GPS Workshop: Making GPS Companies Profitable

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<u>GPS Workshop: Making GPS Companies Profitable</u>

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<u>Abstract</u>:

Many of the companies had different business models in terms of how they planned to make the business profitable in terms of the types of projects or contracts that were pursued or in their bidding practices. On fixed price contracts, how did the companies manage the projects to insure that costs were within contract boundaries? How did they provide change control so that modifications in the specifications which would increase the costs were renegotiated with the client to get compensated for these changes? We asked the participants to describe the financial history of their companies in terms of sources of investment funds, revenues, costs and profits. The session starts with a discussion from CDSI whose representative just joined the meeting.

Participants:

<u>Name</u>	<u>Affiliation</u>
Burton Grad	Moderator
Dan Bannister	DynCorp
Ed Bersoff	BTG
Walt Culver	CSC
Stan Gutkowski	Andersen Consulting/Accenture
Judy Huntzinger	BDM International
Cliff Kendall	Computer Data Systems Inc.
Jack London	CACI
Bob Plouffe	CSC
Wayne Shelton	PRC
John Toups	PRC
Dan Young	Federal Data Corporation
Tim Bergin	American University
Paul Ceruzzi	Smithsonian Air & Space Museum
David Grier	George Washington University
Jeffrey Yost	Charles Babbage Institute
Doug Jerger	Software Industry SIG, Computer History Museum
Luanne Johnson	Software Industry SIG, Computer History Museum

Computer Data Systems Inc. "Horror" Story

Burton Grad: We just had you each go through and tell horror stories. As an appropriate antidote to that, what were your greatest successes? What were the most important things that you think really made your company successful, really made a big difference, really made a change in the size, growth, nature of your company?

Let's say welcome to Cliff Kendall [from Computer Data Systems Inc]. Glad you could join us here.

Cliff Kendall: Thank you.

Grad: And Cliff has to talk twice as much as the rest of you the rest of the afternoon to make up for the morning.

Dan Bannister: What's his horror story?

Grad: Oh, we didn't get a horror story. Tell us your worst story. Then we're going to go to success stories.

Kendall: I don't know if it's the worst, but probably the most memorable has to do with a contract we'd won from CSC. We were only about 500 people, and it was a GSA support contract for 500 people. So we immediately doubled the size of the company and had the contract for three years and thought we were a lock because all the client had said was, "You're the best company we've ever had," and on and on and on. We re-bid the contract and knew it was a tough competition. We also knew CSC was very upset over the fact that we had won this contract. So, anyway, I'm out on the golf course on a Friday afternoon with one of my associates and two clients. There's a tournament. And we called into the office and found we had lost the contract. The contract had grown from about 500 people to 1,000 people in the three years that we had it, and it was probably half our business. So we lost the contract, and my associate and I looked at each other and said, "Well, let's not bother with the client. Let's get out of this dinner and get home."

I can't tell you how distraught I was over this, but I got home, and then I guess about nine o'clock, I told my wife, and I wasn't quite sure what I was going to do, so I decided the thing to do was go out and jog. I live in a pretty nice neighborhood of Potomac, and I'm jogging down a very nice street at about 11 o'clock and some kids come by and holler at me. I'm pretty upset so I give them a little bit of this back (*makes rude gesture*), you know, and they circle around and throw beer cans at me. So I considered that one of my worst experiences. I've got to say that three years later, we won it back and kept it for the next nine years.

Grad: There's something you missed earlier. According to Walt [Culver], the only people who lose re-bids are those who don't know what's going on at the client. So my question is, how do you respond to that comment?

Kendall: Well, I would say that if somebody goes after you and decides to bid low, it's tough. We were known for bidding low, but CSC beat us by 20% on that contract, and we probably didn't know what was going on. And, of course, they had a hard time performing, and we won it back three years later. I would say that in most instances, that's probably a pretty good statement. But if somebody's really determined and willing to bet the farm, you can unseat a good company even when they're doing a great job.

John Toups: When you won it again, how much lower were you than they?

Bannister: 20%. (*Laughter*)

Kendall: I can tell you that we had a policy of not admitting jobs to lose, and I know some of you don't believe that.

Toups: Everybody says that.

Kendall: Well, we didn't lose on the next one. I can tell you it turned out very well.

Grad: That's interesting. You got it from CSC in the first place, so they weren't paying attention to the client.

Kendall: You might remember this, John, because PRC was bidding it. CSC was the incumbent, and you two were bidding it, and nobody even knew we were bidding it. It was 500 people, and there was a big controversy, and you protested it. And the rest of the story had to do with the lawyers representing us. I said, "Don't let anybody know that we're bidding it," because we figured we had a great shot at winning it. Our lawyers' firm picked up a California firm that represented CSC, and I said, "If you tell them, I'll sue you." We fired the lawyers from the job until after the bid because they were going to tell CSC we were bidding it, and so it was very complicated. I don't think either PRC or CSC even knew we were bidding until the award was made.

Grad: Cliff, what we asked everyone to do, and I haven't given you a chance to do, was introduce yourself, tell a little about your background, a one or two-minute brief background.

Early History of CDSI

Kendall: Well, I grew up in Washington, DC and went to high school and college there, graduated from [the University of] Maryland, got an MBA from George Washington University while I was in the Air Force, and then worked for American University and George Washington University and then Booz, Allen and Hamilton. And then I got a call from Jack Ballinger who was going to form a firm, CDSI [Computer Data Systems, Inc.] I joined him, and a couple years later ended up as president. We grew from four to about 4,000 people, and then merged with ACS [Affiliated Computer Systems, Inc.] and I sat on that board. And now I spend a lot of time in higher education. I chair the Board of Regents for Higher Education for the State of Maryland, sat on GW's board for nine years, and my wife and I spend a lot of time in that area.

Bannister: What year did you go public?

Kendall: We formed the company in July of 1968 and went public April 1969. We raised $1 million in the public offering, and that's all the money we ever raised. And we were doing about $400 million a year in revenue when we merged with ACS.

Toups: What year was that?

Kendall: That was in 1998, I guess.

Bannister: So you took it public right after you formed it?

Kendall: Nine months later, we had about three contracts. We had a guy named Charlie Plohn up in New York called "one-a-day Charlie" because he was taking out firms [going public] that often, and I think we were the last one that went public before the market collapsed on new firms.

Judy Huntzinger: How much revenue did you have then?

Kendall: How much revenue? I think we were doing about $70,000 a year. (*Laughter*) We only had a couple of small contracts, and the four of us quit our jobs and brought money in and then decided to go public.

Grad: What did the company do over the next several years?

Kendall: Well, CDSI started really just doing consulting and programming, and we were pretty much known as a body shop firm. Everybody would say that's really a bad business, and

we kind of took the position, "Well, it wasn't so bad." And I think the other thing, you talked about marketing – we did it a little different. Everybody said if you don't see it in the CBD [Commerce Business Daily] and market it for six months, you don't have a chance to win. Well, we lived out of the CBD in our early years, and we would look for opportunities where we thought we had great expertise and bid. Sometimes, infrequently, we would win, but the thing we would do is we would bid and get debriefed and establish a relationship with the contract or project managers, and the next time, we would usually win. And so most of our marketing was second shots and we thought that was pretty good. And then the thing that we would do as soon as we'd win a contract, we'd try and establish a relationship with the top guy and start talking about his management problems. So eventually, we worked out of the body shop business and became more significant.

Grad: Your body shop work, though, was primarily programming?

Kendall: Primarily programming. And then we got into facilities management. We developed some proprietary financial systems for the federal government, an accounting package that we marketed and sold. Our two areas of expertise were accounting and communication systems. We did a lot of the Navy's LDMX [Local Digital Message Exchange] work and the communications work throughout the country. That was, again, where we started with a small four-person contract that ended up with 100 or 200 people all over the world. And from that, we bought a company with a little restructuring program, and then we got into facilities management, and we would sell our financial services primarily there.

Grad: Who were your customers?

Kendall: We did a lot of work in the civilian arena, Economic Opportunity, HUD, Treasury, Department of Energy. Sometimes we had to share that with Dan a little bit, he'll remember.

Bannister: Oh, I remember our negotiation more than the contract.

Kendall: Yes. And we did a lot of work for the Navy. We were big with the Navy for 25 years.

Grad: Was that defense-oriented work, or was that administrative work?

Kendall: It was communications systems primarily. We managed their LDMX system, which was their Local Digital and Message Exchange System. And the thing I'd like to point out is that during the Vietnam War, for instance, when the Army and the Air Force were all in Vietnam, they'd all have messages. We had our people in the White House, we had them in Vietnam, in Hawaii, and there was a message transfer from what was going on, and in the

center in the White House everybody tried to get the information the quickest. And we normally did, but it wasn't because of the message switching as much it was the administrative systems that we had in place that would get the messages out. The Navy was always very happy.

Grad: Was this all secure material, or was this non-secure?

Kendall: Oh, no, this was *very* secure.

Grad: It was all secure stuff. It wasn't the open communication stuff?

Kendall: No. We had a large group that was very experienced in that. But then we would go through a strategic planning process once a year, and one year when PCs came on the market, everybody said, "PCs are coming, and we're not doing much." So we bought every officer and every senior technical guy a PC and put it on their desk which was unusual for us. We didn't even try and cost justify. Cost us a couple hundred thousand dollars, but we put them there. And inside of two or three months, we had about four or five gurus, and we won a lot of PC work, and we did a lot of seat management. So our company just kind of evolved with the industry.

Grad: One of the things that was said earlier was that some of the companies didn't recognize the significance of the PCs and didn't play in that game for quite a while and lost out, so you apparently moved into that quickly.

Kendall: We made a very wise move when we put those PCs out there because within literally months, we had more expertise than almost anybody else did, and it was just exposing our staff to them and letting the technical people work with them.

Grad: That's an interesting story. Okay, we have two ways we can go. I'm trying to make a quick decision. We cut you all off from your history of your companies about maybe early 1980s, except for you, Ed [Bersoff], because you had no history before then. If you don't mind, let's go back and pick up with the 1980s. Then we'll get your success stories. I do want to get some of those on the table.

Recent History of Federal Data Systems

Let's go briefly around the room again like we did before, starting with Dan. So what happens to the company mid-1980s on to till it's either done or today or whatever the right time period is. Bring it up to date, Dan.

Dan Young: Well, I touched on it a moment ago. We were a company of under 50 people, and we were fortunate enough to win a couple of very large contracts with the Strategic Air Command, which qualified us to bid on a Navy contract called Splice, and that was awarded for 15 years, $550 million to a 50-person company. That was really the sea change in our company. And from that, we grew to about 500 people, heavily into networks, and just continued to grow. Xerox Corporation came in and acquired 15% of our company, and so we started training Xerox personnel to work in the federal marketplace because they had been in the federal market but only in a hardware vein. So we brought in over a period of two years about 200 Xerox executives and trained them in marketing to the federal government, and they were a good partner until we were sold to Carlyle in 1994.

Grad: How did that work? You weren't public, you were private?

Young: We were private.

Grad: So you sold off to Carlyle. Did you stay in, or did you get out? What happened?

Young: Oh, it was a wonderful arrangement. Carlyle was a great partner, and they were looking for a platform around which they could grow through acquisitions. Prior to then, we'd grown almost entirely through organic growth, and we were a very profitable company. We ran the company like a private club and we had no desire really to grow too much. But when we won that contract, it required us to grow. We started getting bigger, and we were approached by Carlyle in the early 1990s about the same time they were talking to BDM, and finally in 1994, Bob Hanley, the founder, stepped down. He became the chairman emeritus, and I became the CEO, and we worked with Carlyle for the next five years growing the company through acquisitions, taking bonds public. We were a public company through bonds, which was kind of a unique way to finance.

Then, subsequently, it was sold to Northrop Grumman, which sounds like, to me, has bought every one of us at one time or another. (*Laughter*)

Grad: Okay. Give us ballpark figures on finances or total revenue figures.

Young: When we were sold, we were $850 million.

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

Young: Carlyle doesn't look at a multiple of revenue. We were sold for about 1.2 times the revenue. What they look at is the multiple that they get on their investments.

Grad: Their ROI, yes.

Young: So we were a four-bagger [a home run].

Grad: Did it continue to be successful then? Did it continue to grow under Carlyle?

Young: Under Carlyle, very successful. They were a wonderful partner to have. I could pick up the phone and call almost anybody in the country, and they'd return my call, and I know it wasn't because of me. It was the name on the door.

Grad: How about today? Does it still exist as an entity?

Young: No, I think it's part of the Northrop Information Systems Group.

Recent History of BDM International

Grad: Very good. How about you, Judy? Tell us a bit about BDM.

Huntzinger: BDM went public in 1980 for the first time. We had about $80 million of revenue at that time. We had accumulated a lot of cash in the 1980s. We were sitting on about $42 million of cash just internally generated, and in the mid-1980s, we were looking to do acquisitions. What was interesting at the time was that between executive management and the three founders, they could never agree on a deal. So we looked at a lot of deals, but didn't end up doing any of them.

So we were sitting on all this cash and said, "Well, if we're not ever going to agree on doing a deal, we certainly are quite an interesting target." So we put ourselves up for sale and sold ourselves to the Ford Motor Company in 1988 for $425 million and became a wholly-owned subsidiary of Ford Aerospace, which was a wholly-owned subsidiary of Ford Motor Company.

Now, interestingly, we're publicly traded, we're owned by Ford, and Ford did not dictate that we eliminate any corporate structure. So we maintained a tax department, an internal audit department. We stayed the same company that we were and had very little turnover in our corporate structure. Eighteen months later, Ford Motor Company's not doing well. Their board told them they've got to get back to the business at hand, and they decide they're going to spin off Ford Aerospace. So after having 18 companies come through and do due diligence, Loral succeeded in buying Ford Aerospace, but there would've been a significant conflict of interest between a major portion of BDM and Loral, so we were going to be spun off. We ended up, with the help of Carlyle, buying ourselves back.

As I mentioned, we sold ourselves for $425 million, so in about a two-year period, we bought ourselves back for about $130 million. We had approximately $40 million that was infused by Carlyle, and we had a $72 million loan from Citigroup. The credit facility was a $90 million credit facility, of which we had borrowed $72 million, and it was a five-year term loan. We paid that off in two years. So not only did we surprise the bank, we actually truly surprised ourselves.

Citigroup really liked us, because we had that loan in 1990 and paid it off in 1992, so we went back and said, "Why don't we just take that facility and convert it so that we can do acquisitions?" So in 1992, we started looking at acquisitions, and in the next five years, between 1992 and 1997, we bought 10 companies. We did another IPO then, now that we were away from Ford. We did an IPO in 1995, we did a secondary offering in 1996, and ultimately sold to TRW in December of 1997.

Grad: That's quick.

Huntzinger: Yes, we sold in December of 1997. Earle [Williams] was with us from the beginning through 1992, and then Phil Odeen came in from 1992 through 1997. The revenue levels, as I mentioned, in 1980 were $83 million. A decade later, in 1990, we were approximately $300 million when we were buying ourselves back from Ford. And in 1997, when we sold to TRW, we were $1.2 billion.

Grad: But a lot of that was from acquisitions, that last growth?

Huntzinger: Yes.

Grad: Is BDM still an identified entity or not?

Huntzinger: Not at all. It's spread throughout Northrop Grumman. In fact, TRW had spread it out before that. And if you want to know that the price that was paid by TRW, it was approximately $1 billion. And we were talking about 4 baggers; I think that was a 10-bagger.

Grad: You know, one of the interesting things, in the whole industry, whenever the people outside the industry have tried to buy in – all the telephone companies tried to buy information technology companies – every one of them failed, everyone sold it back out again. They offered it to the people who had originally sold it to them and sold it for a price one-third of what they had paid. That just happened over and over and over again. They had no idea how to manage these kinds of businesses.

Huntzinger: Well, and the interesting thing, most people, I'm sure, in the room know of the Carlyle Group. But when they did the deal with BDM, there were only18 people in their firm. We were their fifth transaction and their first government contractor. And I would joke, since most of their people had their homes in McLean, that instead of operating out of their offices in DC, they'd come and have a meeting at our facility at 5 PM and have an easy commute home.

Recent History of PRC

Grad: That's a good story. Wayne and John, bring us up to date on PRC.

Toups: In the late 1960s, early 1970s, PRC made a lot of acquisitions. When you said a hundred, I don't think it was quite that high, but whatever it was, we made what I think was a serious mistake by keeping them all separate.

Grad: You treated them as independent businesses?

Toups: Yes, different operations, their own names, not related. The PRC name wasn't coupled with it, and they had their own accounting department and so forth.

Grad: What was the reason for that?

Toups: I don't know.

Grad: Wayne, do you know?

Wayne Shelton: Well, it was part of the philosophy of forming a microcosm of the entire professional services industry, and so the then-president was interested in buying all kinds of different professional services companies, and they'd never really been structured and organized. There were a couple of market research companies, a behavioral science company that did market research, and so on.

Grad: That's interesting. In a comparable area on the commercial side, you have Computer Associates, which essentially bought everything and totally centralized it. They got rid of basically all the people and centralized it. Sterling Software on the other hand kept some degree of independent operation, but they centralized the accounting, financial, and strategic planning. Sounds like you went even further. You just kept them as independent businesses.

Toups: And Jack London's the opposite extreme. Every acquisition he's made gets fully integrated on Day One and the old name goes away. It's CACI. I think that's a better model.

Grad: Well, it's not just the name. I'm thinking about management, organizational decisions, development, all those kind of things. That'll be interesting. He'll be back, and we'll get his story later on.

Toups: We had such a variety of companies. We acquired HB Maynard, which was probably the largest industrial management firm in this country, Logica in England, Frederic R. Harris, a New York engineering company that specialized in ports and harbors all around the world.

Grad: And you're saying most of these were not successful from any measure?

Toups: Oh, the individual companies were probably reasonably successful. Not a lot of them were, but those that I've named were quite successful. And in 1973, the five founders of PRC left the company. "Left" is a polite term, if you can read what I'm saying. And one of the presidents of an acquired company became president of PRC.

Grad: Who was that?

Toups: Bill Hodson, CEO of the industrial management company H. B. Maynard in Pittsburgh.

Grad: Talk to me about the growth. And do you know revenue figures, either of you, or what happened with PRC in terms of revenues or things like that over the years?

Toups: My sense is when I joined it in 1970, revenue was $50 to $60 million, and I know when I left the company in 1986, it was $400 million.

Grad: Did it maintain its own identity after that or not?

Toups: No, they're in Northrop Grumman. They went through several acquisitions. We got put into play. Contel came after us in 1986 with a low-ball offer. A guy named Peter Scott, who was on our board, was CEO of Emhart, which was really an industrial tool company, but he'd been at United Technology, so he understood our business. They came in and made a good offer, and we were sold. Emhart got put into play and Black & Decker bought them. Black & Decker sold PRC to Litton. Litton got bought by Northrop Grumman.

Grad: There's no identity?

Toups: No, absolutely no identity.

Recent History of DynCorp

Grad: Dan, how about DynCorp? Bring us up to date.

Bannister: Yes, I started going into the 1980s. Well, one comment I want to make. You asked earlier about financing. I failed to mention that for DynCorp, or Cal Eastern, as we were called back in the early days, the original financing was a V loan. Some of you may not be old enough to remember what a V loan was, but essentially, it stood for V for victory in the Second World War, and the government provided funding guarantees of some sort – to be honest with you, I don't remember the details – to banks who loaned companies money. We operated off of a V loan for probably 10 years. And then we began to accumulate our own capital and bring in some new capital. Between 1970 and 1984 or 1985, we had made 32 acquisitions. As I mentioned briefly before, we had built three businesses from scratch almost except for the government business which was doing about $40 million a year. We built the other two businesses largely through acquisitions. We financed those acquisitions, and we were very flexible in our acquisition program. We offered the seller's a choice: "You tell us how you want to finance it. Do you want all cash? Do you want some stock?" Except for one case, we didn't do any all-stock deals. "We do it on loans. You name it," because we wanted to be as flexible as we could to the sellers as long as it satisfied our financial requirements.

Grad: Where'd you have the cash from to pay for those you bought for cash?

Bannister: Through bank loans, lines of credit.

Grad: Okay. It wasn't that you had accumulated cash in the company?

Bannister: No, not initially. But by 1984, the company had grown from $60 million approximately in 1970 to about $800 million. When I became president in 1985, we had about $40 million in the bank, and the three businesses we were running were going well, no big problems. And then we were introduced to Victor Posner, who was a well-known corporate raider. He accumulated 4% of our stock, and then it went to 6% and 7% and 8%. It got up to 9% and we tried to negotiate with him. And in the midst of the confusion that he caused, our then-chairman, who owned 10% of the stock, did a strange thing. His name was Jorge Carnicero and he had been in the company almost since its beginning. At a board meeting one day, to the surprise of the board, he put an offer on the table to buy half of the company. Our board was made up of all outside directors except the chairman and me. Of course, we were caught by surprise, and the outside directors tried to tell the chairman, "No, no, don't do that. Please take your offer off the table." But he refused to do that. So the outside directors did what they had to do. They formed a special committee to consider the offer, and in order to consider the offer, you need a fairness opinion, so you need to get something to compare it to,

so that essentially put us in play. The chairman got upset over that move because it was independent of him. He was the chairman, and he was in control, and so he raised his own bid before another bid was offered.

Paul Ceruzzi: Negotiating against himself.

Bannister: Yes. He raised his bid $1 a share.

Grad: That's a shrewd man, wow.

Bannister: And, of course, that exasperated the situation and just got the outside directors more angry. So we started entertaining offers, and in the midst of that, the chairman withdrew his bid. But by then, we were already on a roll, and the outside directors were, of course, unhappy with the whole process. So in the midst of that, I got the management team together one day, and we were bemoaning our fate to be sold. There were no high-quality bidders, I might add. So we said, "Can we figure out how to buy this thing ourselves?" We went off to the banks, and there was a lot of money available in those days. It was high-priced money, but it was available, and they were anxious to provide the money. So we quickly scraped together between 40-some managers about $6 million, and we figured out we needed a bank loan of about $190 million. Of course, the banks laughed at us when we said, "Well, we have six million. We need $190 million."

So we found an outsider who had come down to look at the company, and he was really a good guy. He had just been hired by Harvard University to manage part of their endowment fund, and he came out of the Pentagon. He was in with those whiz-kids guys, so he understood what was going on. He liked the management team, so he agreed to put $11 million in. To make a long story short, we got it up to where we got bank commitments, and our finance package, was a $271 million deal made up of lines of credit, revolving credit, a 16% debenture, 17% preferred stock. Needless to say, we were highly leveraged and with an ESOP [Employee Stock Option Plan].

Grad: Of course.

Bannister: The key thing is we couldn't have done it without an ESOP. We got a $100 million ESOP loan, but the ESOP was the centerpiece of our number. We said, "If we can't do this and get the employees to participate in this, let's all go our own separate ways." So we did get the deal.

By the way, the chairman came back in with another bid just as we were trying to negotiate the deal. He brought Eli Jacobs in with him as his partner. I don't know if you guys know Eli

Jacobs. But in the end, he withdrew when he said, "If you pay me a $5 million breakup fee, I'll back out." We agreed to do that, and so he backed out.

We closed the deal in late 1987. And when our offer was on the table at about $20 a share, you all may remember the stock market dropped in one day. DynCorp stock went from $18 a share to $9 a share, and we were sitting there with a bid on the table of 20 bucks a share. We flinched, of course, but we just hung in there, and as you all know, the market came back right away, so we came out of that okay, but that was a scary moment.

Grad: It sure must've been.

Bannister: So we did do the deal. We closed it in early 1988, and we shut down our acquisition program because we didn't have any money, and we had bank covenants, which we had never had before, and didn't even know how to operate under bank covenants because we had never owed anybody any money. It was a whole learning lesson for all of us, and we just hunkered down, got more employees to invest, at their request, and for two years, we focused on increasing cash flow, improving efficiencies, winning new business, internal growth, and we did well.

In 1990, the banks loosened the reins a little bit because we were meeting all of our requirements. We paid back the ESOP loan in four years, and we started accumulating a little bit of cash. Business was growing, and so then we started up our acquisition program again. We started looking at technology companies and what we looked for was small companies, like Meridian Corporation. We acquired 13 companies after that, and the companies we looked for were companies that had developed some management skills, some management tools using technology, but also had a strong relationship with the customer. For example, we couldn't figure out how to get into DOE [Department of Energy], and we tried several times, so we acquired Meridian Corporation. They were a $30 million company. They had a good reputation with the DOE, and as soon as we acquired them, it gave us an entrée to DOE, and that led us to winning that strategic petroleum reserve contract that I mentioned earlier today.

Grad: Give me some of the sales figures, can you? Revenue figures? 1980, 1990, 2000?

Bannister: In 1988, when we did the buyout, we were going to do $845 million a year. After we did the buyout, we were forced to sell off our electrical contracting business.

Grad: Was that Dynalectric?

Bannister: That was Dynalectric, yes. We were forced to sell it because the bonding companies, as soon as they saw that we went private – we were on the New York Exchange up until then, by the way – they said, "You know, we loved you guys when you had $40 million in the bank and you had access to the capital markets, but you're too leveraged for us, so you've got 30 days to get rid of the business. We're cutting off all your bonding." Well, if you've ever been in the trades business, you know you can't even bid a job without a bond. So it was a forced sale. Didn't get as much as we would like to have gotten for it, but we didn't have any choice. And so we just kept plowing along doing acquisitions and focusing on information technology.

Grad: So in the 1990s, what kind of revenue figures are you talking about?

Bannister: We hit $1 billion in about 1992, as I recall, and we were still making rather small acquisitions and diversifying, too. But then we had the opportunity in 2000, I believe it was, to buy GTE's IT service business, and that added about $300 million, as I recall, to our revenues. That gave us a base of $1 billion annual revenues in IT services – that's what we used to call it all – and also about $1 billion in other stuff.

Grad: So about a $2 billion business then, basically?

Bannister: Yes. And so we kept growing it, and in 2003, we started looking at our financial situation. Every time we made an acquisition, we had to borrow the money, and we were running out of banks that would lend us money for acquisitions. So we said, "Well, we've got a choice. We've got to do another refinance, or we need to sell the company or merge with somebody." So we looked around, and to make a long story short, CSC came along and said, "We'll give you $1 billion for the company," and we said, "That's half of what it's worth, but we'll take it."

Jeffrey Yost: I was wondering what challenges there were with integrating all those acquisitions. Was it difficult to do?

Bannister: The integration of the acquisitions?

Yost: Yes. Did it hurt corporate culture? Did it cause any problems?

Bannister: Well, we integrated every acquisition we made. A few of them kept their name for up to a year if we had a reason for doing it. Most of them, though, were integrated immediately. And the key was giving the people in the acquired company a key role in the new company so that they were incentivized to make the integration effective quickly. For example, the CEO of the Reading Corporation used to say, "One day I was a $30 million-a-year company,

and nobody showed me any respect because I was so small. Then we got acquired by DynCorp, and all of a sudden I was able to walk in and say, "I'm Chip," or whatever his name was, "and I'm with a $720 million company." He said, "Immediately, they start giving me more respect." And he was able to grow his business better because he was part of a $720 million company.

But integration of acquisitions is the key to a successful acquisition. Too many people think it's how you acquire it and the terms and conditions and all that stuff, and that's baloney. It's how you integrate them, and CSC, when they acquired DynCorp, they did the best integration that I've ever seen. What they did was they started with a clean sheet of paper, took the best of the two companies, and designed a new company. And there were eight key positions across the top reporting to the president, and five of those key positions were filled by DynCorp people after the acquisition, which, of course, gave the DynCorp people immediate buy-in to the whole idea of being part of CSC. And it was an extensive integration plan. Took 90 days to write, and I think they had 50 people working on it, more than I thought was necessary, in a big war room, and they did it right.

Recent History of BTG

Grad:　　　Ed, let me go ahead with you.

Ed Bersoff:　Okay. Let me do a quick digression about integration of companies and mismatch of buyers and sellers. Back when SDC [System Development Corporation] was purchased by Burroughs Corporation, I was working for SDC under subcontract with BTG, and Mike Blumenthal, I think, was the CEO at Burroughs at the time. So they buy SDC, this highly diversified professional services company, and Burroughs was having some financial difficulties, so what they did was institute a hiring freeze across the entire Burroughs Corporation. And, of course, any professional services company builds itself by hiring people to bill out, and they stopped all of that hiring so that they would lower costs. It just shows the fact that when a buyer doesn't understand what he's buying, it could lead to some chaos. That got changed later.

Anyway, we started in 1982, and the first five years was a period of very rapid growth, doubling each year for the first five years. We were on the *Inc. 500* list for three years and the *Washington Technology Fast 50* for four years. It was essentially internal growth, based on the kind of the market we were in, being very susceptible to automation and computer systems and especially the new microprocessor activity that was going on; it just made it relatively simple to grow very quickly. But since we had no external financing, the problem was capital, and so we were always in debt, always borrowing lots of money, always kind of on the edge with respect to our earnings, which were not great.

This was the era of cost-plus contracts, when 6% to 7% on cost was good in terms of profitability and 6% to 7% on cost was only about 5% on revenue. So it was not an era where you could generate a lot of cash, especially if you were paying 15%, 17%, 20% interest on your money. But we were able to do that rapid growth for those first five years. In fact, over the first 15 years, we had a 35% compound annual growth in our early history. After about the first 10, when we got up to about $50 million in revenue, we started doing acquisitions in earnest, and the first one that you heard about before was this company called BDS, which was largely a product reseller, and it was owned at the time by a venture capital group. The large preponderance of its ownership was with three venture capital firms. In those days, you could do a pooling of interest, which doesn't exist anymore, but it was a very painless process. The only argument we had was what percentage each of the two companies owned of the result, and we struck a reasonably fair deal.

But I ended up with the worst of all worlds. I had venture capital investors and no venture capital because the other company already got the money. It was actually a nightmare because what I didn't understand at the time, which I've come to understand a lot better in my later years, is that you don't mess with a venture capitalist's exit strategy, and you better understand it if you want to survive in that world. They had been in BDS for six, seven years already, and they were getting very antsy. So there was a lot of pressure because we grew very rapidly again in this systems integration world, so at the end of 10 years, we were at $50 million. At the end of about 12 years, we were over $100 million, and they insisted that we go public.

This was the same era that BDM – this is 1994 now – was looking to go public. In fact, I had lunch with Phil Odeen because I knew that BDM was on the verge, and they had already made it public that they were going public, so I was seeking advice from Phil as to how we could possibly go public. If you remember their first attempt in 1994 didn't work, and they pulled the IPO, but our investors insisted that we go forward anyway. We actually pulled it off in mid-1994 and raised, I think, about $8 or $9 million, something like that. So we successfully completed it. Then when BDM went back out, Phil called me up and said, "So, how did you do the IPO?" It was kind of an interesting back and forth, so we learned from each other. The growth was explosive because of this product reselling activity that was going on in the early 1990s. At that point in time, the computer systems were not yet commoditized.

Grad: Did you have decent margins?

Bersoff: No. In fact, I was asked to sit on a panel that GSA sponsored, so I decided to do an analysis of a GSA sale for products. And as I was preparing – stupid me, I'd never done this analysis before – I went through: well, here's the price I paid, and here's what I sell it for and all that. And I proved on this chart that I couldn't make money being in the product reselling business. There was no room for any error whatsoever. So it was about that time I started

thinking about unloading the product reselling business. But at our peak, in about 1995, 1996, we hit just under $600 million in revenue; but as I said, because we had no capital base to begin with, we were beginning to lose money.

Grad: You were heavily indebted?

Bersoff: Heavily in debt, but we were still on this acquisition strategy, and I was able to gather some cash to make some acquisitions, but we also made an investment in a company out of Texas, a company called WheelGroup Corporation, which was building – this is maybe 1995 – an intrusion detection system for networks, which was the very earliest days of this technology. These fellows had come out of the Air Force, where they did it there, and we invested over a period of about eight months $850,000 in this company. As luck would have it, about a year later, when we were on the ropes with respect to our banks and we were selling off this piece of the business to GSI, with the banks beating up on us, WheelGroup was approached by Cisco Corporation to buy the company. And within about two years of the time we made the investment, our $850,000 became $23 million, and so that cash saved the company from potential disaster. So talk about being at the right place at the right time.

That was the episode that got us to finally get out of the reselling business. The company was lower in revenues at that point, just under $300 million, when we sold it to Titan in 2001. The interesting thing about that is, much like the story you've heard from DynCorp, most of our executives actually got very significant positions, and there was kind of a joke going around about who bought whom. We got the money, but most of our folks got excellent positions.

Grad: That's interesting how that works out, isn't it, sometimes?

Bersoff: And a lot of the business that caused them to be very attractive to L-3 [Communications] ultimately was business that came from BTG. They'll admit to that even to this day.

Grad: Well, one of the things I've heard often is that in many cases, you're acquiring either technology or you're acquiring good people, and that in many cases, the people turn out to be more valuable even than the technologies. Now, the market access is a significant thing, I'm sure, for all of you in your particular situations. David, I know you have to leave in a while. Are there any specific areas you'd like to explore before we finish up on this?

Role of GPS Companies in Advanced Technology Development

David Grier: Well, yes, I do have to leave. I have to teach a class in just about two hours from now.

Grad: And the students are hoping he doesn't arrive, but they can't have everything.

Grier: Yes, they are. I know that the answer to this may be negative, but I'm just so curious. Washington was an area of substantial computer and software development, starting with building the technologies. NBS [National Bureau of Standards] which became NIST [National Institute of Standards and Technology], and, of course, the Navy were actively involved. And I was just wondering if any of you had any contact either directly with those groups or the sort of groups that were doing research with them or doing development for them?

Walt Culver: You mean the technology?

Grier: The technology behind it. Some of the very early language work was done at NIST. ONR [Office of Naval Research] did a great deal of work developing the technology.

Bersoff: Well, I think the Internet is an example, but I don't know if you were interested in that.

Grier: Well, I was starting earlier, but the Internet, yes, obviously.

Bersoff: Well, it goes back to the 1970s, and their research laboratory did an experiment with CINCPAC [Commander-in-Chief Pacific] and DARPA [Defense Advanced Research Projects Agency] called the Military Message Experiment trying to figure out whether messaging like we do today with the Internet was useful in a military environment. And I remember talking to an Army colonel out in the CINCPAC who said, "This technology is okay, getting this information is okay, but I'd rather have another tank." So they didn't quite understand back in the 1970s the power of this technology. But a lot of that kind of stuff was going on right here in DC.

Culver: I think more broadly: this industry that we're talking to is not a technology-driven industry. It's a customer-driven industry. So if the customer's not interested in esoteric computer languages type stuff, nobody around this table's going to try to sell it to him.

Grier: Yes, that's what I was looking for.

Culver: On the other hand, if the customer wants 1,000 people to process pieces of paper having to do with visas, we'll provide 1,000 people to process pieces of paper having to do with visas.

Grad: But let me talk about this with another question. To what extent did the projects you undertook advance the technology in particular areas? Make a significant difference in the technologies? CSC didn't. Any of the others of you feel that your projects were major technology enhancers?

Shelton: The contract that we had with the patent trademark office which allowed the patent examiners to look at sheets of patent applications had some technology both in the hardware and the software equivalent to funneling through a number of pages. Then with work that we did for the Strategic Air Command, we developed techniques for reentrant coding, and that was a requirement in order to go forward with some of SAC's work. So those were really technology-forwarding projects.

Culver: But the real question is, did it affect the industry as a whole, and I don't think it did, none of these things.

Shelton: Well, I think in terms of reentrant programming, it did. It changed the whole ability to design and architect programs.

Grad: I guess what I was trying to get at was that in some software companies with their own R&D work, they were developing a new technology, a new application area, something that was fundamentally new that they could peddle and sell. You were responding to a requirement more of what the government said it needed. Am I misreading this?

Bersoff: We were exploiters of technology, not inventors of technology. I think that's what largely this community was. The guys in California invented the technology; we just used it.

Grad: David, does that respond to your questions?

Grier: Yes, that's good. I mean that's what I suspected, but I just wanted to see what interaction there might've been.

Grad: That's an interesting point. We'll come back later to whether there were other companies in this space, other competitors who had a somewhat different picture or somewhat different role.

Huntzinger: Well, what I think would be interesting is if you had an inkling of what was done in the classified projects.

Culver: I was deeply involved at NSA [National Security Agency], which has probably had as much advanced technology work as anywhere, but even there, with all the people that Computer Sciences had out there that reported to me, we were not advancing the technology. We were essentially using whatever's available in cooperation with the client to do some really interesting, interesting things. But you couldn't turn to the client and say, "Well, CSC introduced this," or, "CSC broke new ground in doing this." It just didn't happen. Within NSA, they were doing some things which were incredible technology-wise, but after they got them through their think tanks and their skunk works, that's when we started really working with them.

Toups: To my knowledge, PRC was the first company of its time to establish an internal R&D group, and at that time, because of the nature of the company, we were not allowed to take IRAD [Internal R & D] in formally as a part [of our cost] in the bidding process, but we did, in fact, establish this IRAD group and had about six people in there, and they were doing things on imagery recognition and on issues of security, those kind of things.

Grad: One of the things that has fascinated me here is that the companies that did the big research -- the manufacturers had their research labs, the AT&Ts -- have got to have spent tons of money. But the way you got reimbursed, you really just didn't have an incentive to do that, did you? You didn't get a good pay-off on that, whereas IBM got something out of their research lab that they could then market, even if at times they weren't very good at that.

Limited Product Sales by GPS Companies

Culver: I think there's another dimension here, and that is there is a huge difference between a product company that does research – forgetting Bell Labs for a moment, which is a counter example – because IBM research folks could take that and turn it into products and then make a lot of money in it, so it was a return on the research investment. Our kinds of companies didn't have that. We're not product companies. And those companies that attempted to have proprietary products mixed in with their services, to my knowledge, every one failed. I don't know anybody that really succeeded in having a tremendously strong services component and also developed their own products that they then would sell while they're trying to sell the services.

Grad: Stan [Gutkowski] mentioned that Accenture did develop products and they had a lot of trouble and they weren't terribly successful with it.

Culver: Right. One of the products that they attempted to do was that state and local product, and they lost their rear ends on it.

Grad: Is there anyone who can give me a counter example of one of the companies in the field here who successfully combined a products business with a government professional services business?

Kendall: I wouldn't say successfully. We developed an accounting package for the federal government, competed against AMS [American Management Systems, Inc.], and did it on our own nickel, for the most part. And like you said, selling to the government, you could never get it accepted as a shrink-wrapped package. They always had so many exceptions.

We had a lot of contracts, we made some money, but what did happen out of it was probably one of those great success stories. Because we knew about fund accounting and we knew this and that, we bid the student loan accounting process for Sallie Mae, which EDS and probably CSC were after. We were, again, the smaller company, but we'd done HUD mortgage loan processing, so we knew something about processing loans, we knew about the government requirements, and we took our accounting package and bid it with this system to do all the processing. It was a big job, $100 million a year or $200 million, and we won the job.

Grad: So the knowledge of that accounting package is what baited the entrée?

Kendall: It was simply because we were the only firm that could handle the back-end accounting, and we did this two or three times on a smaller scale, and to have that one proprietary package and having done a lot of accounting processing and being knowledgeable made an enormous difference because there was no way we should've won that job without that.

Grad: That's a good example. Others?

Jack London: CACI has even today a division that operates in the United Kingdom, about $100 million sales, that is commercial and it's product based. It provides geo-demographic market research tools for commercial enterprises and has a product, called InSite, which is run by geo-demographic data but gives the user the ability to do all kinds of market studies. So that's still an effective, profitable division, the most profitable division of the company. We also had the simulation product division [editors note: Simscript] that was modestly successful for a number of years, until we got to the point where we couldn't maintain the development cycle. I sold it off in the late 1990s.

Huntzinger: Jack, the one in the UK, did you acquire that?

London: No, that's homegrown, interesting enough. We had a geo-demographic capability in the United States which was exported to the UK; it was successful in the UK, but the part in the US withered.

Yost: In the early industry, Informatics was involved in government services.

Grad: Yes. In the commercial world, there are a number of companies – Oracle, PeopleSoft – that are product companies that sell professional services, although SAP has never been a successful professional services company. Everybody makes a ton of money off their products on the commercial side, but the people here generally are not able to make money off of it. That's why I've asked whether it's the way the government pays you that makes the difference so that you don't get the multiplier effect.

Culver: I think the answer is if you were a services company going into the government, in many cases, unlike the commercial side, they don't know exactly what they want. So instead of going in as a first sales call and trying to sell them something, you basically sit back and listen and say, "We're able to do all these things. What's your problem?" And so a first hour meeting might be 50 minutes they're talking, 10 minutes you talking. If you're selling the product, you come in pre-prepared with your brochure, and it's 50 minutes you talking, trying to sell off the brochure.

London: I don't think it's a sales model. I think it's the development model. You have different kinds of people in product development. I mean they're driven to get the product out the doors 24/7. Everything is crucial in getting delivery to get to market, and you don't have that cultural drive typically in the services business.

Culver: It may be both of those things.

Grad: Let me challenge you further. A number of the companies that started in commercial professional services – ADR, there's a half a dozen and more -- evolved into products companies because out of their professional services work, they came up with expertise in a particular industry or application or some development area, and that's when they moved into the products side. Now, some of those were systems products, which is different from applications, but that was quite significant, and I'm not, except for this example that Cliff's given, I'm not hearing that story here.

Bersoff: The reason is that if you develop a product after doing services work for a government agency, you don't own the product. Government owns the product. You have data rights, but the government owns the product.

Grad: So the knowledge you develop, the skills in a particular area aren't transferable?

Bersoff: But what Cliff said is exactly the right thing. You can develop a quasi product and a set of capabilities, and you sell the capability and the knowledge rather than the product itself.

London: That's fairly common, yes.

Bersoff: We're selling talent as opposed to a solution.

Young: I think one of the companies, though, that has done what we're talking about is AMS. AMS focused on financial packages, and they developed a set of modules that they could mix and match for a particular government agency's requirement, and they've been pretty successful in selling product along with their services.

Grad: Well, that's administrative type activities, primarily?

Young: Yes.

Culver: But even there, AMS essentially went out of business because they attempted to take that product and sell it again and again in some of the states, and you may recall that they got into a terrible contractual dispute with the State of Mississippi. Cost them $50, $60 million on a $20 million contract.

Young: I didn't say it was a long-lived…

Kendall: You could say Mississippi, Washington DC, Chicago, and New York were included in that list with that, too.

Culver: With AMS? Oh, yes. I can give you some more states, too.

Grad: Okay, one other aspect. You all had to do some fairly sophisticated systems type programming. You had to use a variety of different computers because of the nature of the government business; yet none of the companies you mentioned here ended up going into the systems programming area, developing operating systems. So my question is, is it the nature of the government relationship that you didn't get products out of it that you could sell?

Kendall: If you're selling to the government, there is no product for the government. The executives are very specific in what they want. It is very difficult to find a product that would fit a

government agency, quite frankly, and I think you're right. You go in and listen to what they want, and there's nobody that I know of [that developed successful systems products].

London: How about Oracle? Oracle financials are competing with AMS, Cliff.

Kendall: But Oracle doesn't sell a lot of services except through contractors. They're selling products.

London: Yes.

Kendall: And then we'd come along and work with them and sell services using the Oracle product. Oracle's been very smart. They said, "Here's the package. You take it the way it is." And then the government says "Okay," and they hire firms like ours to install them.

Grad: I don't think of Oracle as a government professional services firm in any real sense. They sell a lot of product there.

Culver: Even if you take a look at IBM Federal Systems Division for a moment, I worked with them as an executive consultant on one job that Jack's folks got me involved in. The proposal cost $10 million to produce, and I had put together an executive summary for them that had at the heart of it the real arguments for their IBM product line in terms of minicomputers. Turns out when they put the proposal in, they decided to use an AT&T computer instead because that's really what the customer wanted. So here's IBM, prime contractor, not even bidding their own equipment because of what Cliff just talked about.

London: I remember that, yes.

Culver: And you remember the discussion we had? I said I couldn't believe this.

Recent History of CSC

Grad: I'm going to finish up with you and Jack. Tell us what happened with your companies starting about the 1980s. What was their development?

Culver: Well, let's talk about Computer Sciences Corporation. Let me back up to the 1970s for a moment. As we entered the 1970s, three significant things happened that caused the company to grow by a factor of 10 in the next four or five years and then hit a plateau, and the plateau, in part, was based upon what caused it to grow.

First, on Christmas Eve of 1969, 13 people I had supporting RCA resulted in the Aegis contract award to RCA, and within six or eight months, we had 100 people on the contract, and within two or three years, it grew out to 1,100 people. So that was one element of growth from a business that existed not at all, which was defense systems integration business, and was on the back of the AEGIS development program.

The second thing that happened is a fellow named Clyde Anderson, who some of you guys may know, convinced Alvin Nashman to start a very low-margin business to go after large maintenance contracts at NASA and US Air Force and other places, and he won a whole series of contracts, extremely low margin but very large volume, one right after another.

And then the third thing that happened almost simultaneously is that Fletcher Jones, who at that time was still active, decided to make a bet-your-company investment in something called Infonet, developing an operating system from scratch for a uniquely capable timesharing capability built on the back of the UNIVAC 1108 computer product line. And, in fact, it ended up competing with companies like CDSI. And all those things cut in about two or three years after Infonet started. These were producing large quantities of revenue and it seemed like the company was going to be a billion-dollar company easily by the end of the 1970s.

It turned out not to happen for diverse reasons. Clyde Anderson's business grew just fine, but it was extremely low margin and wasn't getting much support from corporate because its margins were so low. Infonet ran into a disaster in that on one contract – I think it was with GSA – they had some subcontractors falsifying resumes, and Infonet, as a result of their responsibility over their subcontractors, was suspended from doing business with the government for about two years. So it hit, bang, a stop. Even though a lot of the overall business was outside the government, most of their business was inside the government.

A third thing that happened to the Aegis program is a guy by the name of Admiral Rickover – remember him? – was in control, and he was almost like J Edgar Hoover and the FBI. He could stop things just by word. And he decided he wanted any Aegis ship to be a nuclear ship, whereas the program manager in charge of Aegis wanted the ships to be non-nuclear because you could build a lot of them. The difference in cost was about 3:1, 4:1. So instead of building $200 and $300 million dollar ships, a Rickover ship would be over $1 billion probably in those days. And so the Aegis program was stopped dead in the water from doing anything but engineering development and not allowed to go into ship production. And so the Aegis work, instead of continuing to grow on an exponential curve, flattened out.

Infonet came to a dead halt because of this problem they had with GSA, and the company, as a result, entering 1974 was a $700 million company. After growing by a factor of 10 in five years, it only grew by 2% or 3% in the next six or seven years. But by 1982 or 1983, it started picking

up again. Rickover retired. The Aegis program was approved, and off it took, building what is now over 110 or 120 Aegis ships. And I'd say CSC is still making probably $40, $50 million a year off it. The Infonet thing was resolved with the government. We had to remove most of Infonet's executives because of it, but it then began running into the problems of the PC, slowly beginning to edge into that business. And Clyde Anderson's business just began topping out as other companies found the mechanism for bidding those very low prices.

Attempts to get into the commercial sector began to be obvious because of these things happening in the federal sector and particularly Infonet, and Bill Hoover made a couple of attempts to get in there by building it internally, and it turned out not to work. So about the time that I had come down to Washington and took over most of the Washington area, and that did okay, he asked me to become the corporate vice president of systems integration and figure out how to bring in commercial acquisitions to essentially buy our way into the commercial sector. And the concept there was to integrate them, which everybody agrees is the right way.

Integration was a particular problem because at least one of the high-end consulting outfits of the type that would compete with Andersen Consulting was paying some of their top-level consultants almost as much as Al Nashman who was running a billion-dollar business. And so there were a couple years of cultural adjustments, but it led CSC into the ability in 1990 to begin going into commercial outsourcing. The first client then was with General Dynamics under the concept that CSC could run General Dynamics's inside businesses because it understood defense very, very well. And it won that, it won a series after that, and essentially up to the present time, CSC is probably now 50% government and 50% commercial, with almost all the commercial work these days being the outsourcing business, which is suffering because the recession is causing aerospace cut backs and stuff like that.

Grad: You're differentiating outsourcing from facilities management?

Culver: Yes, the outsourcing deal with General Dynamics was essentially that CSC would buy all of General Dynamics' telecommunications and computer assets and not necessarily guarantee to just sell them back but do whatever was necessary to reduce cost and increase efficiency during the term of these contracts, which were typically 10-year contracts. Plus CSC would provide all the associated IT services and support services. If one does facilities management, it was handling most of the applications of the company, as well.

Grad: EDS went into that business, as well, didn't they?

Culver: EDS was the primary competitor in that business until EDS was bought by General Motors. General Motors understood EDS about as much as any other bad example we can come up with.

Grad: Companies from outside the industry who buy companies in the industry have no idea how to manage them, they don't understand the cultures, and they typically kill them.

Culver: EDS ran into the same issues with General Motors as SDC ran into with Burroughs. General Motors was running into some problems, they said, because of the Japanese. Of course, we know it was much different than that. They said, "We're going to cut, and the cut's going to be 5% or 10% across all units, including EDS," even though EDS had professional services contracts that it could go after and grow. And so EDS, within a year or two, almost disappeared from the radar screen, at least in the federal sector.

Grad: CSC continues as a "standalone company." I guess Northrop bought a lot of them. I don't know who the big competitors are at this time, but every time I mentioned one of the companies, I was told it was bought by Northrup. Does that make a difference in terms of your competitive posture at this point?

Culver: I'm sorry, does what make a difference?

Grad: You have a competitor in Northrup who bought up a lot of companies. They are a larger business. Is it tough being an independent competitor against a company which is a piece of Northrup?

Culver: If you take a look at the companies in this industry, they each tend to have their sectors in which they naturally compete and some sectors in which they don't naturally compete. Lockheed and CSC, for example, might compete for running large Air Force range activities, but they hardly ever compete when it comes to the IRS, for example. Even when I started SI International, we never ran into CACI. I can't think of one case in which we competed, although if you take a look, a lot of people were the same, a lot of them came from CSC or CACI, and you think they'd know the same folks.…

London: But it doesn't turn out that way.

Culver: We just ended up with different sectors. It's natural.

Bob Plouffe: Let me talk about Computer Sciences Corporation. In 1970 to 1982, I was with CSC. My last job was president of the Systems Division. We set up a program management group which got us ready for fixed-price contracts. The company at that time was about $400 million. We put in force a lot of strict rules when we bid fixed-price contracts so that we could assure that people who are working on non-fixed-priced contracts do not work on the other contracts at all.

Grad: No crossover.

Plouffe: And this was quite successful, as a matter of fact. At the point in time when I was vice president of operations of Systems Division, there were some bad contracts. The company had, in a sense, screwed up, but the Air Force had screwed up worse. What we did is make a list of the things that the people said we weren't doing right, and did it in writing. I went through all the files, and the trouble was with the Air Force, as a matter of fact, and we wound up with a $3.3 million claim on the Air Force. That would've been a big blow for CSC if we had to eat that. The claim did succeed.

Recent History of CACI

Grad: Jack, let me finish up with you. Anything further you want to talk about CACI and what its changes have been in this last 10, 20 years? What has been its progress, its numbers, and so forth.

London: Well, in 1980, we were doing about $100 million. We had picked up the Saudi Arabian Navy contract and had been very successful in transforming it. About that time, Herb Karr had a falling out with a fellow who had been the president for a number of years, Dr. Bill Fain, and fired him in 1981. Herb immediately took over as CEO and endeavored to expand the business platform into Western Europe and opened up offices literally all over the continent. And as you might imagine, when we had the Saudi platform and the cash flow was good, it looked like the right thing to do was to open our business portfolio, widen the aperture, and go after some European opportunities.

That turned out to be a disaster, unfortunately, for the company. I guess unfortunately for the company, but in some ways it was fortunate for me because at about that time – I guess 1983, 1984 – Herb realized that he was losing his rear end in Western Europe and we were about to start losing money as a company and our revenues were failing, as well. I had about 75% of the business in my operation at that time, so Herb decided that he didn't want to be the CEO anymore and called me up. I went out to California, sat down and spent a couple of days with him, then took on the job of being the CEO. We had a pretty rough time of it for a while because we were in that sole-source market, and the Competition in Contracting Act came through in 1984, and I've already mentioned how we had to transform our business platform.

We bubbled along through the 1980s not much better than $100 million for lots of reasons. But in 1987, there was a defining moment, and that was the October slide in the stock market, and CACI's stock took a real deep dive, and lo and behold, when we came out of it, there was a fellow by the name of Alan Parsow, who had bought a lot of that low-priced stock at the time. He filed a 13D with the SEC, and said that it was his intention to see that the company got sold.

You can imagine how he got along with Mr. Karr. Herb wasn't at all amenable to the idea, so there was a kind of running gun battle into the late 1980s.

Then the Berlin Wall came down, and there was a lot of question about how our industry was going to survive and what it meant for the peace dividends that were looming ahead in terms of budget planning. The long and the short of it was that we went through that, but Mr. Karr died in 1990. We had a board meeting the day that he passed away in California, and I was elected chairman of the board. Within a year, I had bought back the Karr estate stock, and paid, I think, a dime a share premium on it, and we got sued in a class action lawsuit for a greenmail effect, for paying a premium for buying back the stock. By the way, it was not dilutive, so it was a marvelous transaction.

I had a wonderful argument in the chancery court in Delaware. You don't get many times where you can buy that much stock back, but the prices were so low in those days, as you may remember. So we went through some vicious times with the lawsuits and the class action litigation, proxy contests. I bought a lot of CACI stock with my after-tax dollars to help in, let's call it, the proxy count, and we prevailed in that, but we still had the litigation that went on. It was settled in, I think, about 1993 or 1994, and one of the people that came on our board at the time as a part of that settlement transaction was none other than the honorable John Toups here with us today. And so we reconfigured our board.

Mr. Karr had been opposed to mergers and acquisitions but I was able to convince the board of directors at that time that it was very much in our interest to go into the market space. We developed a paradigm of buying companies and, very successfully throughout the 1990s, were able to build the company with transactions and market concentration. Ray Olson joined the company in the late 1980s and was with us till about 1997. Walt [Culver] came in somewhere in the early 1990s. We were able to very successfully get into expanded lines of business with many clients. The bottom line is we were very effective with our mergers and transactions. We transformed the business into a network services company on the back of mergers, and we transformed the company into the intelligence community on the back of transactions, as well, so we really reformed the platform at least twice during the 1990s.

Grad: Did you integrate these acquisitions or treat them as essentially new businesses?

London: Virtually all of them have been integrated. The timeframe may be a little bit elastic in terms of when we wound up doing it, but we were able to acquire companies that had similar cultures, that were very amenable to the type of business platform we had, and I think, by and large, were pretty successful. We have never had a company that failed to make the positive cash flow metric, and never had any impaired recent assets on our balance sheet because of transactions, which I pinch myself for all the time.

Grad: Be careful what you wish for.

London: We had one more set of proxy fights in the late 1990s that we were successful with the same suitors. They left, I think, and sold out at about $15 a share. We split the stock, and it ran up to almost $70 a share, so those folks, by bailing out early, lost probably $150 to $200 million.

Grad: What are the current revenues?

London: About $2.5 billion. Our earnings are still a very decent earnings profile, and we have about 30 million shares issued and outstanding, and we've issued stock and gone to the market for debt financing and so on.

Grad: Dan spoke about the process CSC followed after they bought the DynCorp – the clean piece of paper and start from scratch. Did you do that sort of thing in your acquisitions?

Bannister: When CSC bought DynCorp, the reason why they started with a clean sheet of paper and designed a new company using the two companies was because it was such a large acquisition. It was a $2.4 billion company when CSC bought it.

Grad: So it was very large. Did you have any acquisitions that were very large comparable to CSC's?

London: Well, I think everything's relative. CACI was fortunate enough to be a successful suitor in acquiring the defense and intelligence group of AMS, a $500 million piece of business. The interesting thing is we joined with a Canadian company, CGI, and I spent more time negotiating with my partner than we did across the table with AMS because we were constantly restructuring the deal between the two of us because we were trying to buy two pieces of a public company. And it came off quite well for us, but it was an enormous amount of work, especially the negotiating part.

Bersoff: Jack, you have several corporate executives who came out of your acquired companies.

London: Oh, yes, we did.

Bersoff: Isn't your chief operating officer out of an acquired company?

London: Yes. Bill Fain came to us through a company called QuesTech which was the platform we acquired to move into the intelligence sector.

Bersoff: Somebody came out of the AMS, too.

London: Yes, Gil Guarino. Gil is another one of our senior people.

Grad: That's again the point. You're getting some very good people that you're integrating into your total company. Well, the contrast in our minds, on the commercial side, is that Computer Associates was noted for getting rid of 75% of the people in the companies they acquired.

London: Yes.

Grad: In contrast, Sterling Software, Sam Wyly, did exactly the opposite. He was looking for his next executives. When they acquired Informatics, basically, all the executives that ended up at Sterling Software had come out of Informatics at one point in time. So there are very different philosophies and ways of doing these things.

Culver: Well, some of it has to do with the difference between a services company, where when you're buying talent, you want to keep as much of it as possible except with redundancies, whereas in a product company, if you buy a product, you don't want to keep all of the product staff, you want to have your people pick up that product and run with it. So, some of it's got to do with that.

Grad: I'm drawing the contrast. I'm saying that here's Sterling Software, which was basically a products company had the exact opposite point of view as Computer Associates. They essentially wanted to keep all the people, wanted to grow the products, whereas CA wanted to live off the maintenance. That's not germane to the situation here, but Sterling also bought the professional services operations from Informatics and kept those people as long as they could. They didn't want to cut back. Your point is, though, in professional services, the people you're selling is where you're making your money…

Culver: Right.

Grad: But you might cut back on the products which is what CA's model was.

Culver: Right.

Grad: Yes, it's a good point. I'm going to take about a 10, 15-minute break here. We'll then come back and we'll finish up our sessions for the day