



The University of Chicago
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*“Make Me a Million Paper”:
Ron Richards and
The Evolution of XTN, Inc.**

Bus 485-81
Prof. James Schrager
New Venture Strategy

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[* The names of all individuals and companies mentioned herein have been changed to guarantee confidentiality!!]

XTN, Inc. was co-founded by Ron Richards and Sam Bishop, in 1995. Both had been friends since first meeting in 1987 and followed similar career paths. XTN, though to this day still without a revenue stream, is currently internally valued at \$22.6 million and may soon be sold (merged with a telecommunications company) for \$60 to \$65 million. The company started with a basic vision to find a way to manage proprietary information through a network and has gone on to revolutionize the industry, (without ever actually releasing its product). There has been a “paradigm shift”, caused by this small corporation, threatening the roots of major existing players and uprooting the existing infrastructure and environment. In addition, XTN has succeeded in setting up partnerships with major players, including Lotus, IBM and others, as well as been highly successful in getting expert endorsements. XTN has attracted some high skilled and experienced employees, and it has managed to grow its venture and investment capital, while also having had to cope with personal, structural, financial, general management and growth related issues. It has also undergone considerable restructuring and has had to overcome management disfunctionality, while vastly growing the value of the organization, far beyond the initial start-up capital.

Built around an innovation / new technology business model, the company has succeeded in patenting its revolutionary new type of “networking middleware technology as a mechanism for fast and secure inter-enterprise connectivity, meeting requirements for one-to-one, one-to-many, many-to-many and many-to-one communications”. The technology, dubbed “Extranet”, can link Intranet to Intranet or Intranet to Internet, clearly developing a technology permitting companies to access, or make available selected information to, or from third parties, completely overhauling existing IP technology. The company has an estimated lead time of six to eight months ahead of its next competitor, and does expect a larger telecommunications company, which they may merge with to be able to defend their recently rewarded patent.

From an organizational perspective, the idea for the product came from Sam, who asked his friend Ron to join him. Sam became responsible for engineering and design, while Ron concentrated on the business side, including financing. Sam has a background in banking and trading, including strategy, growth and bank financing. Additionally, Ron has law school experience and an MBA. Both met at the Bank of Chicago in 1987 and found similar interests, including a desire to run their own company, which they did unsuccessfully back in 1990. Their idea of an interactive video connection gave them experience in developing a business plan and seeking financing, but for whatever reasons failed, leaving both bankrupt.

This experience made both more cautious and lead them to taking up new positions with Thomson Financial Services (TFS). Sam worked on the publishing side and Ron on the research side. It was here that they became involved with First Call Corp., (now a major XTN partner), and generally making proprietary information available online. While still at TFS, Sam started developing the idea now central to XTN. TFS was not interested in the idea, and with the firm belief that Sam and Ron could take this idea further than anyone else, hesitantly set out to found XTN. Sam developed the framework for the product idea, while Ron went out to raise the first \$100,000 investment capital from friends, colleagues, and family for a prototype

development. With this start-up capital, XTN was incorporated, office space found and the first employee (technical staff) hired, in addition to some part-time technical staff from TFS. Ron continued to work on the business plan and with the finished prototype, started seeking more serious investment capital. It was in the Fall of 1995 that a former colleague helped set up a contact with Venture Search (VS), a small, innovative venture capital firm, specialized in short term funding.

In return for an initial 10% of the company, VS provided initial funding and agreed to provide more, based on a percentage of incremental value added to the value of the company, (\$7 million in total to this day). (VS also became a major source of management expertise in later stages.) Now (end of 1995), Ron and Sam brought in Chris Harris, the former CEO of one of the TFS companies, on their board, as well as a number of other technical, management, marketing and other expert staff, all highly experienced, lured by the idea of getting out of rigid corporate environments, being part of something revolutionary and promise of high equity return, among other things. Ron recognized that surrounding oneself by the best, both in terms of employees, as well as board members and investors, can be so valuable. It was through these contacts that later partnerships with First Call, Lotus, IBM, Worldcomm and others were set up. (Today XTN has about 25 employees). A two-fold development then took place, which included product development on one side and client contact on the other.

Potential customers were approached, even a somewhat premature product launch staged thereafter (including press), while the product continued to be expanded and improved on an ongoing basis. It was in the middle of 1996, that Solomon Brothers, who at the time had one of the most advanced Intranet systems and who were themselves in the process of setting up a consortium of major banks, offered XTN a partnership / buy-out, valued at \$50 million. Unfortunately this fell through on the day Travelers bought up Solomon, but today there is new talk of a joint venture. Apparently, Solomon, other banks and even First Call felt seriously threatened by the idea that bank and broker information central to their business, (such as inventories and so forth) may become public, thus eliminating highly profitable businesses for them. Interestingly, this was not even something XTN had intended, rather the opposite. By December 96, XTN had been publicized so much, that they had venture capitalist knocking on their door, which was very rewarding for them, though they chose to stay with VS.

Early 1997 was a time for big changes, when the relationship between Ron and Sam started deteriorating, eventually leading to the restructuring of January 1998. A new CEO and President, (a former VS manager), was hired to take the company into the next phase, leaving Sam as Chairman of the Board and Ron as COO and Treasurer. It has also become apparent that its small size may limit its ability to revolutionize the market, and that XTN's technology and patent are in fact worth far more to a larger existing company, particularly a telecommunications firm, which may better be able to extract the extraordinary value from the invention, giving them a strong technological lead. Current negotiations with Worldcomm for a potential merger / buy-out are starting at \$125 to \$150 million, but settlement is expected in the range of \$60 to \$65 million. In addition the deal with guarantee a minimum of 2500 connections, each priced at \$2500 per customer, per month.

Additional Information:

Ron Richards is the co-founder, and currently COO and Treasurer of:

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