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# Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

## Open Source Business Models and Trends, Part I of II



Salaries for CTOs are up but bonuses for privately and venture funded companies are down  
See pages 4-6.

We resume our talk with Donald K. Rosenberg, president of Stromian Technologies, and the author of "Open Source: The Unauthorized White Papers." For those of you interested in further plunging into the increasingly arcane world of Open Source licenses (nearly 60 and counting), we suggest you read his review of Larry Rosen's book on Open Source licensing at <http://stromian.com/Corner/Feb2005.html>.

### In light of the concerns you've expressed about the GPL, what impact is it having on Open Source business?

The general effect is to slow down business and business adoption of Open Source technologies. I'm not talking about running Linux on the corporate servers; I'm talking about the taking in-house of Open Source technologies, modifying them, and either running them internally or shipping them onward.

In the caution typical of business managers and their attorneys, policies are developed to exclude any GPL (and sometimes any Open Source) software from use or integration with company software because of a perceived threat of exposure of corporate source code.

Another important point is that no matter how hard Mozilla may work on its "Mozilla Public License" (MPL) or IBM on its "Common Public License" (CPL) to address real problems such as patents and provenance, all these licenses—the Open Source Initiative (OSI) has blessed nearly sixty now—run aground on the rock of the GNU GPL because the Free Software Foundation says that the GPL is incompatible with all these alternatives (often because of their patent provisions).

The world is still divided into the BSD and the GPL license camps: both represent valid views on the question of whether code-sharing should be mandatory or not, but neither takes into account all the current problems of software licensing, of which patents and provenance are only two issues.

Actually, these two code-sharing approaches have been addressed, along with all sorts of licensing/legal issues, in two licenses by Larry Rosen. The BSD approach is covered in his Academic Free License, and the GPL approach in his Open *(continued on page three)*

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## Groups Vs Communities

Over the last six months my company has been conducting research on the differences between online groups and communities. Both types of bodies can have a serious impact on your company's long term sales and marketing, and our work has shown there are significant differences between the two and different expectations and techniques you need to apply to each respective entity.

We define groups as having the following defining characteristics:

- Members of groups share a common vision (for instance, they'd like to increase their personal knowledge of a particular application).
- Personal interests are shared by many people in the group.
- Members of the group who meet their goals leave the group.
- Members of the group who do not meet their goals also leave the group.

Communities are defined by the following:

- A shared common vision within the community.
- Communities have a sense of seeking the common good for all members of the community.
- Communities work together within a framework of shared norms and behavior values. (For example, obscene language may be actively discouraged, or overt business solicitations may be frowned on unless the community gives explicit consent.)
- The community is quickly able to identify whether an individual is behaving outside these norms and collectively moves to "correct" aberrant behavior.

It's important to identify what stage a group of online people who interact with another is in because the amount of time you will need to spend managing the different entities changes based on their developmental progress.

Groups require more attention than communities because they are not self sustaining and must be constantly restarted. This is an ongoing drain on your marketing. For a group to become a community, an ISV must help consolidate the group and assist it to progress to communityhood by providing a feeling of identity, recognition, and communication. This in turn drives participation in community activities.

The next step is providing leadership in the form of encouraging the group to establish leaders, peers, and guides. Once a community has developed these traits, it becomes a self-sustaining organization and requires far less management on the part of the software publisher. But this independence comes at a price: heavy-handed attempts at setting policies and monitoring the community will quickly lead to revolt, dissatisfaction, and eventually the community's destruction.

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Source License. If people who use or intend to use the BSD and GPL licenses would instead choose the Rosen licenses (which are at the OSI site and are used by the OSI for its own Web material) it would help immensely to bring Free Software and Open Software principles into the business realm, benefiting both the developer community, businesses and the software industry.

### What type of ROI analyses have been most effective in selling OSS?

If you mean selling Open Source to IT departments, I'm not sure that all of them care whether the source code is available or not. And some still worry that random employees will toy with the company software if source code is out there somewhere.

Selling a software approach to IT management is best presented as a savings and payback approach. Many technical departments are not adept at this, and still present themselves as cost centers who have budgets and demands. Maria Winslow did a whole book on these issues, *The Practical Manager's Guide to Open Source*, that discusses where the money is for IT departments in Open Source.

Practically speaking, I've noticed that companies look to replace Microsoft server licenses with Open Source equivalents because of the high cost of licenses to connect users to those servers. It's not enough to have licenses for your desktop OS; you also need to have licenses to connect to Outlook and to other servers (or they must have licenses to connect to you). Use of Open Source or even lower-priced proprietary software that fits into these spaces lowers IT costs.

### Wal-Mart's been selling cheap desktop PCs and laptops with Linspire preloaded with some success. What do you think of Linux's prospects on the desktop?

The Linspire boxes address a number of market problems, the first of which is what do you do about Microsoft prices when the hardware gets so cheap that people notice the high cost of the OS? We're talking about a few hundred dollars for a box: Who wants to pay a few hundred to get an OS and an office suite on it? The clever thing about Linspire is not just the Windows/Linux approach, which is sure to help Linux migration generally, but the idea that the "Complete Product" is being offered to the customer. The customer goes to one source for all his software, downloads, and installs.

The biggest obstacle to the Linux desktop is the installed Microsoft base; the problem is migration. The power users all ask: Can I do the same specialized stuff I do in Windows? The answer is that the more specialized your use of Microsoft, the more problems you will have moving over. But that's a market opportunity. So for the simple user, a plunge directly into the Linux desktop. For the power user, a migration.

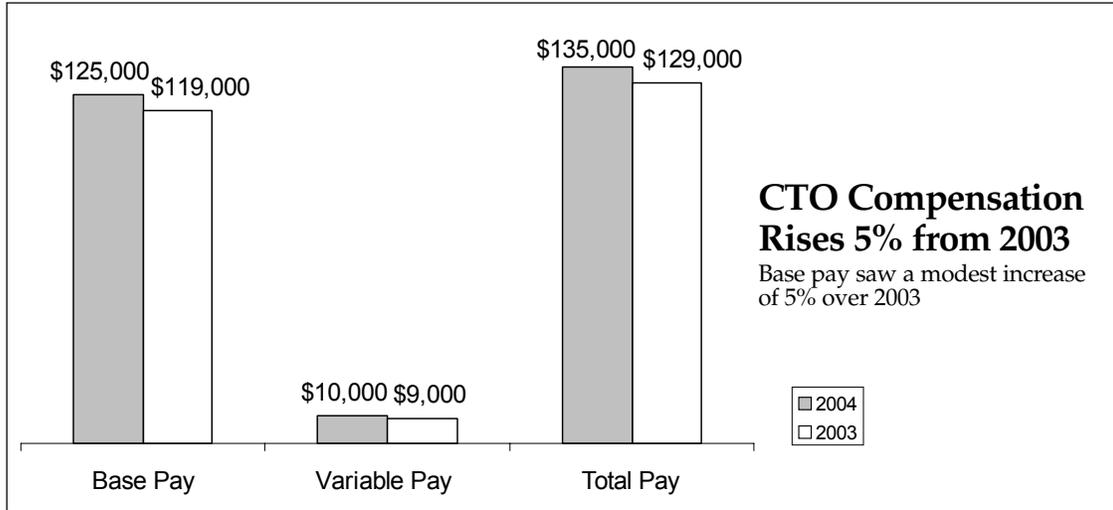
Don Rosenberg, president, Stromian Technologies, 919 Monmouth Avenue, Durham, N.C. 27701; 919/687-4172. E-mail: donr@stromian.com; www.stromian.com.

**"I thought Win4Lin was coming to an end a couple of years ago because they depended on their understanding of DOS and X86 hardware to get Windows apps to run on Linux. Win2K and XP ended that. But the virtual machines allow Linux migration to continue and makes porting and functionality questions (like how to print) easier to deal with."**

—Don Rosenberg  
Stromian Technologies

**"There will be many approaches to the Linux desktop. Sun's version of desktop Linux (which it calls the Java Desktop System because, you know, Java is a Sun brand) is aimed at corporate users, and like the OS (pick Solaris or Linux) rents for \$50/user/year. I would expect that IT departments would like the simplicity of management and the single-supplier aspect of it."**

—Don Rosenberg  
Stromian Technologies



### **Benchmarks: Chief Technology Officer Compensation**

Sixty-seven percent of respondents who participated in our latest Executive Compensation Survey for Chief Technology Officer (CTO) earned more in 2004 than they did in 2003. This year’s median base pay for 58 software CTOs is \$125,000, up 5% from last year’s base pay \$119,000 (median); median variable pay has risen from \$9,000 to \$10,000; and the figure for median total pay has risen 5% to \$135,000 from last year’s \$129,000.

As we’ve encountered in previous years, our Executive Compensation Survey data shows a clear difference in pay levels based on company size. The smallest software companies in our survey pay their top technology executives \$120,000 (median) and the largest pay 35% more, \$185,000 (median). Evidently, larger companies are willing and able to pay a higher price to recruit top technology VIPs.

Development stage shows a similar pattern: Venture-funded companies pay higher salaries (\$171,000 median) for CTO talent than their privately-funded rivals (\$122,500 median), a trend we’ve observed for most executive jobs. However, public companies paid less (\$167,500 median), which is a departure from what we’ve seen in the past. We attribute this to competitive pressures felt by software companies in the post bubble-9/11 era.

Raises contributed a modest 5% overall boost to CTO pay last year. Although venture-funded firms paid their CTOs the highest salaries overall, they actually saw a decrease in total compensation from \$188,500 in 2003 to \$171,000 in 2004. There was an increase in base pay, but a sharp decrease in bonuses, a reflection, we believe, of the market’s shift from a focus on technology to ROI and measurable paybacks on software investments. While their peers at public companies were paid lower salaries, they saw a robust increase of 12% in total pay, from \$150,000 in 2003 to \$167,500 in 2004. With respect to raises, when we segment the survey sample by company size, no real pattern is observed; in this breakout, raises varied between 0% to 9%.

<b>Overall CTO Compensation</b>	<b>Median</b>	<b>Top 25%</b>	<b>Bottom 25%</b>	<b>Raise</b>
Base Pay—current	\$125,000	\$165,000	\$100,000	5%
Base Pay—last year	\$119,000	\$150,000	\$90,000	
Variable Pay—current	\$10,000	\$40,000	\$0	11%
Variable Pay—last year	\$9,000	\$40,000	\$0	
Total Pay—current	\$135,000	\$210,000	\$100,000	5%
Total Pay—last year	\$129,000	\$192,000	\$90,000	

Number of respondents = 57 for "current" and for "last year."

<b>CTO Pay by Company Size</b>	<b>Base Pay</b>	<b>Variable</b>	<b>Total</b>	<b>Raise</b>
Under \$1 million—current*	\$95,000	\$5,000	\$120,000	0%
Under \$1 million—last year*	\$90,000	\$2,500	\$120,000	
\$1-\$5 million—current	\$103,500	\$7,000	\$120,000	5%
\$1-\$5 million—last year	\$100,000	\$0	\$114,000	
\$5-\$10 million—current	\$130,000	\$10,000	\$130,000	8%
\$5-\$10 million—last year	\$109,000	\$12,000	\$120,000	
\$10-\$99 million—current	\$150,000	\$32,000	\$165,000	6%
\$10-\$99 million—last year	\$140,000	\$20,000	\$155,000	
\$100+ million—current*	\$175,000	\$17,500	\$185,000	9%
\$100+ million—last year*	\$167,500	\$10,000	\$170,000	

Number of respondents = 4 for Under \$1 million, 19 for \$1-\$5 million, 15 for \$5-\$10 million, 13 for \$10-\$99 million, and 6 for \$100+ million. Values are medians. \*Sample size too small for accurate comparisons.

<b>CTO Pay by Development Stage</b>	<b>Base Pay</b>	<b>Variable</b>	<b>Total</b>	<b>Raise</b>
No significant revenue—current*	n/m	n/m	n/m	n/m
No significant revenue—last year*	n/m	n/m	n/m	
Privately owned, privately funded—current	\$107,500	\$10,000	\$122,500	2%
Privately owned, privately funded—last year	\$100,000	\$7,321	\$120,000	
Privately owned, venture funded—current	\$166,000	\$3,500	\$171,000	-9%
Privately owned, venture funded—last year	\$147,500	\$22,500	\$188,500	
Public—current*	\$150,000	\$17,500	\$167,500	12%
Public—last year*	\$137,500	\$17,500	\$150,000	

Number of respondents = 1 for No significant customer revenue, 38 for Privately owned, privately funded, 12 for Privately owned, venture funded, and 6 for Public. Values are medians. \*Sample size too small for accurate comparisons.

## The Top 50: Highest Paid Public Company CTOs

		Base Pay	Variable Pay	Total	Long-Term
1	<b>Marc Kustoff</b> , Dendrite International	\$3,255,000	\$238,893	\$3,493,893	
2	<b>Russell M. Artzt</b> , Computer Associates	\$750,000	\$549,250	\$1,299,250	\$1,028,278
3	<b>William H. Gates III</b> , Microsoft	\$593,382	\$310,000	\$903,382	
4	<b>R. Evans Hineman</b> , ManTech	\$414,550	\$381,400	\$795,950	
5	<b>James E. Heppelmann</b> , Parametric Technology	\$478,000	\$306,150	\$784,150	
6	<b>Hervé Couturier</b> , Business Objects	\$411,250	\$350,636	\$761,886	
7	<b>Robert G. Kruger</b> , Citrix Systems	\$326,427	\$387,657	\$714,084	\$107,343
8	<b>Dan Barnea</b> , BMC Software	\$425,000	\$212,500	\$637,500	
9	<b>Joseph Uniejewski</b> , RSA Security	\$249,984	\$266,050	\$516,034	\$965,553
10	<b>Dean J. Hager</b> , Lawson Software	\$260,000	\$223,049	\$483,049	\$491,623
11	<b>Richard D. Reidy</b> , Progress Software	\$250,000	\$204,421	\$454,421	\$1,376,644
12	<b>Peter C. George</b> , Kronos	\$265,023	\$186,100	\$451,123	\$1,536,960
13	<b>Ferdinand Engel</b> , Concord Communications	\$315,012	\$100,163	\$415,175	
14	<b>John W. Young</b> , MRO Software	\$215,000	\$173,990	\$388,990	
15	<b>Raj Nathan</b> , Sybase	\$315,285	\$69,727	\$385,012	\$596,384
16	<b>T. Paul Armstrong</b> , Micros Systems	\$255,000	\$128,409	\$383,409	\$478,566
17	<b>Norman K. Meyrowitz</b> , Macromedia	\$200,000	\$159,025	\$359,025	\$980,371
18	<b>Vincent P. Niedzielski</b> , QAD	\$300,000	\$55,260	\$355,260	\$820,838
19	<b>Peter A. Mehring</b> , Echelon	\$300,000	\$54,872	\$354,872	\$547,750
20	<b>Christopher Wong</b> , Agile Software	\$200,000	\$140,428	\$340,428	
21	<b>Paul J. Cormier</b> , Red Hat	\$275,000	\$56,172	\$331,172	\$895,000
22	<b>Michael G. Wittig</b> , CyberGuard	\$165,000	\$163,853	\$328,853	\$430,939
23	<b>Scott D. Hines</b> , JDA Software Group, Inc. (JDA)	\$225,000	\$89,001	\$314,001	
24	<b>Zoltan J. Cendes</b> , Ansoft	\$300,000	\$500	\$300,500	\$120,000
25	<b>C. Steven Pringle</b> , Aspen Technology	\$300,000	\$0	\$300,000	
26	<b>Lily S. Chang</b> , Advent Software	\$240,000	\$53,663	\$293,663	
27	<b>Jonathan Otterstatter</b> , SPSS	\$231,000	\$61,250	\$292,250	
28	<b>Martin Plaehn</b> , RealNetworks	\$252,452	\$31,718	\$284,170	
29	<b>Scott W. Dale</b> , SupportSoft	\$225,000	\$50,236	\$275,236	
30	<b>Timothy A. Howes</b> , Opsware	\$275,000	\$0	\$275,000	
31	<b>Charles W. Hull</b> , 3D Systems	\$275,000	\$0	\$275,000	
32	<b>Michael R. Pyle</b> , Pegasystems	\$208,000	\$64,000	\$272,000	\$953,806
33	<b>Michael Foster</b> , Micromuse	\$186,327	\$84,345	\$270,672	
34	<b>Roy D. Albert</b> , iPass	\$180,000	\$88,658	\$268,658	
35	<b>Sam Zawaideh</b> , MatrixOne	\$203,300	\$56,663	\$259,963	\$141,795
36	<b>Kevin C. Parker</b> , Serena Software	\$171,500	\$83,978	\$255,478	
37	<b>Jack S. Jia</b> , Interwoven	\$180,000	\$70,200	\$250,200	
38	<b>M. Dale Skeen</b> , Vitria Technology	\$247,500	\$810	\$248,310	
39	<b>Brian W. Elloy</b> , Borland	\$220,727	\$26,630	\$247,357	
40	<b>Harold M. Kester</b> , Websense	\$207,500	\$39,836	\$247,336	
41	<b>David J. Shirk</b> , Vignette	\$221,538	\$22,656	\$244,194	
42	<b>Jeffrey A. Bedell</b> , MicroStrategy	\$186,250	\$55,468	\$241,718	
43	<b>Bradley C. Rode</b> , Tibco Software	\$234,792	\$462	\$235,254	
44	<b>Dwain A. Kinghorn</b> , Altiris	\$203,635	\$26,596	\$230,231	
45	<b>Gary S. Margolis</b> , BindView Development	\$175,000	\$49,750	\$224,750	
46	<b>George C. Moon</b> , Mapinfo	\$220,542	\$3,087	\$223,629	
47	<b>Peter K. Kennedy</b> , Moldflow	\$148,455	\$72,549	\$221,004	
48	<b>Scot K. Morrison</b> , Wind River Systems	\$206,665	\$13,166	\$219,831	
49	<b>Jeanne Chen</b> , Kintera	\$154,450	\$37,500	\$191,950	
50	<b>Jeanne F. McCann</b> , Scansoft	\$168,750	\$3,375	\$172,125	

Note: The 50 individuals here received the highest annual compensation of chief technology officers (or equivalents) of public software companies with a current market capitalization of \$150 million or more. "Variable" compensation includes bonuses, commissions, company-paid insurance, relocation and housing allowances, forgiven loans, memberships, profit-sharing contributions, etc.  
Source: Company proxy statements for most recent fiscal years.

## Types of Statements That Can Spoil a Deal

By Nat Burgess, Corum Group

Before initiating an offer, buyers naturally want to know everything about a company. Not surprisingly, sellers are loathe to disclose everything without a firm deal on the table. In their efforts to induce the buyer to make an offer, sellers frequently present an overly rosy picture of their company and neglect to disclose problems while providing glib assurances in response to questions that require the attention of a lawyer, accountant, or other professional. It is during this initial dance, when unrealistic promises are made, that relationships are set up for failure.

A common example of this is the issue of accounting standards. I was on a call recently with a client whose firm is not audited, but who has a very capable CFO on staff. The buyer, a multi-billion dollar software company, asked whether my client's books were in accordance with GAAP. Knowing that he had a competent CFO, and eager to proceed to the next step, my client said "Yes, I believe my books are in accordance with GAAP." At that point I asked the buyer whether **their** books were GAAP compliant. That led to a detailed discussion of current revenue recognition rules and a conclusion that neither my \$10 million client nor the \$3 billion buyer were GAAP compliant. The result was a letter of intent that excluded GAAP noncompliance by my client as an exit for the buyer.

State sales taxes and business licenses are other areas of concern. There are several questions that will set expectations. These include "Are you GAAP compliant?" and "Have you paid all required taxes in all regions?" Rather than respond with assurances and then backfill with facts later, it is almost always appropriate to move the question from the general to the specific. Instead of GAAP, talk about your actual accounting practices. Rather than claim all taxes have been paid, discuss where you **do** pay taxes. Many software companies expand organically, often with clients that operate in multiple states, and neglect to pay local sales tax as they go. Whether sales tax is owed will be somewhat (although not entirely) clear to an accountant tasked with researching the company's history and financial records.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
<b>Emailjob.com</b> • Leading online French recruiter	Monster Worldwide	\$26,000,000 Terms: Cash/earnout <sup>1</sup>	\$9,000,000	<b>2.89</b>
<b>About.com</b> • Online information portal	The NY Times Company	\$410,000,000 Terms: All cash	\$41,000,000	<b>10.00</b>
<b>Atomz Corporation</b> • Digital marketing applications	WebSideStory	\$48,800,000 Terms: Cash/stock <sup>2</sup>	\$32,000,000	<b>1.53</b>
<b>Copper Mountain Networks</b> • Broadband access solutions	Tut Systems	\$10,000,000 Terms: All stock	\$9,000,000	<b>1.11</b>

1. \$23MM in cash, \$3MM in earnout  
2. \$4.3 MM cash, \$44.5 MM stock

## Business Wiki Tools

- **Five Across** ([www.bubbler.com](http://www.bubbler.com)): Template-driven system that allows you to create a wiki that contains video, images, and business documents. Service is currently in beta and free. Requires a client download.
- **iUpload** ([www.iupload.com](http://www.iupload.com)): A cross between a blog and a content management system. Includes spell checking support and podcasting.
- **JotSpot** ([www.jot.com](http://www.jot.com)): Enables you to create a collaborative wiki environment from within Microsoft Word. Automatically indexes Word and Excel attachments.
- **Pluck** ([www.pluck.com](http://www.pluck.com)): Browser-based wiki tool. Integrates RSS feed into the basic system.
- **Socialtext** ([www.socialtext.com](http://www.socialtext.com)): Enables users to work in a real-time, shared editing view. Supports AIM, Yahoo! Messenger and Skype.
- **TWiki** ([www.twiki.org](http://www.twiki.org)): Open Source web-based collaboration platform that targets the corporate intranet world.

BRITISH MOBILE PHONE MANUFACTURER ORANGE on trademarking the color orange: "We have been unable to secure a commitment from them not to infringe our rights regarding the use of the color orange" Orange said in a statement, referring to its attempt to prevent easyMobile, a wireless startup, from using its color in ads. "We have been left with no choice but to start an action for trademark infringement and for passing off." (Quoted in the Tapei Times, 02/20/2005)

UPS SPOKESWOMAN DONNA BARRETT on their trademarks for their shade of the color brown: "We've been using that color for several decades. We really don't have too many problems with other people trying to use it." (Quoted in the Tapei Times, 02/20/2005)

U.S. DISTRICT JUDGE DALE A. KIMBALL on the SCO/Linux lawsuit: "It is astonishing that SCO has not offered any competent evidence to create a disputed fact regarding whether IBM has infringed SCO's alleged copyrights through IBM's Linux activities." (Quoted in Computerworld, 02/11/2005)

RAKESH KHURANA, author of *Searching for a Corporate Savior: The Irrational Quest for Charismatic CEOs* on star CEOs: "They create, through elevating themselves over other people, environments where deference and status become the highest currency. It's an unstable form of leadership. The difference between a cult and a religion is one outlasts its leader." (Quoted in the Springfield News-Leader, 02/12/2004)

NEW YORK TIMES Reporter Kate Zernike on the growth of podcasting: "Since August...3,075 podcasts have sprung up around the world, according to a Web site, Ipodder.org, that offers downloads of podcasting software." (Quoted in the New York Times, 02/19/2005)

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