

Saturday, June 30, 2007
Vol. 23, No. 12

Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Mark the Date!

**Softletter's Marketing
and Selling SaaS
Seminar**
Santa Clara, CA
October 3/4, 2007



*Not exactly boom times
for CTOs, who saw
significant slowdowns in
both base and variable
pay raises last year
See pages 4-6.*

**Publisher &
Managing Editor**
Merrill R. Chapman
rickchapman@softletter.com
860/663-0552

Editor
Donald K. Rosenberg
don@softletter.com
919/687-4172

Editor Emeritus
Jeffrey Tarter
jtarter@softletter.com
617/668-0028

Editorial office
Soft•letter
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552

Subscription office
Aegis Resources
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552
Fax: 860/663-0553
info@softletter.com

www.softletter.com

Thriving in the Shadow of the Beast

Once upon a time, in a vanished world few now remember, there used to be flourishing and competitive markets in desktop-based word processing, spreadsheets, presentation packages, and databases. In the DBMS market alone there was the king, dBase, constantly fighting off a horde of contenders to the throne that included Paradox, DataEase, FoxBase, R:base, Clipper, Revelation, DataPerfect, VersaForm, to name just a few of the products we recall from the dusty archives of our memory. Then Ashton-Tate self-destructed and in its dying poisoned the dBase development environment. As dBase died, Access and Microsoft Office appeared and through luck and good marketing, The Redmond Beast laid waste to its competitors in the desktop application markets. When the carnage was over, the desktop database market was a stark wasteland, a landscape littered with moldering stacks of discarded floppies and battered cardboard boxes stuffed with encyclopedia-sized stacks of discarded documentation.

Survivors left to make their way in this grim new world included FileMaker, a wholly owned subsidiary of Apple, and independent DBMS producer, Alpha Software. Founded by industry pioneers and British expatriates Richard and Selwyn Rabins, its desktop database, Alpha, developed a strong following in the 80s and 90s as a flexible and powerful rapid application development system (we were customers), but after the firm merged with SoftQuad, the product dropped off most radar screens. Alpha did not disappear however, and several years ago the product began a strong comeback. Today Alpha boasts an active user base of over 300k, 500+ VARs and is growing steadily. We asked Richard Rabins about how Alpha has survived and grown in the shadow of Redmond.

★ **Understand how to take advantage of another company's positioning problems.** "Microsoft was able to duck the positioning bullet fired by its purchase of FoxBase and FoxPro, but over time the company's emphasis has shifted to SQL Server. Today, Microsoft wants you to buy SQL Server and has allowed Access to languish. Over the last several years, Access has lagged in terms of innovation and new capabilities. Access still rolls over when you create a multiuse environment that supports more than 20 users. This is a deliberate decision by Microsoft. Improve Access and you cannibalizes SQL server and Visual Studio.

"This has real world consequences outside Microsoft," Rabins notes. "Within the Microsoft World, there's a battle between two camps, Access on the one side and SQL/Visual server on the other. Both sides have numbers they need to make and bonuses

(continued on page three)

Software Licensing and the GPL, Part II of II

Jeff Gordon, *The Software Licensing Handbook*

It's important to realize that it is not true that GPL software is unable to be used with proprietary or other non-GPL software. For example, the Linux kernel is protected by the GPL, yet hundreds of proprietary products run on top of the kernel. But if you want to distribute GPL software with your proprietary product, you are required to make the source **to the GPL software** available, a chore some developers do not wish to perform. In fact, many proprietary software developers simply state in their readme files that GPL'd products are necessary pre-installs and refrain from distributing the GPL software to reduce the possibility of headaches. You must, however, distribute the source code to the GPL software if you have modified or otherwise edited the code and you want to distribute the object code of such modified GPL software.

Alternatively, a software developer is completely free to code around the need for GPL software, essentially reinventing the wheel. But, under the terms of federal copyright law, such a work-a-round is completely acceptable. The only thing that is not is wholesale copying in violation of the license. Additionally, while the GPL is considered to be the most "free" (ironically then, also the most restrictive), there are dozens of other open source licenses under which software is released which do not carry the potential for a GPL taint. In fact, if using for example the MIT open source license, mere attribution is all that's required. Important to remember though is a key lesson regarding software licensing: **Do Not Trust the Title of the License.**

Just because a particular document says that it is governed by a certain license by title alone does not mean that the terms of the license distributed with the software are **actually the right terms**. More than 50 different open source and/or free software licenses are currently in some form of use. These licenses are relatively brief, usually written in something more approachable than standard legalese, and are plain text files. This makes them highly susceptible to edits and modification. Read each license that comes with a particular software package carefully and thoroughly. **Compare it to the "real" licenses found at the Free Software Foundation, the Open Source Initiative** (www.opensource.org) or from the website of whatever group publishes the license purportedly governing each specific software application using a document comparison tool (most word processing packages have this feature). If you find copyleft language (Section 2.b. of GPLv.2) in a non-GPL license document, you face significant legal liability, though it is **very** unlikely you will ever have to release your proprietary code. Remember that the GPL is a **license, not a contract**. While a court may decide you should be punished for a license violation, you are not contractually bound.

Some industry observers have scoffed at the risk offered by GPL violations and in all fairness, they have a point. The liability you run if you do violate the GPL is theoretical. To date, the GPL has yet to be tested in a court case. And issues such as static linking to GPL libraries is a controversial topic under the current version of the GPL. But I would strongly urge any company thinking of running a calculated risk and ignoring the GPL's terms to think again. The courts are well aware that the software industry is quick to sue others to protect its copyrights and IP interests. I suspect a firm mounting an open challenge to the GPL would be stepping into a legal and PR minefield.

Jeff Gordon, author, *The Software Licensing Handbook*, 9304 Cub Trail, Raleigh, N.C., 27615; 408/954-3977. E-mail: jeff@jeffreygordon.net. Website: www.licensinghandbook.com.

they want to earn. It's not unusual for us to encounter situations where Microsoft has two battling sales teams undercutting each other, or the two groups are scrambling to be included on an RFP that allows only one product per vendor. This makes customers uneasy and confuses them. We've witnessed situations where a customer has listened to the different groups attack the others. With Alpha, we're able to make one pitch and offer one proposal."

- ★ **The growth of Web 2.0 and SaaS is opening up new markets for applications positioned to leverage them.** "The growth of the Internet as a platform is driving several favorable developments for software products such as Alpha," Rabins observes. "Companies are interested in innovation again to a degree not seen since before the dot.com crash and are increasingly open to non-Microsoft solutions. Also, while web technologies such as PHP, Ruby on Rails, and JSP are making companies and developers aware of what you can do on the web, these are languages, not development environments.

"On the other hand, Access is not geared towards leveraging these technologies because Microsoft doesn't want you to use Access for the web, it wants you to use SQL/VS/.Net. Which brings us back to the fact that the company is currently chasing its own tail.

"Another important area of opportunity is in the development of hybrid applications. Users are increasingly demanding database-driven browser based applications or hybrid applications (desktop and web). They are not, however, ready to abandon desktop applications; the increased interest in synchronization gives you a good indicator of this. Development tools that allow you to create applications that stretch across both the web and the desktop are going to do well."

- ★ **For major desktop applications, retail is not where you want to be.** "Despite our retail roots, Alpha is not going to be reappearing on store shelves. Online and downloads are the way to go. But in homage to the company's boxed past, we do include a picture of a virtual "boxed" Alpha on our home page. No one has complained about being misled and the image cues visitors to the fact that they're looking at a software product.

"But if you're going to be selling via the web, exhaustive testing of your web site and landing page is absolutely critical to success. We've worked with consultants extensively on this aspect of our marketing and conducted a series of A/B split tests to increase performance. We've also done a fair amount of PPC advertising and I recommend a campaign that targets MSN and Yahoo in addition to Google. We're also launching a business blogging campaign. This is designed to discover and then promote what our customers are doing with Alpha Five—through this process we are uncovering excellent case studies of customers who are having great success with the product.

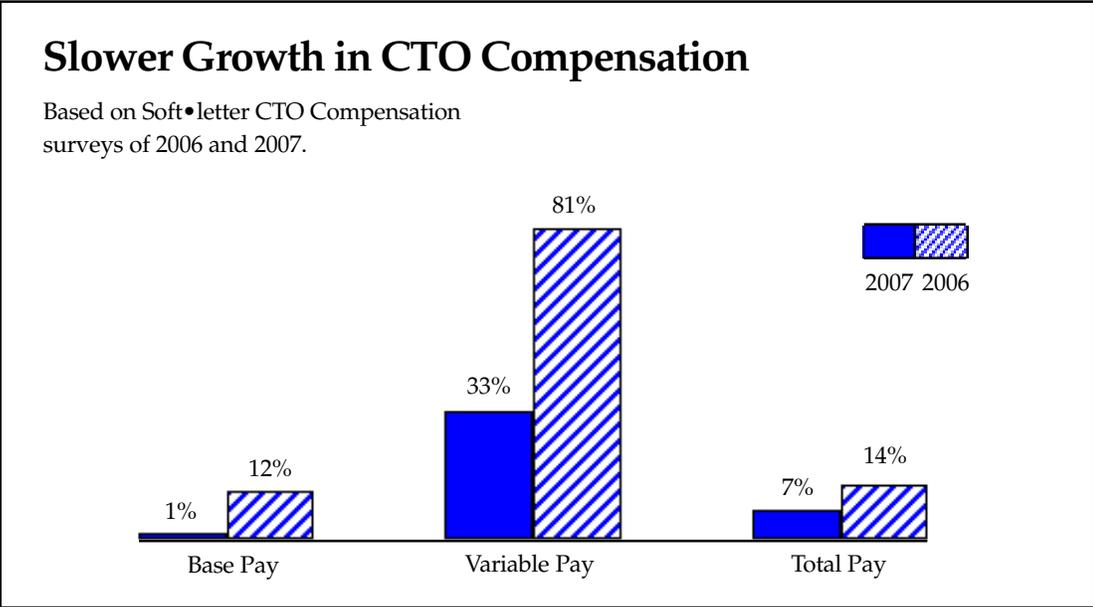
Richard Rabins, co-chairman, Alpha Software, 70 Blanchard Road, Burlington, Mass. 01803; 781/229-4500. E-mail: richard@alphasoftware.com.

"Products such as Alpha are looked at closely by developers seeking to compete with India. As outsourcing prices rise, US programmers are looking to regain their edge, but they need the right tools to do so. If you can increase productivity, you can match the outsourcing price advantage when all factors are included in the cost equation."

—Richard Rabins
Alpha Software

"Don't throw away old contact databases and records. During the 80s and 90s we built extensive direct marketing lists of approximately 300k that during the SoftQuad era were unused for years. Modern data recovery techniques have allowed us to retrieve about 60K of these records at a cost of \$.50 to \$1.00 per record. We're seeing good returns on marketing to these lists."

—Richard Rabins
Alpha Software



Benchmarks: Chief Technical Officer Compensation

As the chart above shows, compensation increases for Chief Technology Officers have slowed down this year. Median base pay for our survey respondents moved up only 1%, and total pay only 7%. While the 79% of CTOs who received variable pay saw it go up by 33%, this is a small increase compared to last year’s variable pay rise of 81%.

The breakdown into company size and stage of development shows that the pay raises are fattest in companies whose revenue is between one and ten million dollars, and in the privately-owned and either privately-funded or venture-funded categories. The base pay increase reflects personnel demands in start-up companies trying to attract qualified personnel. The slowest base pay growth is in the publicly-held companies, which offer a stable environment, both in employment and pay.

Increased financial scrutiny of public companies by government and investors (and demands by venture investors for performance by their start-up companies) leads to an emphasis on pay-for-performance. This emphasis in turn results in the one attractive feature in the CTO compensation landscape, the large increase in variable pay.

The *Soft•letter* Top 50 CTO table on page 6 ranks CTOs by their total pay, base pay plus bonuses and perks. In addition we track the exercise of stock options. Google’s Robert A. Eustace’s variable pay of \$775,000 dwarfs his base pay of \$175,000, but his long-term compensation (exercise of stock options) gives him \$8 million more for the year. And little Red Hat’s Paul Cormier collected \$9 million from exercised options.

In the survey, the most common (47%) title was simply “CTO;” a further 6% added another title to “CTO.” Eighteen percent were Vice Presidents, and 6% Executive Vice Presidents or Senior Vice Presidents. In 5% of the firms the CEO handled the CTO role, while another 5% had a title containing “IT.”

Overall Compensation—CTO*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	\$120,582	\$150,000	\$99,000	1%
Base Pay—last year	\$120,000	\$147,000	\$92,500	
Variable Pay—current	\$20,000	\$40,000	5,500	33%
Variable Pay—last year	\$15,000	\$26,888	\$2,250	
Total Pay—current	\$150,000	\$200,000	\$117,500	7%
Total Pay—last year	\$140,100	\$178,000	\$100,000	

* Number of respondents = 66 for "current," 62 for "last year."

CTO Pay by Company Size*	Base Pay	Variable	Total	Raise
Under \$1 million—current	\$100,000	\$30,000	\$150,000	5%
Under \$1 million—last year	\$95,000	\$20,000	\$110,000	
\$1-\$5 million—current	\$125,582	\$15,307	\$147,500	10%
\$1-\$5 million—last year	\$113,760	\$14,365	\$139,000	
\$5-\$10 million—current	\$120,000	\$16,000	\$144,000	9%
\$5-\$10 million—last year	\$110,000	\$13,500	\$121,000	
\$10-\$99 million—current	\$143,000	\$25,000	\$160,000	3%
\$10-\$99 million—last year	\$139,500	\$25,000	\$162,500	
\$100+ million—current	\$120,000	\$30,000	\$150,000	6%
\$100+ million—last year	\$113,500	\$12,500	\$133,000	

* Number of respondents = 9 for Under \$1 million, 20 for \$1-\$5 million, 17 for \$5-\$10 million, 15 for \$10-\$99 million, and 5 for \$100+ million. Values are medians.

CTO Pay by Development Stage*	Base Pay	Variable	Total	Raise
No significant customer revenue—current	n/m	n/m	n/m	n/m
No significant customer revenue—last year	n/m	n/m	n/m	
Privately owned, privately funded—current	\$132,500	\$20,000	\$157,179	10%
Privately owned, privately funded—last year	\$121,000	\$11,960	\$141,600	
Privately owned, venture funded—current	\$120,000	\$20,000	\$145,000	3%
Privately owned, venture funded—last year	\$117,000	\$15,000	\$132,000	
Public—current	\$120,000	\$25,000	\$150,000	0%
Public—last year	\$120,000	\$24,000	\$142,000	

* Number of respondents = 0 for No significant customer revenue, 40 for Privately owned, privately funded, 17 for Privately owned, venture funded, and 9 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

The Top 50: Highest Paid Public Company CTOs

		Base Pay	Variable Pay	Total	Long-Term
1	Robert A. Eustace , Google	\$175,000	\$774,751	\$949,751	\$8,068,655
2	James E. Heppelmann , Parametric Technol. Corp.	\$487,000	\$456,696	\$943,696	\$542,330
3	Richard W. Ihrle , Intuit	\$500,000	\$422,266	\$922,266	\$1,196,362
4	Wai M. Wong , BEA Systems	\$430,000	\$484,721	\$914,721	
5	John P. Gomez , Eclipsys Corp.	\$450,000	\$225,658	\$675,658	
6	Jonathan Otterstatter , SPSS	\$276,706	\$393,928	\$670,634	
7	Paul J. Cormier , Red Hat	\$291,667	\$320,000	\$611,667	\$9,218,931
8	Raj Nathan , Sybase	\$354,000	\$237,514	\$591,514	\$1,879,325
9	Peter Zencke , SAP AG	\$547,960	\$18,886	\$566,846	\$3,638,880
10	Robert Gersten , Hyperion Solutions Corp.	\$330,000	\$232,215	\$562,215	\$1,111,853
11	Joseph M. McDoniel , Digital Insight	\$284,675	\$229,641	\$514,316	
12	Peter Griffiths , Cognos	\$430,115	\$41,724	\$471,839	
13	Lily S. Chang , Advent Software	\$270,000	\$188,465	\$458,465	\$251,180
14	Bradford Benson , Taleo	\$200,000	\$225,000	\$425,000	
15	Michael Gallagher , Secure Computing Corp.	\$225,991	\$175,954	\$401,945	\$132,810
16	Girish Pancha , Informatica	\$257,500	\$131,056	\$388,556	
17	Louis J. Attanasi , Blackbaud	\$255,000	\$119,745	\$374,745	\$1,595,550
18	David Moellenhoff , Salesforce.com	\$250,000	\$119,709	\$369,709	
19	George C. Moon , MapInfo	\$283,640	\$83,315	\$366,955	\$163,244
20	Peter C. George , Kronos	\$300,000	\$65,960	\$365,960	\$290,720
21	Vincent P. Niedzielski , QAD	\$300,000	\$62,844	\$362,844	\$336,670
22	David R. King , DJA Software Group	\$215,000	\$146,110	\$361,110	
23	Garry D. Johnson , Dendrite International	\$257,083	\$96,925	\$354,008	
24	David A. Nelson-Gal , Interwoven	\$250,000	\$82,101	\$332,101	
25	Elias Typaldos , AXS-One	\$287,500	\$19,895	\$307,395	
26	Ira Scharfglass , Phoenix Technologies	\$287,951	\$18,581	\$306,532	
27	David P. Sperling , Smith Micro Software	\$166,250	\$135,101	\$301,351	\$311,060
28	B. Bruce Dale , Docucorp International	\$245,000	\$51,629	\$296,629	
29	Mark A. Coggins , Actuate Corp.	\$210,000	\$84,144	\$294,144	
30	Monty R. Schmidt , Sonic Foundry	\$217,692	\$60,920	\$278,612	
31	Cadir B. Lee , SupportSoft	\$219,696	\$58,188	\$277,884	
32	John L. Steigerwald , NetIQ	\$218,333	\$59,437	\$277,770	
33	Scot K. Morrison , Wind River Systems	\$267,000	\$9,590	\$276,590	
34	Dwain A. Kinghorn , Altiris	\$223,291	\$52,721	\$276,012	\$328,778
35	Ido Hardonag , NetManage	\$185,000	\$85,373	\$270,373	
36	Ajay Ramachandran , Raining Data Corp.	\$175,000	\$87,500	\$262,500	
37	Michael A. Myer , RightNow	\$190,000	\$66,661	\$256,661	\$1,727,751
38	Nasser S. Barghouti , Document Sciences Corp.	\$169,167	\$66,713	\$235,880	
39	Michael E. Hoskins , Pervasive Software	\$220,000	\$15,514	\$235,514	
40	Craig Cervo , Applix	\$183,333	\$49,259	\$232,592	\$890,777
41	Min Zhu , WebEx Communications	\$146,795	\$83,983	\$230,778	\$2,165,509
42	William M. Jenkins , Scientific Learning	\$193,750	\$15,514	\$209,264	
43	Brett M. Error , Omniture	\$180,000	\$28,000	\$208,000	
44	Colin Kelley , CallWave	\$186,925	\$13,094	\$200,019	
45	Donald H. French , Optio Software	\$200,000		\$200,000	
46	Peter K. Kennedy , Moldflow	\$134,116	\$57,141	\$191,257	
47	John S. Collins , Bitstream	\$112,000	\$72,318	\$184,318	
48	Thomas C. Bauer , Proginet Corp.	\$158,542	\$6,000	\$164,542	
49	Robert A. Morrison IV , ID-Confirm	\$78,900		\$78,900	
50	Raj Jain , Nayna Networks	\$66,461		\$66,461	

Note: The 50 individuals here received the highest annual compensation of chief technology officers of public software companies with a current market capitalization of \$2.5 million or more. "Variable" compensation includes bonuses, commissions, company-paid insurance, relocation and housing allowances, forgiven loans, memberships, profit-sharing contributions, etc. "Long-Term" compensation is income from the exercise of stock options.

Source: Company proxy statements for most recent fiscal years.

Preparing for the Sale: The Documents

By Mark S. Reed, Corum Group

When preparing your company for sale you're going to need to prepare a complete and orderly set of documents to support the process. Your document list will include:

- **Introductory letters.** These are calls to action (the action being to buy your company) and highlight the opportunities offered by your market and a purchase of your company. Your introductory letters can be customized for different groups or types of buyers or even for an individual company. Don't name your company or reveal anything that would clearly identify it.
- **An executive summary.** This document should be brief and concise. It should not contain proprietary or confidential information and you should probably attach your high-level marketing collateral. The summary will include your company background and history, marketing opportunity, products and technology, sales model and distribution channels, future products and markets, key opportunities, strategic considerations for the buyer, key competitors, staffing, and a financials summary. An IT services company should also be ready to discuss its types of services contracts (fixed fee or time and materials), descriptions of representative projects, key customer relationships, reusable applications, components, and tools, and major certifications held by your R&D and services departments.
- **The financial memorandum.** The financial memorandum contains confidential information and should be transmitted and handled with care. Main sections will include recast historical financial statements, current year-to-date results, three year projections and assumptions, revenue source analysis, charts and graphs supporting the aforementioned, and copies of formal financial statements from accountants and auditors. Optional nonfinancial info you can add includes an organizational chart, bios of key staff, key customer lists, customer profiles, sales pipeline analysis, technology overviews, and a description of key IP assets, including patents, trademarks, and copyrights.
- **Two corporate presentations.** One should be a verbal pitch or description used for a telephone conversation and should last no more than 30 seconds. The second is the expected PowerPoint show; 20 slides is about right.

Mark S. Reed, title, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: mreed@corumgroup.com.

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Software of Excellence (SOE.NZ) • Clinical and practice management	Henry Schein, Inc (HSIC)	\$58,000,000 Terms: Cash	\$19,100,000	3.04
Authorize.Net Holdings (ANET) • IP payment solutions	CyberSource (CYBS)	\$565,000,000 Terms: Cash and stock	\$98,500,000	5.74
Tegic Comm. (AOL subsidiary) • Embedded software for mobile devices	Nuance Comm. (NUAN)	\$265,000,000 Terms: Cash	\$48,000,000	5.52
ScriptLogic • Network administration	Quest Software (QSFT)	\$90,000,000 Terms: Cash	\$20,000,000	4.50

CORUM
MERGERS & ACQUISITIONS

Taguchi Testing Resources

(Taguchi testing allows an organization to test multiple variables and is currently being used by many companies for web landing page analysis. Taguchi testing is also known as “split analysis” and “multivariate testing.” We are developing an article on the effectiveness of the technique in an upcoming issue of *Softletter*.)

- **Design of Experiment** (www.qimacros.com): Sells a series of Excel tools that can assist in Taguchi testing.
- **Google** (<http://services.google.com/webstioptimizer>): Free Google tool for multivariate testing for AdWords campaigns.
- **eCompal** (www.ecompal.com): Shopping cart that supports Taguchi testing. Also has a link that allows you to download a free spreadsheet that can assist you in analyzing what variables should be tested (spreadsheet created by Dr. James Kowalick).
- **Split Analyzer** (www.splitanalyzer.com): Inexpensive PHP system for installing split analysis testing on your website.

A FORMER GOOGLE EMPLOYEE ON HOW MICROSOFT CAN IMPROVE OPERATIONS: “Make the food in the café free. If an employee eats an average of \$15 of food per day (the actual average at Google which is closer to \$10) it would cost Microsoft \$3,750 per year per employee to offer 3 meals a day. Instead of increasing starting salaries, switch to free food. Give everyone else half the merit increases we would have gotten AND ANNOUNCE THE FREE FOOD AT THE SAME TIME. (Quoted on “Life at Google - The Microsoftie Perspective,” <http://no2google.wordpress.com/2007/06/24/life-at-google-the-microsoftie-perspective/>, 06/28/2007)

Colleagues made off with your last issue? Go to www.softletter.com. Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

Soft•letter is published 24 times per year; entire contents copyright © 2007 by Soft•letter.

All rights reserved. Reproduction by any means, without permission of the publisher, is prohibited. ISSN: 0882-3499.

Subscription rates: \$395 worldwide. Subscription office: Aegis Resources 34 Sugar Hill Rd. Killingworth, Conn. 06419

Voice: 860/663-0552 Fax: 860/663-0553 info@softletter.com

www.softletter.com

RADAR RESEARCH ANALYST ARAM SINNREICH ON MICROSOFT’S EULA RESTRICTIONS ON VIRTUALIZATION FOR WINDOWS VISTA HOME VERSIONS: “It’s absurd to expect that something demanded by a EULA is followed when technology and common practice permit otherwise. Microsoft is banking on ongoing consumer naivete and goodwill. There will be a backlash against DRM in some not-so-distant future.” (Quoted in *Computerworld*, 06/22/2007)

OSI PRESIDENT MICHAEL TIEMANN ON THE MISUSE OF THE “OPEN SOURCE” APPELLATION: “Starting around 2006, the term open source came under attack from two new and unanticipated directions: the first was from vendors who claimed that they have every bit as much right to define the term as does the OSI, and the second was from vendors who claimed that their license was actually faithful to the Open Source Definition (OSD), and that the OSI board was merely being obtuse (or worse) in not recognizing that fact. (At least one vendor has pursued both lines of attack).” Quoted on http://www.libervis.com/article/after_10_years_what_is_open_source, 06/22/2007)

MTV VICE PRESIDENT JEFF YAPP ON SECOND LIFE’S ABILITY TO MEASURE CUSTOMER ACTIVITY: “It’s almost Google on steroids.” Quoted in *The New York Times*, 06/24/2007