?

Houtz: I think the number of companies we acquired up to 1981 was really pretty limited.

Grad: Two or three maybe?

Houtz: No more than two or three.

Grad: But you were working with Broadview.

Houtz: We worked with Broadview.

Grad: Because Bernie at that point had joined with Gil.

Houtz: I think when we really started working with him hard was in the mid-1980s.

Grad: Or even later.

Houtz: We worked primarily with George Grodahl, and if somebody brought us a deal, we would take it to Broadview.

Grad: I'm just wondering, because Bernie was on your board. He joined Broadview about 1978, I think, when National CSS was acquired by Dun and Bradstreet.

Houtz: He was in the company, and we disclosed it in our reports.

Grad: But he wasn't the principal reason that you started the acquisition process, then.

Houtz: No. But once we got going in acquisitions, he was very positive and favorable about it.

Grad: 1981. You've run out of your industrial bond money by then. You're making some money, though, I hope. Had you raised your salary by then?

Houtz: I don't know if I had or not.

Grad: Were you still the CEO?

Houtz: Yes, I was always the CEO.

Grad: Did you have a president by that point in time?

Houtz: Over the last 15 years, we had three different presidents.

Grad: But that's later.

Houtz: Later, yes.

Going Public

Grad: What made you decide to go public?

Houtz: Remember a guy by the name of Ross Perot?

Grad: I certainly remember Ross Perot.

Houtz: Ross Perot was on the cover of *Fortune* magazine about six, seven years earlier. And when I read the article about what he did, I thought, "That sounds to me like it's illegal." I mean, he had a company that was doing revenue that was \$7 or \$8 million. And he took it public and it was worth a billion or some ungodly number. So I wrote down notes on the back of a punch card of what he did and how he did it. I carried that punch card in my billfold or my coat pocket for four or five years. From that day on I said, "I know what we're going to do." <laughs> And then all of the companies in the industry starting going public.

Grad: Now, of course, there had been no public offerings from the late 1960s until Cullinet, Cullinane at the time, went public. And that's in 1979 or 1980? Somewhere around there. That broke the dam, I think.

Houtz: I remember John Imlay was in his quiet period, and he says to me, "Houtz, twenty years from now when they talk about the good old days, they're going to be talking about right now." <laughs>

Grad: That was a critical point. That "empty computer" cover of *Business Week* was published. Cullinet went public at a very nice price/earnings ratio. And this did open the gates.

Houtz: Opened the gates. Now we didn't raise a lot of money, and we didn't get a super evaluation, but we raised about \$5 million.

Grad: You were on the NASDAQ, I believe.

Houtz: We were on NASDAQ.

Grad: Who handled it for you?

Houtz: Alex Brown. And I remember the underwriter coming out and telling me, "You know, these guys in Baltimore, they're worried about this guy from Dubuque being able to sell his stock." <laughs> I said, "You go back and tell them I've been getting ready for this all my life." So they wanted me to have the practice road show in Dubuque. "See, it's all your friends there. We know you'll be comfortable." It was unbelievable. The waiter, as he's serving tables, he looks up at the screen. And then about 20 seconds later, there was a big crash in the kitchen

and I said, "Boy, everybody's trying to get in the act." Of all the road shows I did, that one in Dubuque was actually the toughest! <laughs>

Grad: How many did you have to end up doing for \$5 million?

Houtz: I think I did five or six.

Grad: How'd you feel doing it? Did you like it?

Houtz: I thought it was great! It was a chance to show off. It was a chance to say, "Hey, we've done something of value."

Grad: Did your Presidents' Roundtable give you any advice or counsel on this one, or was this pretty much your own thing?

Houtz: This was pretty much on my own.

Grad: Interesting. Because most of them hadn't gone public by that point in time.

Houtz: No, and I found that being able to take some pieces of paper down to your stock broker and six, seven days later he gives you a check, this is America, man!

Grad: You didn't sell any of your own stock though at that point in time.

Houtz: I didn't sell any initially. But eventually, we did.

Grad: Did you give options to your people at that point in time or not?

Houtz: With our stock plan, we had like 60 percent of our employees at one time that had stock or stock options.

Grad: What percent of the company did you personally own at that point after the IPO? Do you have any idea?

Houtz: It was down to about ten percent when we sold the company.

Grad: That was when you sold the company in 1996. I was talking about when you went public in 1981.

Houtz: I can't remember.

Grad: Did you still have controlling interest?

Houtz: I felt like I always had controlling interest.

Grad: That's how you feel about everything. <laughs>

Houtz: When Bernie came on, he ended up with 20 percent of the stock, so it was down to 80, and then as some of these key officers came in, I would let out stock to them.

Grad: But you felt that between you and the people that you were working with you had control of the company.

Houtz: Yes.

Grad: And you continued after the IPO?

Houtz: Actually when you do an IPO, the stockholders own the company, not the management anymore.

Grad: Yes, but it depends how much of the stock you still own. It depends upon your evaluation and so forth when you sold the shares for five million dollars.

Houtz: Right.

Grad: Okay, you went public, you now have some cash. What'd you do with the cash?

Houtz: We started a fairly aggressive acquisition program.

Grad: Was that a major reason of yours to do the IPO, or just to do it?

Houtz: Just to do it, and to let anybody in the company that any options to show them that they have value.

Grad: All right, you've raised the money. Now you must've changed your business models over time.

Houtz: Yes.

Minicomputers

Grad: Was that mostly after you raised this new money or had you done a lot of that before? You mentioned some of the things you had done earlier. Tell me about the minicomputers, for example. When did you do that?

Houtz: I think in the early 1980s we started putting more equipment in our customer's offices. We thought at one time we were going to go totally turnkey. But as we got into it, we found out that the clients really didn't have the ability to process 15 to 20 thousand statements at the end of the month. So we kind of backed off of that and had them transmit the statements to Dubuque.

Grad: What did you mean by turnkey? Describe what you meant there.

Houtz: Well, we took the software that we were running on mainframes, and we would run the system in the client's office.

Grad: What kind of equipment were you using there?

Houtz: We used Honeywell minicomputers.

Grad: And you were able to move the code over to it okay with no problem?

Houtz: Yes.

Grad: So the COBOL code was okay.

Houtz: It ran.

Grad: Were these still primarily batch operations?

Houtz: Well, when we went into patient scheduling, it became an online operation.

Grad: So what did you use for your communications?

Houtz: We used the minicomputers.

Grad: So you weren't using CICS, or IMS, or any other database manager. You finally did go with TOTAL. Was that at a later point in time?

Houtz: That was on the minicomputers. And we used that program to build the patient scheduling, and an online registration system that the clients ran right in their office.

Grad: Was that very successful?

Houtz: Well, it didn't start out successful, but after we got going, it was wildly successful. What we finally arrived at was having several different levels of minicomputers and doing part of it in the client's office and part of it in Dubuque. We finally ended up with, "Hey, we're going to do all the printing of reports in the Dubuque Center. Especially the insurance reports and the eight-hour statements."

Grad: Why would you do the printing in a central location, not at the client's location?

Houtz: Because we only have to have one set of code if we did it at a central location. The insurance code was constantly changing. And trying to duplicate that out at 300 clients was a problem.

Grad: So what part of the application was being done locally?

Houtz: They would do the data entry. They'd do the registration. They'd do all the patient scheduling. They'd run their daily reports. Those reports that we were previously sending out by bus. They'd do them all in the clinic.

Grad: Did they own their own computers, or did you own them?

Houtz: They owned them.

Grad: Who provided the hardware service? Honeywell?

Houtz: Honeywell did, yes.

Grad: And you found that your programs were written so well that you were able to move them down to the Honeywell equipment without having to re-write?

Houtz: Well, at that time, the minicomputers didn't really have any kind of screen handler. And this fellow I talked about, Harry Moore, he and another person wrote a screen

handler, so we could build these online screens pretty easily. And they did not have a recovery module. They had backup but no one knew what recovery was at that point. In fact, he had to explain to us. And they wrote a recovery module that was on the minicomputer, and we tied all of our online systems in with that. So if the system went down, we could recover right up to the point of the last transaction, which was unique in the industry.

Grad: Could you operate all their applications on your own equipment or not?

Houtz: We could. And we had a couple of clients that did that. Over time we converted them back to running the insurance statements.

Grad: So your service bureau operation became more of a central printing operation?

Houtz: Yes.

Grad: That's an interesting switch, isn't it?

Houtz: Yes, but it was a big central printing operation. Huge. I mean, we had five laser printers. Ten to twelve Phillipsburg stuffing equipment machines. It was a big operation! And then we took in insurance processing and more and more of it was going out electronic, instead of them sending us electronic forms and us printing paper. We started doing the Medicare forms electronically and sending them directly to the insurance companies. We started doing it with Blue Shield, and by the time we were done, we had 450 electronic formats.

Grad: So the business is growing now. Did you need extra financing to support all this hardware that you were buying? I see that you had a secondary offering in 1983 or so.

Houtz: Yes.

Grad: Now was that to sell your own stock, or was that maybe for equipment investment money?

Houtz: We sold some of our stock. It was still new stock, most of it. But we sold some existing stock also.

Grad: So you cashed in for the first time?

Houtz: A little bit, right.

Grad: Meanwhile, you're going ahead and you're making more acquisitions during this time, or is that later?

Houtz: No, we're making acquisitions in the 1980s, quite a few.

Grad: Give me some examples.

Houtz: We got into an area of business that looked pretty good which was practice management. The hospital-based physicians wanted us to do everything. They didn't want any equipment. They wanted somebody to come in and do everything for them. And we billed them based on a percentage of revenues. We made about four acquisitions around the country and we built the division pretty quick. We did about \$25 million in revenues.

Grad: So now we're talking some pretty big numbers now.

Houtz: And then as we got into it, we realized that it was about that time that the government started dropping the amount that they would pay for Medicare every year. So we had a business that was guaranteed to drop in revenue four or five percentage points a year. And we couldn't sell fast enough to keep it growing.

Grad: To make up that difference.

Houtz: So we sold it. And we made about \$8 to \$10 million on the transaction. So we got out of that business.

Grad: Give me some other acquisitions that you made.

Forming CyData

Houtz: We bought a hospital clearinghouse business in Omaha.

Grad: What was that?

Houtz: We probably did this in the late 1980s, or early 1990s. We had this magnificent insurance processing capability. I wasn't doing much. I had a really good president and I said to him, "Why don't we take that insurance processing business, and repackage that a little bit, and sell it to all of our competitors?" He and I agreed right away for a lot of reasons. He saw the benefits of it. He also saw that it'd get me out of his hair, because I'd go do something else.

<laughs> So we repackaged it. And we really had some very severe arguments within the company whether we should do that or not.

Grad: Well, that's the concept of eating your own children.

Houtz: That's what the marketing guys said, okay? We were processing, you know, 5% to 10% of the claims in the industry and we didn't have access to the rest of them. Once they figured out we were going to do it, it was, "Well, you guys won't be able to sell this to anybody." And I think within a year we had 75 percent of the competitors sold on the product.

Grad: Now was that the first product you sold separately from the use of a service?

Houtz: No, it was still a service. Those other companies...

Grad: Oh, they were just coming into you.

Houtz: They would send their weekly transactions and weekly statements into CyData. We set it up as a separate company.

Grad: So CyData was formed in 1992 from your notes.

Houtz: CyData was a clearinghouse.

Grad: So it was really an EDI, Electronic Data Interchange, operation.

Houtz: Absolutely right.

Grad: What did you call it?

Houtz: We called it EDI, Electronic Data Interchange.

Grad: And so you got the competitors to run it through your system.

Houtz: Yes.

Grad: How did you price that?

Houtz: So much per claim.

Grad: I remember being out at your location and the machinery you had there was unbelievable. The printing equipment. The stuffing equipment. All this mechanical equipment. It was mammoth!

Houtz: We went from 10% being electronic, up to about 80% being electronic over a period of years. Those that were paper, we didn't even send back to the clinic anymore. We just sent them all to the insurance company.

Grad: I don't know when I was out there, but the amount of machinery, the stuffing machine, watching that stuff run, and what it could do, and putting inserts in, and the enveloping. It was a fabulous thing to see! You must've had fun with it.

Houtz: I did have fun. It was exciting. In fact, you know, at the clearinghouse, we worked our butts off the first year. We got a lot of contracts signed, but we didn't get much volume. I think at the end of the first year, we were doing about a thousand claims a month. In the second year, we did 40,000, then 200,000, and then 2 million, and it just went *swish!* And we were on our way. About four years ago, the company that bought that clearinghouse processed about 33% of all the claim forms in America.

Sale to HBOC

Grad: What was the name of the company that bought it?

Houtz: Well, we sold it to HBOC, who sold it to McKesson.

Grad: Wasn't there a serious problem with HBOC and McKesson?

Houtz: Yes.

Grad: Do you want to talk about that now or later?

Houtz: I can talk about it now. When we sold the company to HBOC in 1996, their stock was priced at about \$46 per share.

Grad: And your total price was about \$240 million, you said. Was that stock, or was that cash, or was it some mixture?

Houtz: It was all stock. Some of us who had a lot could sell some of the stock, but the rest we had to hold for two years. The stock went from \$46 up to about \$84. When it got to \$84,

I was out of my two-year timeframe. I talked to my attorney, he said, "I think you ought to hold onto this. It's done pretty good." My stockbroker said, "Jim, I think you ought to sell it because you ought to diversify," which is what I did.

Shortly after that, HBOC was sold to McKesson. And they announced a little bit after that that there was about a \$25 million, or \$50 million, accounting irregularity. Stock went from \$84 to \$60. Most of our stockholders were gone by then. And then four or five months later, they announced that the final results are in, and instead of being \$50 million, it was \$250 million. The stock went to \$20.

Grad: Were you involved with the company after the sale in 1996?

Houtz: No, I was not.

Grad: But you sold in time, you had enough shares, that that must've been a real windfall for you.

Houtz: Yes, it was a windfall. No question.

Relocation to Arizona

Grad: When did you move to Arizona?

Houtz: We moved our headquarters about five years before we sold.

Grad: So early 1990s you moved down there. Why did you move to Arizona?

Houtz: Well, we had just bought the building in Dubuque, which is really a great facility. But we were having problems hiring systems programmers. We were having problems getting senior marketing people, which we really needed, to come to Dubuque. And some of the real key jobs, which required a lot of experience, we just couldn't hire in Dubuque anymore. So we decided to move the corporate headquarters. We moved about 30 people out of about 250. All accountants, or marketing.

Grad: From Dubuque to Scottsdale? Did you locate there?

Houtz: Yes, to. And it worked out pretty good.

Grad: Was there a personal desire on your part to live in Arizona? Was that a factor in the decision?

Houtz: That was a factor, yes. But when we got the group of 30 together and said, "Hey, we're thinking about moving the company to Arizona, and here's why. What do you think?" almost all 30 of them went home and packed their bags. I mean, they were ready to go because we already had an office down there of about 10 people.

Grad: So you had spent time in Arizona before?

Houtz: Yes.

Grad: And liked it.

Houtz: And liked it, yes, and the family did, too. And the people that moved there did, too.

Grad: I understand. But I was thinking why Arizona? Why not California?

Houtz: We looked at San Diego, Arizona and Dallas.

Grad: You had offices in all those locations.

Houtz: All three of them, right.

Grad: How many offices did you have then?

Houtz: Oh, about 12 - 14.

Grad: Pretty much all around the country, major cities.

Houtz: And Toronto in Canada.

Grad: But your big production operation was still in Dubuque.

Houtz: It was all in Dubuque.

Grad: Did you keep the production operation in Dubuque?

Houtz: Absolutely.

Grad: So you didn't move that.

Houtz: It was there until about a year ago. <laughs>

Grad: You must've been a significant player in Dubuque.

Houtz: Yes, we were. We had 250 to 300 people.

Grad: That's significant. I think from 1981 through 1996, you had three different presidents. You had Jim Dyer. He was there about five years. Then Ray Maturi and then David Koeller.

Houtz: Dyer came from outside. Maturi came from outside. David Koeller had been an operations manager, and had done a good job in running various things, so he took over as President.

Grad: Did he not want to be President?

Houtz: I wouldn't say that.

Grad: You didn't feel that was the right job for him?

Houtz: No, I did not.

Grad: What was the President's job? You were still CEO.

Houtz: Actually, the President pretty much ran Group Practice. For example, when we started CyData, they reported directly to me.

Grad: So CyData came directly to you, not through the Presidency.

Houtz: Right, and I also ran marketing. Most of those years I ran marketing.

Grad: So the President did not have marketing?

Houtz: We had a marketing department that did work for CyData, did work for our small dealer network or systems, and for our Group Practice. So the President really ran Group Practice.

Grad: So how about the CFO? Who did he or she report to?

Houtz: We started out with a CFO for everybody, but as we progressed, we got into a business unit concept, which really fired people up. For example, we had a business unit at one time of HMO Systems Software. Equipment, you know. Forms. And we got rid of a lot of those, and ended up with three business units when we were finished.

Grad: Which were the three? Tell me about them.

Houtz: Group Practice, CyData, and Small Systems, our dealer network.

Grad: Small Systems, dealer network, are you talking about the minis?

Houtz: I'm talking about systems for groups of two or three physicians.

Grad: Oh, you're describing the market, not the equipment you were using.

Houtz: Right, the market. And we acquired a couple of products for that marketplace.

Grad: You said in some cases, you actually were selling product, and not just selling service. When did that start?

Houtz: When we first went into the minicomputers, there was a big turnkey emphasis.

Grad: That's not a software product. You're selling a whole system at that point.

Houtz: We're selling the whole system. But once we got into it, we realized that turnkey is not the way to go, because of all the volume printing that you have to do, which most of these groups didn't have the capability to do. Our main product line was what we called a distributed system. We did the online stuff in the clinic, the daily work in the clinic. And they transferred to us weekly.

Grad: Stay with this. I want to explore it a little deeper. When you set up a system, were you selling the hardware to them, as well as the software?

Houtz: Yes.

Grad: But you weren't maintaining the hardware. You had Honeywell doing the maintenance on the hardware.

Houtz: Right.

Grad: But they didn't have a separate license agreement for the software. That was built into the system pricing?

Houtz: Well, they bought the hardware. And then for every doctor they had in a group, they would pay us so many dollars.

Grad: So it's usage pricing and on the number of people in the practice.

Houtz: And then for monthly processing, they would pay us a processing fee.

Grad: It still was the same pricing model as the service bureau.

Houtz: Yes.

Grad: But software products normally were not sold in that kind of pricing model at that time. It later came in with micros. It didn't come in there before that.

Houtz: One of the sessions at ADAPSO – I remember it to this day – was that the way to make money is to take a product and price it on a servicing basis. And that's what we did.

Grad: Okay, so you never sold it as a straight license kind of thing, the way other people did with an annual maintenance fee. That was not the way you sold your software. You pretty much were on a usage basis.

Houtz: Right.

Grad: That's a very interesting model difference.

Houtz: That's where we ended up. Every model you could think of we tried at one point!
<laughs >

Grad: That's been a major argument that the whole key was to try and sell the use of the software product, instead of the product itself.

Houtz: Right.

Grad: Because that gave you the most growth potential. You didn't have to argue about price changes.

Houtz: And it was easier for the purchaser because they didn't have to come up with an upfront cost. We had leasing programs for hardware. That would include the upfront software costs. And then we'd have use charges, or maintenance charges on the software.

Grad: Let's continue there. I want to finish up with CyData, and then talk about what you've done after that, okay? So that's a different pricing model than the typical software company had that came out of your service bureau experience.

Houtz: Right.

Grad: And your EDI model lent itself to that kind of pricing anyway in terms of usage volume and so forth. Did you find much resistance among your clients when you tried to price that way?

Houtz: They liked it!

Grad: Why?

Houtz: Well, because the physicians want to take every dime out of the business they can every year at the end of the year. There wasn't anything they hated more than being told you got to buy this software product for \$500,000, as opposed to, "Hey, we're going to sell this thing to you on a recurring basis." Okay? And we would actually get a little bit more money over five years than they would pay on purchase, but they liked it better.

Grad: What was your financing during that period from 1983? You did your secondary at \$5 million. You noted that you had a private placement in 1985 for \$10 million. What was that?

Houtz: HCA purchase.

Grad: Hospital Corporation of America was the original name?

Houtz: HCA wanted to acquire us. But we had no desire to be acquired. We said, "Well, we're not interested in that, but would you consider a private placement." So HCA bought about \$10 million worth of our stock. Our stock was like at ten dollars a share. But the whole market went down after that. Our stock went down to six. And HCA started having some real problems themselves. So they wanted us to buy the stock back. I think they wanted us to buy it back at ten, but I think George or Bernie politely explained to them that it's not going to work that way. <laughs> So we bought it back at six.

Grad: Did you have enough money to handle that? Your cash flow was good enough by that point in time.

Houtz: Yes, we had enough.

Grad: In 1988, you were listed on the New York Stock Exchange.

Houtz: Right.

Grad: Didn't that offer a challenge in terms of the kinds of reporting that you had to do?

Houtz: Well, the major rules that we have now weren't all in place then. I find a lot of times people talk about some of those additional rules, and it's not that big a deal.

Grad: So that didn't cause you any real problems?

Houtz: No.

Grad: You didn't have to change your behavior.

Houtz: No, we didn't change anything!

Selling the Company

Grad: So you continued to run the company until 1996. You had started in 1967. That's a total of 29 years. What was the revenue the last year? Do you remember, before you sold it?

Houtz: If we'd have kept it, we would have done about \$80 million in revenue.

Grad: So you only sold it for around three times revenue. \$240 million, you said.

Houtz: \$240 million, right.

Grad: That's not a big multiplier.

Houtz: Based on our earnings, it wasn't bad. And based on our stock price, which for years had been around nine, it got up to 27, dropped back down to 15, 16 or 17. Or maybe it was about 20 when HBOC came in.

Grad: The key question we always ask on these, why did you sell? This wasn't a price that was too good to walk away from, was it?

Houtz: Well, we almost sold the company five years prior for about \$50 million.

Grad: Oh, really?

Houtz: In fact, we had a purchase agreement. It was with one of the companies that did credit reports. And they offered us like \$54 million, and the board agreed to go along with it, and I kind of was in favor of it, too. But then they came in and they dropped their price about \$2.5 or \$3 million. Well, we said that we'll go ahead with that, too. But then they came in a second time, and dropped the price again. We said, "That's enough. We're done." It didn't go any further.

Grad: Now all these things, both the buys and the sells had all been acquisitions, and the potential sales were all through Broadview?

Houtz: Yes.

Grad: So they were on both sides of the equation?

Houtz: They were both sides, yes.

Grad: Did you find that a problem?

Houtz: With Broadview? No, I trusted Broadview.

Grad: So you were not concerned that they were on both sides?

Houtz: No, I wasn't. I knew how it worked. I knew they were going to make money on both sides, and I was OK with that.

Grad: Grodahl continued to be your interface, or did you have someone different by that point?

Houtz: Grodahl was pretty much our guy all the way, but Bernie handled the transaction with HBOC.

Grad: Were you ready to no longer run the business after 29 years? Was there any personal tiredness, or, "Hey, I've done this enough?"

Houtz: Well, we were at a position where it appeared that there was a big rush to combine all the hospital and the group practice companies. And I think we were ready.

Grad: But my point is that your energy level since then has been very high. So I was just wondering, since some people said, "Hey, I just had enough. I'm tired. I want to go do something else." Is that something that was in your head or not? Was it just a good time to cash in?

Houtz: I thought it was a good time. We had two offers, both about the same.

Grad: Who was the other company?

Houtz: SMS. SMS probably would have been a better fit for us, from a philosophy standpoint. I mean, I knew what HBOC was going to do. They came in and everybody that was making more than \$75,000, they just fired them. From a stockholder viewpoint, they did a good job of integrating, but from a human standpoint, they didn't.

Grad: Was Dick Burgmeier still there in 1996?

Houtz: No, I think he left before that. But a lot of our senior people continued to work for HBOC for a year, two years. But then most of them left.

I don't spend a lot of time looking backwards. I haven't spent a lot of time with why we sold, but we got a fair price. We would have liked to have gotten a little bit more. I kept telling them that this clearinghouse was going to grow like a rocket. It was doing \$20 million in 1996. And I think in 2004 it did \$400 or \$500 million.

Grad: Did you think about separating it, and selling off some of it?

Houtz: I did. I think if we hadn't sold, we would have split off the clearinghouse.

Career After Sale of CyCare

Grad: That's what it sounds like. That had a life of its own in a different market. Let's go ahead. You're still a young man in 1996. And you've now sold your business that you've spent the last 29 years at. What do you do next?

Houtz: Well, what I did next was I invested in about ten small business deals.

Grad: Where did you find them?

Houtz: I didn't have to look very hard. They found me. And I didn't invest in everything that came along.

Grad: In the computer field, or in different fields?

Houtz: They're mostly in the information services field. Of the ten of them, four of them made it as a successful business. And six of them did not. I didn't invest a lot of money in any of them except the four that I was closely involved in.

Grad: Were you an angel investor in that sense?

Houtz: Yes, an angel investor.

Grad: What is an angel investor?

Houtz: It's somebody that puts money in at an early stage, primarily for stock.

Grad: Give me an example of one of the ones you did. Pick one that was successful.

Houtz: Okay, we got involved with a startup by three women who worked for me. I invested some money. Eventually they were going to build a medical record product. Which they did. We got their revenues up to about \$6 million, and we sold it for about \$12 to \$14 million. And we got involved with an aircraft management firm.

Grad: Managing aircraft?

Houtz: Aircraft, right, and hangars, and gas, pretty basic. We got the revenues up to about \$7 million and thought, "We can get these revenues up to \$14 million within three years."

We got to \$14 million the second year. The next year somebody came along and wanted to buy it and we sold it them.

Grad: Were these all local in the Scottsdale area?

Houtz: Most of them were in Phoenix.

Grad: What role did you play in those besides providing money?

Houtz: Making sure we had the right people running it.

Grad: What people skills do you feel were very strong?

Houtz: The four that we had that were successful were all run by former employees of mine.

Grad: You started a ventures firm called JaGrand.

Houtz: JaGrand, right.

Grad: Where did that come from?

Houtz: <laughs> Well, you could say it's short and easy to remember. If you don't buy that, you could say, "Well, it stands for Jimmy and the Grandkids."

Grad: Ah, that's cute! Were any of your family involved with you at that point?

Houtz: Yes, my son-in-law still runs the aviation complex.

Grad: Had he been involved with you inside CyData or CyCare before?

Houtz: Yes, he was the Vice-President of Marketing and Sales at CyData.

Grad: Was it your own money, or did you have other people's money involved in the ventures?

Houtz: I got other people's money and my own money. And whenever I raised money, whatever I was going to ask them for, I put in myself.

Grad: What size investments are we talking about at that time?

Houtz: Well, in the medical record company, about four of us put in about \$700,000.

Grad: All together?

Houtz: No, apiece.

Grad: So about a \$3 million dollar deal.

Houtz: Right.

Grad: How about the aircraft business?

Houtz: We bought into an existing business and bought him out a couple years later. So, the three of us owned it and we sold it for about \$5 million.

Grad: So you put in \$1 or \$2 million at most.

Houtz: Right, but we sold it for \$5 million, and we got 90 percent of our money upfront.

Grad: Tell me about some of your failures.

Houtz: Well, failures had one thing in common. They would have a business plan. "Here's what we're going to do." And they'd get started, and almost get successful, and they'd deviate from it. For example, one little company called LabBook. Just the name LabBook sounds kind of exciting. They'd built a product for medical researchers. They got about \$6 million from IBM, and from me and two other friends they got about \$300,000 combined. They just about had it at the point where LabBook was going to break even. And they found a database they could buy and tie into it for a lot of money. They never really got the database to work. They ran out of money. And IBM said to them, "Hey, guys, you couldn't make that work. You screwed it up. We're not putting any more money in."

Grad: I find that some of the companies who got into these relationships with IBM found that having someone of that size and scale was a real negative in some regards. IBM was a very tough partner to have.

Houtz: They were a very tough partner. Brutal.

Grad: First of all, they would keep changing the interface at the company. If you started working with Joe, six months later it was Sam, and then it was George. Each of whom had different concepts.

Houtz: We had a deal to be a distributor of 4300s. And we weren't selling a lot of systems. But we were selling some. And we were selling some second-hand systems, which they didn't like, but somebody had to sell them. And a guy shows up in our office, says, "I got some bad news for you." I said, "What's that?" "Well, we're not going to sell the 4300s through distributors anymore." I said, "Okay, that's the bad news, but what's the good news?" He said, "Well, there isn't any." <laughs>

Grad: Let me explore one more time, because there was a joke in the industry for a while that it was certain death if you signed a partnership with IBM in the software world. I don't know if that was true in other areas.

Houtz: We never did any software. Ours was just pretty much hardware and, of course, their operating system. I think they finally got their dealership program figured out when they said, "Okay, we're going to sell this machine through dealers, and this one we're not." And they were a little screwed up, really.

Grad: Everyone felt it was such a wonderful thing to become an IBM partner.

Houtz: It wasn't.

Grad: And for almost all the firms, it put them under. It just didn't work. Give me at least one or two examples of the things that you put the money in that didn't turn out.

Houtz: LabBook would be one.

Grad: Give me another.

Houtz: I put a limited amount of money, less than \$100,000 into a company that was going to come out with a new software technique that would revolutionize the Internet. Grodahl got me into this.

Grad: When was this/

Houtz: It was back in 1996, 1997.

Grad: Okay, early days of the Internet then.

Houtz: Yes. And I didn't understand it, but I was pretty sure George did. But the people got into it and then they decided that they were now going to do a customer service product instead. And then they were going to do a payroll instead, and then they're done. It was always about getting focus, and staying on focus with a main product.

Grad: Were you on the boards of all these companies that you invested in?

Houtz: No, I purposely was not.

Grad: You purposely were not. And you were not part of the operational management in these cases?

Houtz: Except in the EMR company, and the aviation company.

Grad: Have you continued to do this?

Houtz: Well, the aviation company, my son-in-law runs that.

Grad: No, I mean, as far as investing in new ventures.

Houtz: No, I quit investing.

Grad: So you're not doing any fresh investing now.

Houtz: No.

Grad: Tell me a little bit about what other things you do besides investing in companies.

Houtz: About eight years ago I started coaching my grandson and his grade school basketball team. And I just kept doing that. It's pretty much the seventh and eighth grade. And this last year at this little school I also coach seventh grade girls. <laughs>

Grad: That's got to be an interesting experience.

Houtz: It was! They had more enthusiasm than any group I've ever worked with in anything.

Grad: How about the skill level?

Houtz: Skill level wasn't too bad. Their enthusiasm, man, we cheered whenever we made a basket. And when the other team made a basket once in a while, we'd cheer also.

Grad: Oh, that's great!

Houtz: So I mean, it was fun. And then I've written and published three books.

Grad: What are the subjects?

Houtz: The first book was on entrepreneurship, which is "Seize the American Dream." It's about entrepreneurial tactics. The second entrepreneurial book is about strategy. That'll be out probably in December [2010]. And in between all that, I wrote a third book, which is somewhat presumptuous, "Saving America." I became so disgusted with the way the country is going, and the lack of cooperation in Congress, and several things the administration was doing, and especially the healthcare bill.

In listening to the commentators on FOX and CNBC, I kind of went along with what they said, but then they started talking about healthcare. I've been in healthcare for almost 40 years, and I realized that their knowledge level was very, very superficial. So I started listening a little closer, and I realized the same thing was true in entrepreneurship. Very superficial knowledge. So I assumed a lot of the other things they're talking about they have superficial knowledge of. I decided, after seeing what the two parties were doing, that I wanted to write a book about the problems in America, define them, and come up with some middle-of-the-road solutions that we can get the country on a sound path. That book's out, the marketing program starts the middle of June.

Grad: Terrific. You write now. Do you work at home on your own? Do you have someone helping you on the writing? Are you working with an editor? How do you do this?

Houtz: The first two books were written in long-hand, on yellow pads, and I had a stack about like this of yellow pads [hold hands far apart]. I gave it to an advertising gal that I asked "Would you convert this into a manuscript for me?" And she did, and she added stuff. So she was a co-writer. She did that for the first two books. The third book, which I'm really proud of, I wrote on the PC with Word, and I only have a stack of papers about this big [holds hands close together] that were outlines of each chapter.

Grad: When did you learn to start to use your own computer?

Houtz: Well, we had word processing on an IBM mainframe under DOS.

Grad: Oh, a long time ago!

Houtz: We had tubes all over the United States. It was at a time when one person could take the whole network down. It seemed like I was always the one taking it down! <laughs> But since then, you know, I use Microsoft. I could always type pretty good. I just wasn't convinced I could type and write, but I found out I could.

Grad: That's a hard trend. I had the same thing with handwriting stuff versus keying directly. And that's been interesting.

Houtz: I found that it's now easier for me just to key in directly.

Grad: Yes, I do a lot of that. Jim, this has been terrific! Looks like you're just getting yourself going on a whole new set of things that you have a lot of enthusiasm for, a lot of excitement about.

Houtz: I've got a couple ideas for a couple additional books for the next couple of years.

Grad: So you're not going to work in business anymore. That's not where your focus is anymore.

Houtz: Hey, if you're going to be in business, and you're going to be a leader, you can't be a leader by being in the office two or three days a week. And, you know, when you get to be 74, like I am, you can't do the same things you did when you were 40. So you find challenges other ways.

Grad: Well, it sounds like your energy level's very high.

Houtz: Yes, it is!

Grad: As you told me earlier, you're still 6' 3.5". You haven't gotten any smaller. Most of us have shrunk with age. And you haven't.

Houtz: I haven't shrunk an inch, no.

Grad: Jim, thank you so much for a wonderful interview. We do appreciate it.

Houtz: Enjoyed it.