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Interview with Joe Abrams from The Software Toolworks

Adrian Bye: Today, I'm talking with Joe Abram, who is an illustrious man from a diverse set of areas. I've even actually got a list of things that Scott has given me to ask you about, and maybe put you on the spot a little bit. Joe, why don't you take it away, and tell us who you are and what you've done.

Joe Abrams: Sure. I guess my real background is an entrepreneur began in the early 1980's when I co-founded a small entertainment company, call the Software Toolworks. My cousin and I started the company in his garage, in Sherman Oaks, Southern California, doing, first, programming tools for operating systems before the Mac, before the IBM PC, for operating systems like CPM, and even systems before that. We grew that company organically, eventually we got to 6-7 people, and we moved out of his garage, and by 1988, we have grown to about $2million in revenue. At that point, we started branching out from actual pure publishing tools, C compilers, macroassemblers, things like that, to actually publishing applications, which people were writing using our tools. So we had two hit products in the late 80's, one was Chessmaster (chess-playing program), the other was Mavis Beacon Teaches Typing (typing tutorial product). We needed to raise a little bit of capital.

We had grown the company all by sweat equity up until then. And through a combination of circumstances, we actually did a reverse merger in 1988. We raised a couple of million dollars. We went public We had about a $10 million-dollar market cap. Then, using that public currency, as well as, access to the capital markets, from 1988 until 1994, we grew the company to over $150 million in revenue. Then, in 1994, we sold that company to Pearson, the big British publishing company, a media company, for $460 million.

Then, I started working with small technology companies for the most part, as both an investor and also helping in business development, in other areas. Then, in 1999, I co-founded the company called eUniverse, a very early stage internet company. We later renamed that company Intermix Our most famous website was a site called MySpace, and again we started that company…

Adrian Bye: I've never heard of this…what's this MySpace?

Joe Abrams: Well, you know, it's sort of interesting, because when we started Software Toolworks Went around to talk to investment banks, venture capitalists, investment companies, nobody had heard of the category called entertainment software, believe it or not, 1985, '86, '87. Electronic Arts wasn't public or a big company. There was no, of course, TakeTwo, Activision. What would happen would be I would go around people I know, I would say that we are an entertainment software company They would say… "Wait a minute. You're not Microsoft and you're not Disney. We really don't know what you are." The same thing happened when we went around talking to people about MySpace back in 2004…2003. People would say "What's social networking? We really haven't heard about social networking." Really, our concept, from the very early days of the company, was to create a viewership.

In fact, by the time we started germinating the idea for MySpace, we had 40 or 50 million people a month coming to our various websites. There were sites like YourBabyPhotos.com, and game sites, and health and nutrition sites, a whole host of sites. Our idea was kind of—

Adrian Bye: Actually, can I just jump in?

Joe Abrams: Sure.

Adrian Bye: Before we go down this, because this is a big story, There's a lot to ask here, but I've actually got a bigger, more personal question I'd like to ask, before, if I may?

Joe Abrams: Sure.

Adrian Bye: I'm dying to know was that your company that published Defender of the Crown?

Joe Abrams: Defender of the Crown…No…Defender of the Crown…that was Cinemaware.

Adrian Bye: Okay. So, did you…

Joe Abrams: Cinemaware was actually…we, at Software Toolworks, in 1989…we acquired a company called Mindscape, an entertainment …

Adrian Bye: Right. It was Mindscape that published Defender of the Crown.

Joe Abrams: Yes. Mindscape distributed Defender of the Crown. Correct… On the Amiga.

Adrian Bye: So, you did the distributing. You didn't write it or manage the programming…

Joe Abrams: That's correct. That's correct.

Adrian Bye: So, I'm correcting associating Mindscape with Defender of the Crown. But, you didn't actually write it.

Joe Abrams: That's correct.

Adrian Bye: So, this was your company that was distributing, like the breakthrough game on the Amiga

Joe Abrams: Yes, we were doing…we were very, very early stage Amiga developers…which I know you're from Australia and Amiga was a very, very important hardware platform in Australia.

Adrian Bye: You have no idea. It was my childhood. So, I hope I get the privilege of buying you…since I live in the Caribbean…a rum and coke, sometimes.

Joe Abrams: Okay, not at Forster's though.

Adrian Bye: No, no, no. None of that stuff.

Joe Abrams: Okay.

Adrian Bye: Can you tell me more about that day? I mean, I'm such a maniac. I told Scott that when I was…last time in the Bay Area, I went and drove around, Went and saw the…took photos of the offices, where the Amiga was founded. I think it was Sunnyvale. I went over to where Epic was.

Joe Abrams: Oh, sure.

Adrian Bye: Then, there was a Thomas Building now. And, I actually even found the house of Jack Tramiel. I went up and had a look at that as well.

Joe Abrams: Well, yes. There are some of the stories I don't mind telling you for publication then there are other stories we'll have to do over rum and coke. How is that?

Adrian Bye: Okay.

Joe Abrams: Actually, when we started the company, we started publishing things like games, back in the early 1980's, there were very, very few retail outlets for software products. This was before the US Egghead Software Some of the software-only specialty stores. None of the big-bucks retailers, like Walmart carried software. It was very, very difficult to get distributions, so I was always looking at how to get distributions.

I actually wrote a letter to Zenith Corporation, which, not only made the Zenith computers but also made the old Heathkit computers. We wrote them a letter, my cousin and I, we said, we're a software company, we're writing these programs, we have them for sale We'd like to maybe leverage your distribution channel for the hardware because certainly, people who are buying hardware, will be interested in buying software. "Are you interested in being our distributor?" They wrote back a letter that said that there's no money to be made in software. All the money in this business is in the hardware business. So, they declined it. In fact, probably, up through the late, I would say up through the mid-1990's, people really thought that the money in this business was going to be made in the hardware. So, we were very fortunate that we got into the software business at the right time.

Back then, all these new platforms…we were developing for the Atari 8-bit, Commodore 64, Atari ST, Amiga, Apple II, Apple IIGS, Apple III, PC, PCjr, a whole host of platforms, so, every time we would develop a game, we would have to go out and find programmers who were specialized in that particular hardware and was quite an interesting development process.

One of the things, which I think, made us successful is that we developed across many, many platforms, and as a result, what somebody would see…somebody doing a game in the Amiga, and even if they were developing for the Commodore 64, once they could see an effect, like some form of animation or some technique that was used, they would sit down, and they would say "Why can't I make that work in the Commodore 64?" So, our products looked very, very state of the art for the each hardware platform that we were developing.

Adrian Bye: So, on that point, I've got to ask you. I was pretty tied into the demos scene back then. We always looked at you guys like out in California doing this amazing stuff. I mean, you have no idea, the influence you have in my life, like my mother will never… if my mother meets you, she surely will be angry at you because my childhood was lost to your stuff. You have no idea. But we'd looked at you guys as making all these amazing games, but you really didn't seem to get the demo scene or any of the stuff that we were doing. Like, how did you view like the European demo scenes back then?

Joe Abrams: Well…

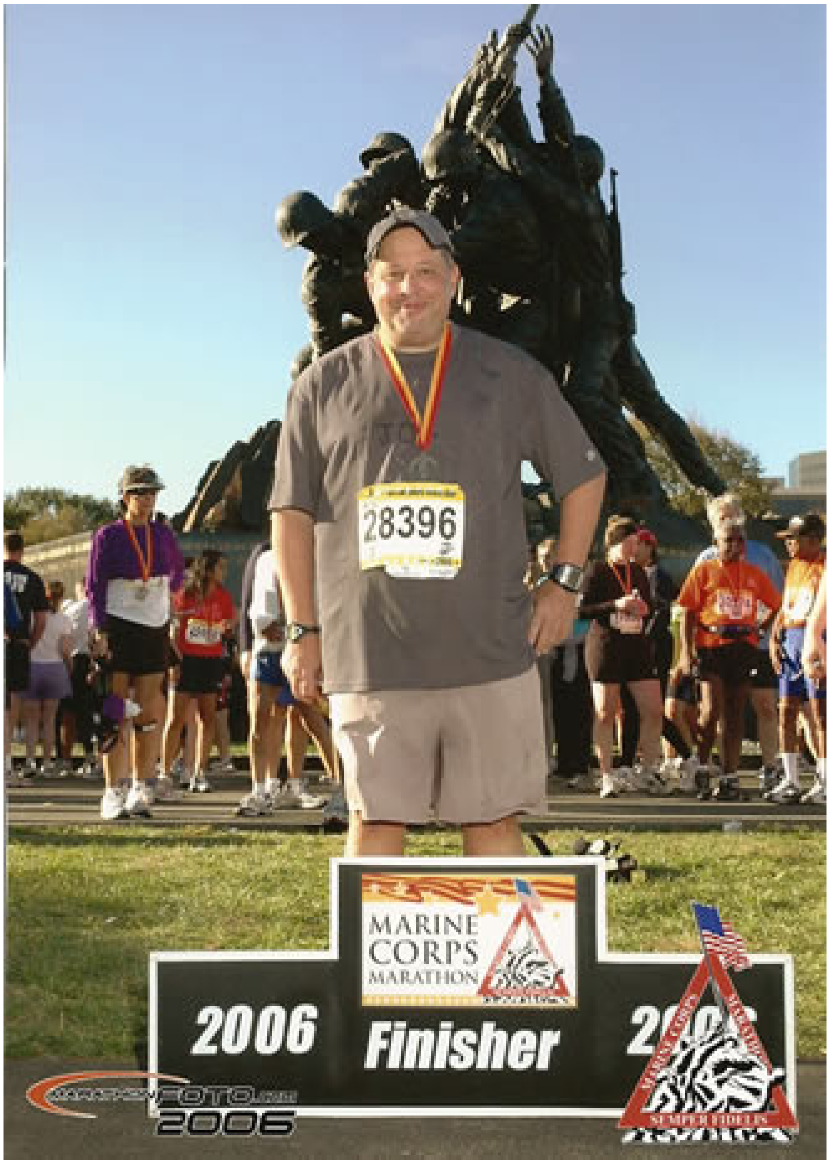
Adrian Bye: The Amiga and Commodore 64. There are only my…I only have those two friends over…

Joe Abrams: Right. Yes. It was kind of interesting because for us, we were selling…I would say that in…we were probably selling 10 or 15 to one on the PC for every one that we sold on the Amiga. So, for us, 90+ percentage of our sells was to the IBM PC, So even though there were pockets of Commodore 64 and pockets of Apple, and it tended to be almost country by country not even territory by territory…so, you know, Germany was a huge Atari ST market, France was a huge Apple market…the Amiga was not that big in the UK but the Amiga was very, very big in Australia. At that point, the Australia market was relatively small.

I put up our first office there in, I think, 1987 or 1988. A good-selling title on the Amiga might sell 2,000 or 3,000 copies in Australia, when in the US, a good-selling title on the PC would sell 100,000 copies and a good-selling title on the Amiga in the US would only sell 2,000 or 3,000 copies.

Adrian Bye: So, what about, I mean, in Germany, you'd sell a lot. I mean, in UK was pretty strong from our perspective, if not overall?

Joe Abrams: Yeah. Germany, the German market was really the—the big mark was the Atari ST, was actually bigger than the Amiga. The game market, at that time, there was a different type of game market in Europe. The type of games, which sold in Europe, were much more movie-oriented, less strategy-oriented.



When in the US, they seemed to be more interested in long-term game play than actual graphics. I think it probably came out of the fact that, that market was originally the Commodore 64 on cassette tapes. I don't know if you're old enough to remember loading Commodore 64 game on cassettes.

Adrian Bye: I had one. It's still at home.

Joe Abrams: Okay. In fact, the precursor to that was, of course, the Timex Sinclair. I don't know if you even remember that…

Adrian Bye: Well, that was a bit twenty

Joe Abrams: Right, okay. I actually …

Adrian Bye: I started in Commodore 64. I started in… I was high-end… I actually had a Commodore 64 and 1541 Disk Drive.

Joe Abrams: Yes. But, those were, and in fact…you know at some point, you should probably try get a hold of Bobby Kodak at Activision because he started…he is very good friends with Jack Tramiel, or was good friends with Jack's son, and actually started in the Amiga business. In fact, his company - I even forgot what his company was called, it's been so long ago - actually took over the Activision brand name. So, Bobby could tell you a lot of things about the very early days of the Amiga as well.

Adrian Bye: I mean, I could talk to you for hours about this…

Joe Abrams: Yes, I can tell.

Adrian Bye: But I have to be a little bit mindful about the business. I just want to ask you then one … I mean you went through a big wave of that time. You saw…you went through… I don't know whether you call it anything like a bubble, but it certainly was a growth in the industry. But, you were in it from the side that I understood better. You went out there competing with Microsoft and doing that sort of stuff. How did that feel? How was it when all this was going on? Did you recognize or when did you recognize that Microsoft was something serious?

Joe Abrams: Believe it or not, we were, back in '81 or '82, we were close to the same size as Microsoft. There were more games being sold…you know back in the early 80's, Microsoft was really focused on bigger tools company. It wasn't until they did the deal with IBM, I think, the IBM-PC maybe, in 1982 or something.

But, one of the things which I tried to do over my career, is to segregate…there are two types of competitors that I look at. One type is the traditional business that is going into new technology. So, whether it is a movie company going into the software business, or a book publishing company going into the social networking business, those types of companies, don't scare me. In fact, I'd look at them as opportunities. I've done a lot of things in the digital photography business, competing against Kodak. It's relatively easy to compete against traditional companies going into new media or new technology businesses because they just don't understand the culture.

There's a certain culture that it takes to create products for new technologies. It's a combination of engineering and creativity, and managing that whole process is unique. That is why. I think, even today, you don't see people coming out of Procter&Gamble to be heads of entertainment software companies or heads of internet companies. People have tried, there are people who have tried to get traditional managers to come into those kind of environment, they just don't seem to succeed.

But, the other type of competitors that do scare me, are competitors which have grown out of that industry, so that the Microsofts, the Googles and things like that, and those companies, I tend to try to stay away from. So, we never try to compete in the Flight Simulator market with Microsoft. I would never try to compete on the internet side of the business, in the search-engine business with Google. They've grown up in that space. But it does not concern me at all when Disney says, "We're going to go into the entertainment software business," or if Disney were to say, "We're going into some form of an internet venture." It doesn't concern me because I just don't think that the bigger companies have the…it's not in their DNA.

In fact, I've had conversations with people within those organizations what they've said to me off the record is their greatest difficulty is attracting and keeping people who have the skills to compete in those kind of genres because when you think about it, if I'm Viacom, and I decide I want to do software products; I run an ad I try to get a bunch of programmers in that kind of environment, I'm not going to get the same quality of person that I'm going to get if I say, "Look I want to put eight people in a rented house I want you guys to do the next killer game. Here's a whole bunch of pizza and a whole bunch of coffee I'll see you in six months or eight months.

You just don't get that kind or energy Imagination if you're working at Viacom in an office building in Manhattan and you're expected to come in at 9 o'clock in the morning and leave at 6 o'clock at night.

So, that's kind of a long winded answer to your question but I would avoid big competitors in businesses in which they've grown up in. I would have people come to me all the time and say, "I could write a better spreadsheet in Microsoft Word I would say I'm sure you could write a better spreadsheet in Microsoft Word but there's no way that I'm going to compete on the sales and the marketing side of that juggernaut. So, I'm not going to compete in word processing or in database software with Oracle or whatever. We'll find a niche where we can compete and succeed. One of the things about all these businesses is that there is plenty of room to compete and make money and build big companies without tackling these guys head on.

Adrian Bye: That's really interesting because I just interviewed Jason from 37 Signals and his DNA is very much coming out of internet development and everything you're saying says to me that he would be a tough guy to compete with. He's only small like ten guys but it resonates exactly where he's the opposite of any Viacom official.

Joe Abrams: Yes. I've done it in digital photography; I've done it in solar; I've done it in the internet space; I've done it in consumer software. It doesn't matter the market size and it doesn't matter that the size of the competitor, but it does matter the type of competitor that you're going up against.

Adrian Bye: Very interesting. All right, I need to take a quick detour because Scott insisted that I've asked you this question. You have some story about Che Guevara.

Joe Abrams: Yes, I do.

Adrian Bye: I actually visited his tomb in Cuba.

Joe Abrams: Okay, okay. My first boss that I ever had was from Cuba and he was an exile and he was a CPA. He had grown up, spent all his life in Cuba and when Castro took over he applied for an exit visa.

What would happen would be when you applied for an exit visa back in the late '50s, two things would happen. Either they would take you away from your family and put you in a sugarcane field for some amount of years, or they would take you – if you had a particular skill – they would take you to a remote part of Cuba and let you ply that trade but in a place where you couldn't talk to anybody or see anybody.

So, in this particular case, he was a CPA and he was very good. One day, they came in and took him and said, "You're now going to be running this sugar cane factory at the remote far end of the island. So, he basically, packed a suitcase and left and went out there and he started running this factory and about three months later, three jeeps come rolling up, one, and on the front jeep was Che Guevara, who was minister of economics. He walks out and he's got a machine gun; he's got the bandolier strapped; and he's got the army uniform. He walks into the office and across all around the office, he's got graphs showing production and cost things like that.

Che Guevara starts at one end of the office, and walks around, and looks at all the graphs. Then he walks over to the desk and, of course, my friend, my boss was sitting there and shaking because he has no idea what's going on and he reaches over and he shakes his hand and he says. "Congratulations, of every place I've toured this is the only place that I've been able to come in and find everything that I needed to know about the company without asking one question" and he turned around and he left.

I've always remembered that story when I tried to be able to do in the companies where I've managed or helped mentor people who are managing their company – is to develop some kind of a system whereby anybody can figure out what is going on with the company without having to call someone and say, " How are sales; are sales trending up; how are profits, how is traffic."

Whatever the key metric is by which you need to measure your business, you ought to be able to develop some way to represent them and distribute that, so that you can communicate it in the fewest possible words.

Adrian Bye: I got to say Joe, if you've been telling me this story 40 years ago and before you've done the release of Defender of the Crown, I would be laughing at you for taking this advice from Cuban socialists, but given your track record, I'll give you a half an hour.

Joe Abrams: I guess part of it is because I have an independent entrepreneurial spirit I always resent it when I was working for somebody if they would come over and say, "What's going on? How is it going? What are you doing?" – you know, things like that. I always felt like that in precedent was something like that is you're not doing what you're supposed to be doing or we don't trust you doing it.

So, I always tried – when I started managing people and to this day – is to try to understand what people need in order to make their job easier.

Adrian Bye: I like that.

Joe Abrams: That's what we need to do is – I know, for example, my cousin, who really is the engineer – the programmer, if I would walk over to him and say, "When is the product going to ship?" or, "Is it on time?" that would make him crazy as opposed to saying, "Is there anything I can do? What's the bottleneck? Is there a way that with other resources… I can help smooth and make your job easier, because implicit in doing something like that is the fact that I know you're doing the best you can now how can I do the best I can to help you?"

Adrian Bye: Okay. So, assuming that, how do you know they are doing the best they can?

Joe Abrams: Look, there are number of ways you can do it.

First is experience. If you have experience in doing the kind of jobs that people are doing, that is always the best way.

The other way is by asking people to break down jobs or assignments into things which are manageable, and milestone dates. So, having somebody say that it's a 15-man month project, two people seven and a half months, that's one thing. Having people say in order to deliver this product in a year, that means it's got to go to Gold Master in 10 months; which means it has to go to beta in eight months; which means it has to go to alpha in six months; which means that we have to have a spec by such and such a day. With all the built-in things which you need, whether it's third party approval, an intellectual property; whether it's license approval by a hardware manufacturer; whether it's compatibility with some other things that you're trying to do and you basically back it up into small manageable parts, and if someone says, "I'll have the spec to you in a week," and spec comes to you in two weeks, well, that tells you that their next milestone is probably going to be late. If its late then you have a problem, as supposed to saying to people, "Well, I'm hiring you to do your job I'll see you in seven months."

Then when it's two weeks late – when the specs are two weeks late and someone says, "The reason why it's two weeks late is because I didn't have enough people in the project."

You can say "Okay, where are we going to find the resources just to make sure that the next milestone isn't late," or, "How can we bring the project back in? Where do we have cushion? Where can we put resources; when can we do stuff like that.

Adrian Bye: You manage around those constrains, and all those sorts of stuff. Absolutely.

Joe Abrams: Right.

Adrian Bye: Yes, absolutely.

Joe Abrams: Maybe that's one of the reasons why when people who do not have the experience in these kinds of industries, come in as CEOs and having not had that experience to manage those kind of processes, they have a very, very difficult time in grasping with these things because most intellectual property pursuits are never done. A book is never done, a movie is never done, a software product is never done, it's never perfect; it's never finished.

So, the key is having the ability to recognize that it's commercially viable. All you have to do is look at Microsoft's Vista to see that an operating system is never done, okay, whether or not its commercially viable or not, they're probably a better judge of that or not, but that's the key. There's never, every bug is found, everything is perfect.

Adrian Bye: Got it. We're moving through a time here. I feel like this could end up in a six-hour interview if we're not careful. We do have to finish up in about 25 minutes. So…

Joe Abrams: Okay.

Adrian Bye: Why don't you tell us your big story, Intermix and MySpace. You started telling us about how you help found Intermix. I just wanted to ask one quick question. I looked at Brad Green…I think his name is Brad Greenspan. I've looked at his page and he says that he is the one, true founder of MySpace. I know that there's other guys out there who are also – they are the one, true founders of MySpace. I'm curious as to who is the one, true founder of MySpace.

Joe Abrams: Yes. What do they say…? Success has many fathers and failure's an orphan? So, I will, It s also interesting because I've done some interviews with a reporter for the Wall Street Journal who is publishing a book on it.

I've had this conversation numerous times. I think everybody comes from their own perspective and Brad I co-founded the company. Brad I were the first two shareholders. So, again I will give you my take on it which – basically what we – and you have to roll it back a little bit and say what was the original concept of the company?

Like I've told you, at the beginning, it was more – I kind of viewed it as the cable TV model. Let's build a network of viewers and then we'll have these little stations. So we'll have a health and nutrition station, we'll have a photo sharing and joke of the day. We had a beanie baby site; we had a video gamers' reviewer's site called Gamers Alliance. We had a challenge ladder called Cases Ladder, where people could challenge each other in particular video games and move up and down the ladder based on their scores.

We had a whole bunch of thesis sites. Then, of course, we said, "Well, we need to try to figure out how to make money out of this." So, the first thing we started to do was we started to try to sell advertising. We started selling advertising, Then, of course in 2000 that whole model blew up.

So, we were having a fairly difficult time selling advertising. So we said, "Okay let's go and sell products. Let's go into e-commerce." We started to do reusable inkjet cartridges. We sold everything from Salt Lake City Olympic berets to health and nutrition products, and we got fairly successful in that, but really, we didn't…

Adrian Bye: You did pretty well at Hydroderm right?

Joe Abrams: Yes. We were okay, Hydroderm was a little bit later – we're talking 2001-2002.

Adrian Bye: Okay.

Joe Abrams: Right in the depths of the bubble, okay?

Then we said, "You know what? We're really not experts in marketing. Let's go and buy a marketing company." So, we bought a marketing company and the guys who started that marketing company came to work for us, and they really helped evolved into the Hydroderm and all that, but they had an idea that have been percolating in the back of their mind for a social networking site. Of course, this is back before anybody knew what social networking meant.

Adrian Bye: When we're talking like Advogato and let's say FOAF particle, Friends of a Friend particle, were you guys looking at it back then or were you only looking after Friendster came around?

Joe Abrams: We were looking at it probably at the same time as Friendster, but we were definitely behind them. In other words, when we launched MySpace, Friendster had already – was out there and starting to grow. Their idea originally for MySpace, they said, "Look they have this idea we're amateur musicians; we think there's opportunity to do kind of a small thing where people who are looking for band members can get together and say, "I'm in L.A. I'm looking for a drummer, and this is the kind of music I like to play," et cetera.

So, they basically went to Brad They said, "Brad, we have this idea and what we'd like to do is we'd like to create this idea and plug it into the Intermix network."

From there it gets fuzzy, okay? If you talk to Brad, Brad will say, "Yeah they sort of came to me with this idea but I really had an idea – it was really my concept and my implementation of the concept." They'll say," No, no, no, it was my idea; my implementation of the concept and, basically, we just leveraged off the intermix traffic."

Adrian Bye: Joe, I know that – I'm starting to think that it was my idea, and I'm thinking I would insist it on my bio…

Joe Abrams: Right. So, what happened was – the one thing I can tell you is it was not my idea. What happened was they plugged it into the network and inside of three months we could really see that it was going to be bigger than the whole network. We knew we had lightning in the bottle.

Adrian Bye: Was the goal to build a social network and get traffic so you can then monetize that traffic?

Joe Abrams: Absolutely.

Adrian Bye: Was it just to build a social network and a user base? I mean, did you want to grow traffic so that you can then drive that traffic out to your other properties like Hydroderm?

Joe Abrams: Correct. That was clearly the idea. It started as a marketing vehicle but it gradually took over everything else and, in fact, that's why the reason why News Corp bought us was for

MySpace which they had used successfully as a promotional vehicle for some of their TV shows and some of their movie properties.

So, it really wasn't until after they bought the company that MySpace went to the next level. They were buying it as a marketing and promotional tool and saying – because when you think about it ,the number one TV show in the world, of course, is American Idol right? That gets 30… excuse me?

Adrian Bye: No, it's the A-Team. The A-team. I'm not willing to negotiate on that. It's the A-team from the 1980's, that's when I had my Amiga. American Idol may be number 2.

Joe Abrams: All right. So, that show gets 30 million viewers, something like that, and here are all these internet properties that are getting 40 million or 50 million viewership and 90% of them are right in the sweet spot of what every movie company, TV company, advertiser wants to reach. They're coming there for more that 45 minutes a day. They're sharing a lot of information that people want to know on that site. At the end of the day, you could make an argument, that even though the revenues aren't there, they will be someday, and it's probably valuable as their TV network. So, paying $580 million is nothing.

Adrian Bye: I can say far more valuable in time, but ...

Joe Abrams: No, I mean in today's San Francisco Chronicle, there was an article about how all the local TV stations are laying off 15%-20% of their staff because what's happening is people are not watching TV.

One of the things which is happening, like most great ideas, they'd happened many times before. When radio came in and started to compete against newspaper, radio's viewership grew very, very rapidly but the advertising on radio grew very slowly. It probably took 20 years or 30 years for the advertising revenue to equalize between radio listenership and newspaper readership.

When television came in, that was the next fad. It took probably 10 years this time for advertising revenues to equalize on television viewership versus radio listenership.

Now, in the internet, it will probably take between five and ten years for that to equalize but there's another…

Adrian Bye: Because those models are branding driven, so there's more trust and understanding that metrics is required or you know …

Joe Abrams: No. I think it's exactly the opposite. I think its momentum. I think a lot of people say, "I can't get fired for spending $15 million on a Super Bowl ad." Nobody will say, "What were you doing spending money on the Super Bowl to reach 30 million people or 50 million people for a minute. But if I spent $5 million on an internet ad campaign; I'd be fired in 30 seconds to reach 10 times as many people for 10 times longer."

Adrian Bye: What you're saying is then that CPMs are dramatically going to increase?

Joe Abrams: Yes, and whether its CPMs or CPAs – because for the first time advertisers' have a way to actually measure the effectiveness of their advertising - They're just starting to realize that now. Its saying, "Well, instead of running an ad that people will TIVO past or become immune to, I can create an ad with a call to action or I can actually measure how many people actually did something, then on the other side I can only pay for people who actually do what I want them to do."

So, I can go to Coke and I can say, "I guarantee you that 50,000 people will enter this sweepstakes which is sponsored by Coke. I may get 6 million people who see that ad but I guarantee you that 50,000 of them – I'll run it until 50,000 of them actually enter my contest. That's how you'll know that not only did I reach 50,000 people, but they did a call for action where they saw your logo and your message on that."

This is the first time that an advertiser can actually measure that as opposed to either a Nielsen rating or an impression or a billboard, where they're measuring traffic drive-by's.

Once people learn the power of that and how to measure that, what will happen instead of 5% or 6% of advertising dollars being spent on the internet, it will be 70% or 80%. It's that kind of dramatic shift that's going on in the advertising community that makes it an exciting area.

Adrian Bye: Yes. I want to ask you a quick question about MySpace, if I may.

Joe Abrams: Yes.

Adrian Bye: Now, I was reading on Brad Greenspan's site and he was talking about how they plugged MySpace into the various properties that you already had and that's what gave it its initial kick. But I also understood that a key part was the e-mail company that you bought and acquired, so you were good at getting mail through.

Was the key driver of signups, the fact that you plugged it into those properties Then people just informally inviting each other or was it the whole address of importing process that people were using and then you sending out invites?

Joe Abrams: Yes. That's an interesting question I'm not sure it grew so fast. Are you talking about a site that was growing 10 million or 15 million users a month? It's one of those things where we were doing so many things. The viral marketing was working; the e-mail delivery was working; the internet was exploding in general. The functionality of the site was good.

But one of the – there definitely was – when we started doing this, Friendster was the gold standard and in five or six months they became, in effect, a bankrupt company. So, we were doing a whole lot of things. I'm not exactly sure what was the big driver, I guess that was another kind operating principle that I've had, which is sort of like you have to go out and tell the story in as many different ways as possible, and I think you have to be creative about the way in which to do it.

So, yes you want to do affiliates, viral marketing, sweepstakes, contests, traditional PR – all of those things because when you have something which is working and your pouring fuel on that fire, it goes crazy.

I don't usually figure out what's the one best thing to do. I try to do as many things as possible and let the market tell me if it's working or not. It's like in the old days with software when we got a hit product, I would increase the advertising budget. People tend to decrease the advertising budget because they'd say. "I don't need the advertising because my product is selling well".

Adrian Bye: You were pouring gasoline on the fire.

Joe Abrams: I was saying I've got a hot product here. I need to advertise them and promote it because that product is pulling the rest of my product line along with it. So, I need to support the retailers; I need the retailers talking about it; I want the people in the stores talking about it, I want consumers talking about it – the whole thing. So, that's always been kind of my philosophy. That's what I try to do.

Adrian Bye: Good point. I'll ask you another big question. You've done something that's kind of astonishing that you've hit it like massive homeruns to a boom, through the first one in the dawn of the computer industry, and then with MySpace.

Joe Abrams: Well I didn't tell you about the third one either.

Adrian Bye: Why, there was another one?

Joe Abrams: Yes.

Adrian Bye: Tell me about it.

Joe Abrams: Sure. About fifteen months ago I took the company public in the solar space called the Akeena Solar, AKNS – a good friend of mine from the software business. If you could believe it, 15 months ago when I was going around with the solar company people were asking me "What's Solar and why should we invest in it, buy it and believe in it?" Today that company is $250 million market cap company, very successful company.

Adrian Bye: Congratulations, I don't know what to make all of it…

Joe Abrams: So it's another industry. In the public market, I've actually had three companies where when they started nobody knew what industry they were in but have become very, very big winners.

Adrian Bye: I'm happy to hear that you didn't do anything during the '90s boom at the end of the '90s did you?

Joe Abrams: Well, the only one we did was Intermix. And, again, because I come from a sweat equity entrepreneurial background, we raised $7 million at Intermix, but rather than go out and spend $2 million or $3 million on doing advertising or traffic acquisition deals, we used our public currency to acquire companies that already had traffic and that's how we built our network. I'm a believer in small companies that have great management using public currency to build their companies into mid-size companies. Having done it three times …

Adrian Bye: Why don't you tell us a bit more about that? You got the audience now – 450, most of them, CEOs running exactly these kinds of companies that can bloom into in the thing. What are you looking for? A lot of these guys, they're cash flow positive; they have office running; they sort of like Intermix; they might have Hydroderm or a couple of other things that are running, the CEOs got the trains running on time pretty well; he's got time free; he's flying around in private plane, all that kind of stuff. Why would he care about talking to Joe Abram?

Joe Abrams: Well, it's not for everybody, being the CEO of a public company; it's not for a lot of people. They are – just like everything else – there are good points and bad points. The bad points are you're in front of the public eye all the time; you've really worked for the shareholders, whereas, if you're the CEO and you own 100% of the company, you work for yourself. You probably have to spend a third of your time involved in the things that are necessary to being a public company, investor conferences, things like that. That's the bad news.

The good news is it's a way to build incredible wealth. You can go back and look at how many shares I had at Software Toolworks when we sold at $13 a share, and how many shares Brad and I had of Intermix when we sold, and how many shares Barry Cinnamon had of Akeena Solar today and see that it's a way to build incredible wealth. That's from the individual standpoint.

In terms of raising capital, there's no better way to raise capital than in a public company.

Adrian Bye: I talked with someone about this very point the other day. Their feeling was the reporting requirements and all that stuff had gotten so hard that I'd rather just be acquired and banish away quietly rather than go through and go public. Just given the environment in the public market place.

Joe Abrams: Well, again, having sold two public companies, I could tell you the easiest and best way to sell a company is … both of those transactions, by the way, took less than 60 days, There was almost no discussion of value, because when you're a public company, the only question is how much of a premium of my stock price have I got today.

Whereas, when you're a private company then you get into issues of "This is what I'm worth, and earn outs and all these kinds of weird mechanisms," and you can spend months and months and months arguing over valuation. At the end of the day, it’s still an art, not a science. When markets get like this, the premiums that companies will pay shrink dramatically, which is an advantage when you're public, because you can use your currency to buy those companies at cheaper prices.

There are very few IPOs being done. Most companies which are mature companies, which already have revenues and profits are really not candidates for venture capital money anymore and venture capital comes with its own baggage. Then the only alternative, if you need to raise capital, is the private equity market, which is every bit as onerous, or maybe more onerous than the venture capital market.

So, there are very, very few alternatives for people today in terms of raising capital. But, I would say to you, if I had a business and it was generating $5 million or $10 million dollars a year in profit, I was putting all that in my pocket, I was flying around in my private jet, I'm not sure I would go public.

But if I was doing $5 million or $10 million a year in revenue and trying to figure out how I'm going to get to a $100 million in revenue, I was making a salary, but I wasn't building any wealth, I was trying to figure out, "How am I going to get bigger faster and how am I going to compete" because all these businesses have shelf lives. You either have to go bigger and bigger, or you get less significant, and less significant. If you're one-product one-market company where you haven't spread your risk around, then you really run into a situation where you're just one competitor away.

A perfect example, by the way, is Friendster. Friendster, I think, turned down a $50 million or $60 million offer to buy their company, and three months later, they were bankrupt.

Adrian Bye: From Goofle…yes.

Joe Abrams: You have a very narrow window as a private company sometimes, If you don't take advantage of that window, you're doomed.

So, I like being a public company because there is always access to capital. Yes, your stock price may be down but you can always have access to capital. If you do want to trade sell your company, you typically get a two-step bump. You get a bump from being a public company, then you get a bump as a premium that people are willing to pay in the market.

So for me the pain is worth the pleasure.

Adrian Bye: Would you rather be - you're okay with saying… a thinly traded…on the Pink Sheet or on one of the smaller exchanges.

Joe Abrams: I wouldn't do Pink Sheet but I do over-the-counter all day long. Sure. Absolutely.

Adrian Bye: Is that what Intermix was.

Joe Abrams: Excuse me?

Adrian Bye: Is that what Intermix was?

Joe Abrams: Yes. These companies all start…like Akeena Software Toolworks. We all started over the counter, then when you meet the reporting requirements, you go to NASDAQ.

Adrian Bye: Isn't that the reverse way? I mean don't you want to be like a Google, Then come out and blow the market wherein you've got this big story and you're on telling your prices? Isn't that the way to do …

Joe Abrams: Yes, sure you do. Absolutely, you do. I'm not saying that. But how many – I think last year there were maybe 5 IPOs in the United States If you're going to be one of those 5 IPOs, absolutely. But there were probably 250 or 300 reverse mergers in the United States, and all those raised capital. I wouldn't do – having done a lot of reverse mergers – I have a very defined process for how to do them There's obviously a lot – just like any business – there are things to avoid and things to be careful of it's not for everybody, but …

Adrian Bye: Joe, we're actually coming up to the end of the time here. I'm okay to keep going for another 15 minutes if you'd like to, if you want to keep telling about how this works, depending on you …

Joe Abrams: Sure. I've got time. We can do it.

Adrian Bye: Okay.

Joe Abrams: Let's do 15 minutes.

Adrian Bye: Okay.

Joe Abrams: Basically, the reverse merger process is a defined process where it's always done – at least ones that I do – I always do is what is call triangular mergers, which is a combination of capital, public vehicle, and the private entity. I would not go public unless I have enough capital to make sure that the company was able to perform for at least the next year. That's a very important part of the process. A lot of people are in the business of just selling people public vehicles, They say, "Don't worry, we'll raise your money after you go public," and that's very often problematic. I like that.

In effect, AOL was a reverse merger; MCI was a reverse merger; Archipelago; the New York Stock Exchange; Trading System was a reverse merger. It's a very, very common process because what you do is it's very fast, and it bypasses millions of dollars of accounting and legal fees because to do an IPO is a very expensive, very time-consuming process.

Then the issue, of course, is getting the stock trading. That in itself is its own process, and that's why the CEO has to spend a third of his time talking to ESCO marketing investors, speaking in investor conferences, things like that. But at the end of the day, management raises money in common stock with no board control, no liquidity preference on the money, and they have a currency that they can go out and build their company. If they execute on the plan, they'll be rewarded …

Today, private companies sell it two to three times cash flow. Public companies sell at 20 times cash flow. You can figure out the difference right there.

Adrian Bye: Why is there such a difference?

Joe Abrams: In the public markets versus the private markets?

Adrian Bye: Yes.

Joe Abrams: Well, because full value is in fact 20 times cash flow. In the public market, it's giving credit to the full value. In the private markets, they're giving you discounts because of the fact that you are a private company, and there's no competition for that. As a public company you wouldn't pay 20 times – you wouldn't pay what you're getting in the public markets for a private company. It just wouldn't be worth the acquisition cost, so you have to make that in order to do it.

But there's no defined market. Now, sometimes you can get multiples of revenue, okay? Every once in a while you have a YouTube, but for every YouTube that you have which has its infinite multiples of revenues and earnings, you have many, many other companies that either fail or sell it fractions of fractions of valuation.

So if you can create the next YouTube or the next Google, or the next Visa through – more for lack of a better word - traditional methods, I would do that all day long. But for somebody who's created a business that's growing at 50% a year, but it's doing $5, or $7, or $8 million dollars of revenue and says, "How am I going to get to $50 million of revenue and I need to raise a couple of million dollars of working capital, how am I going to do that?" The reverse merger is certainly a viable option. It might be the most attractive option.

Adrian Bye: What kind of companies do you look for? Let's say, some of the guys are doing stuff like Hydroderm. So, they're kind of building a brand, but at the end of the day, it's really around the sales letter and that can be knocked off or duplicated, that kind of stuff. Do you want to work with companies like that, or do you want to – do they need a certain type of recurring customer base? What constitutes the company you care about?

Joe Abrams: Well, it varies all over the place. I'd look at companies as disparate as oil and gas companies, then a couple of biotech companies, internet companies. The better – the more attractive a company is in the public markets … I'll give you an example.

I just did a company which supplies flat screen panels to automakers for GPS systems and DVD systems in cars, both to the OEMs and to the after-market, retrofit market. Okay?

The company is growing 50% a year, very cash flow-positive. I helped them raise some money and gave them a little bit of M&A guidance. It's a company which – as soon as you say automaker – people's eyes glaze over. They go, "Do I want to invest in a company that's selling – people just have this feeling that the auto industry is a dead industry, so even though the company is performing really, really well, it's not a sexy industry. So, it’s – having looked at 200 companies over the last 25 years – I can look at the company, the market it's in, and the financial metrics I can tell whether the company would be an easy or a hard one in the public markets.

Then, it depends really on the entrepreneur What he or she wants to do.

Adrian Bye: Everyone here reading this is as an internet company, consumer marketing internet company.

Joe Abrams: Okay. That's a very, very hot market. That's a very sexy market.

Adrian Bye: So, let's say, an example, let's say someone's doing a home business-type product teaching people how to make money from home. It's a very much a general interest mass market. He's got amazing cash flow. He's going to keep an eye on the FTC to make sure that he's not going to get regulatory issues, a company like that. Is that the sort of company you can take public, or do you prefer a social networking site; do you prefer someone that's got a strong retention, a 24-month retention?

Joe Abrams: Yes, all of those are either candidates or either candidates to do reverse mergers, or they are candidates to be acquired by companies which are trying to do reverse mergers or have done reverse mergers. In other words …

Adrian Bye: So, any and all the above is what you're saying.

Joe Abrams: Yes, yes, absolutely. Depending on – the thing which I always try to do is – I try to understand what the goal is of the entrepreneur. In other words, is the goal to sell out and go off to the islands? Is the goal to build something even bigger? Is the goal taking this company as far as I can by myself, I need partners to help me, I want to be – with Scott's company, we found a bunch of guys that had grown a company to a couple of million dollars in revenue They were working out of their house They wanted to go into an office. They wanted to be part of a bigger group. They wanted to grow the business without having to worry about hiring external people, and payroll and all of that. They just wanted to focus on their business. It's just a whole bunch of different things, so I try to understand what the goal is of the entrepreneur, and then figure out, "Okay, what's the right financial strategy? What's the right deal," because at the end of the day, if that guy is not happy or gal is not happy, the deal doesn't work.

So I don't try to – it's not like I have a model I try to cram everybody into that model – I just to understand what …

Adrian Bye: You don't have a six-step process?

Joe Abrams: No, but people will always want to see that. I had people say to me all the time, "Send me the blueprint." "You want to see the blueprint on how to be rich, is that what you want?" They go, "Yes, I want to see the step-by-step," and having probably done 75 public M&A transactions and no two are alike, or even close. They're all different.

Adrian Bye: There's obviously a lot of guys who could work with you.

Joe Abrams: I'm not … One of the things which I love is I love the business of being in business. So, I love to see different businesses anyway, so it's never a burden for me to talk to somebody about their business.

Adrian Bye: What are … Let me give you a case study. There's a guy named on my list who's named Dean Graciossi. He's a real estate – teaches how to make money on real estate. He's on late night infomercials on TV and all that kind of stuff. He's doing about $60 million a year. It's all built around his personality, he's actually sold the company before; he had a bad experience, so he's probably going to be reluctant to sell again. They did some – they basically milked it very hard and then ended up doing some damage to his name. How would you approach someone like Dean?

Joe Abrams: You picked a real tough one.

Adrian Bye: That's what I'm here for, Joe.

Joe Abrams: Yes. I'd really have to understand his business, okay? Because the big danger – here are the companies that I've seen that really haven't worked - have been companies which tend to be around a personality.

Adrian Bye: Okay.

Joe Abrams: So, for every Martha Stewart there's a hundred Tommy Lasorda Spaghetti Sauces, which went public with reverse merger. I tried at EUniverse, I tried to buy Ronco Popeil Vegematic …

Adrian Bye: I know him; I read his books.

Joe Abrams: Yes, we tried to buy his business and we couldn't get there between what he wanted and what we were afraid of was if we buy his business, what – is it all wand? I have to understand is the business the guy, or is the business the system? If the business is the …

Adrian Bye: I'll give you – I've done an interview with Dean so I know his business a little bit. He has, I think, a total of five employees – one of them who actually works with him on a more or less day-to-day basis though I think he works out of his house – he has everything running through his system. He does a lot of outsource through external companies. So, though his name's on there and he's working hard to make sure things sell, and all of that kind of stuff, and his personality, however, he's a guy who can spend a lot of time doing whatever he wants because he does it very well organized. Does that kind of business work for you?

Joe Abrams: Yes. Now we're getting closer. Are you familiar with the Learning Annex?

Adrian Bye: Yes.

Joe Abrams: So, the Learning Annex is a system – it's not the CEO, it's Donald Trump, it's all the people he has working for him – that business, because it's real estate, is in a down cycle. Obviously, how to get rich in real estate is not a hot topic these days.

I tend to be more towards consumer products because at the end of the day everybody's buying consumer products like video games are having record years. If we go on a recession, people spend more money on video games during a recession.

So I have to understand – the answer is – the short answer is yes, but I'm trying to give you some of the process that I go through in order …

Adrian Bye: So you're looking for guys that have read the eMyth and have studied that sort of stuff and have made things very much systematized.

Joe Abrams: Right, yes. One of the things I learned at Software Toolworks' Mindscape was when Pearson came in to buy us, I was able to say to them, "You're buying the company; you're not buying me. I've done it for 11 years; I love you, guys, but I don't want to work for you, guys." They were happy with that.

Adrian Bye: How long did you stay around after they bought you?

Joe Abrams: They said, "We buying your company, we're not buying you."

Adrian Bye: How long did you have to stay around after the acquisition?

Joe Abrams: Actually, what happened was the day the proxy was completed, I handed him my letter of resignation, which they knew, and my guy at Pearson said, "Look, we'd really like you to stay. What would it take for you to stay?"

I went back to my office, I took a piece of paper and I said, "Okay, I'll come into the office no more than one day a week. I can work on anything I want. I have no direct reports. I do mergers and acquisitions as strategic planning. I only report to a CEO of an organization."

I put like eight things down, handwritten on a piece of paper I gave it to him, and he initialed it and he said, "That's your employment contract. Go."

Adrian Bye: Really?

Joe Abrams: They were great people, so I stayed for a year. I actually worked a little bit on the BSKYB transaction. I worked on a bunch of interesting transactions. But I don't have the mentality – I've done consulting for very big companies. I went into – Penguin Books was a Pearson property. So, I went out to Penguin books. So I said, "Okay, I'd like to find some books that we can mine for video games." They had Stephen King. I'd like to do a Stephen King title. They had Tom Clancy; I'd like to do a Tom Clancy title.

The guy said, "Well, tell me a little bit about your business." I told him about the business. He said, "Well what's the maximum time the product's done till it hits the market shelf? How long does it take?"

I said, "Well, in the old days, when I really needed the money, it used to take about 24 hours because I'd go down to the disk duplicator I shrink wrapped the first three dozen boxes, I'd put them in the trunk of my car, I drive them to the retailer. So the box was hot when it got to the shelf because I needed the money."

I said, "Today, we're a little bit bigger, so sometimes it takes three or four days." He said, "Oh, in the printing business – in the book business – we finish the manuscript and it all goes to the printing press, If we can get it out a year afterwards, we've really accelerated the process."

Then he said, "You know, Stephen King – I don't know – we kind of like Stephen King but we really thing you ought to do the World Viking Opera Guide. That, we think, would really make a good software product." People used to look up there, say, for an for opera, and who was it in, and when they appeared, and all that. There was just this culture differentiation between what I wanted to do and what they wanted to do.

After about a year of trying to navigate through that, I just went back to my boss and said, "Look, I've tried, I've done a few deals for you." And he said, "I understand," and we shook hands.

I've learned the best thing you can do is plan your obsolescence. When a business – what I would, again, started from nothing – I always wanted – I never got the feeling until we were much bigger company that there were things happening in the business unless I made them happen. I don't know if I can describe that. Maybe you understand a little bit. So if there were things going on in your business that were happening when you actually weren't doing them, that's when you know you kind of have a company. Then the next step is to be able to say, "If I went away for six months, the company would still be here, it might actually be better if I wasn't here for six months."

Adrian Bye: That's one point. Maybe you can answer this. One guy that I interviewed about a month ago, he sold his company to DoubleClick for about $85 million and he had to stay for 18 months in an earn-out. It sounded like it was a fair amount of work. He had goals that he had to meet that were aggressive and it took him a lot of time and assets.

Another friend of mine in London who founded a company called Thought that he sold to VeriSign for $575 million and he was the sole owner. He told me that when he sold, he only had to, basically, hand over the reins and he hung around for six months and wasn't really needed and then he just moved on. It sounded like it was no drama.

So, what you're saying there is that the difference is in the level of systemization in the company.

Joe Abrams: And, frankly, what I like to do – I like the people in the companies when I do one of these, like helping Scott here. What I like to do is, I like to put the management team with people from all of these companies. I'm not looking for companies where you can just jettison the CEO. I like to build them by bringing people along with them.

So the difference is, I don't like earn-outs; I like bonuses. I like to be able to say to people, "Here's what your business is worth, I will pay you that. And now, if you stay, and you perform, and you grow that business, here's how much extra you're going to make," as opposed to saying, "Well, you know, your business is only worth this much if you hit these numbers and you have to stay for 18 months," because I've just learned that what happens is, then you get into all kinds of arguments… Is it your sales? Is it my sales? How are we going to measure it? Wait a minute; I didn't think I had to pay these accounting charges, and pro rata overhead. So, I had to try to structure simply but with incentives that made sure that people really want to stay.

Adrian Bye: Very good. I don't want to take more of your time.

Joe Abrams: No, I appreciate that because I have another – I have some other calls I do need to make.

Adrian Bye: Okay, let's wrap up, I need you on the phone for a couple of minutes, but, Joe, thank you very much for your time. Fascinating.

Joe Abrams: All right. My pleasure.

Adrian Bye: Okay. That was amazing, thank you.