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NOAM WASSERMAN

HENRY MCCANCE

Founder-CEO Succession at Wily Technology

Lew Cirne sat stunned in his chair, digesting what Richard Williams had just proposed. As the founder, CEO, and chairman of Wily Technology, Cirne (pronounced "Ser-nee") had worked hard to build the skills necessary to lead a start-up, had developed Wily's early technology single-handedly, had hired 50 employees to help him build the company, and had successfully spearheaded a strategic transformation of the company. He had led the company to the point where he had convinced several important customers to buy Wily's flagship product and had successfully raised two rounds of financing from top investors.

However, after the last round of financing, at the behest of Wily's lead venture capitalist, Cirne had agreed to give up his CEO position and step down to CTO and had helped find and recruit Williams to take over the CEO position. Now, as the last condition before he would accept the job as Wily's CEO, Williams wanted Cirne to also give up the chairman position that Cirne had held since Wily's founding. As he stared out the window, Cirne wondered how he should react: "Just how much am I going to have to give up to make this thing a success? When is it too much? Is this step going over the line?" As he thought back through Wily's history, he also wondered what he could have done differently to avoid having to step down so soon as Wily's CEO.

Early Years

Lew Cirne grew up in rural southern Ontario, Canada, the only child of working-class parents. He reminisced: "I played a lot of hockey when I was growing up. I was a goalie—I used to play way out of the net, taking obscene risks to get to the puck. It's a very entrepreneurial position. . . . When I wasn't in the hockey rink or at music rehearsal, I was programming. My mom loves to say that she got me a Commodore PC when I was 12 and that she hasn't seen me since."

Academically, Cirne was a high performer and set his sights on becoming the first from his extended family to go to college. He headed south to New Hampshire, where he attended Dartmouth and majored in computer science. All Dartmouth undergraduates were required to buy and use Apple Computers' Macintosh PCs, and like many of them, Cirne became a fan of the Macintosh architecture. Each year, several graduates from the department went to work at Apple. One of those people was Jeff Cobb, who was a year ahead of Cirne and had served as a role model for him. After graduating in 1993, Cirne joined Apple, too. His first major project was developing one piece of the operating system for Apple's Power Macintosh. He recalled: "That was the easiest project I've ever been able to explain to my mom. I was supposed to create the cursor for the Power Macintosh, make

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the cursor appear on the screen. I could tell her, 'See that little thing moving around, Mom? I did that!'" His next project was Copland, Apple's next-generation operating system. Copland was based on object-oriented technology, and Cirne was assigned to the team working on Copland's object-oriented user interface. During this project, Cirne learned some technical truths that five years later would be part of the underpinning for the founding vision of his company. Cirne said:

> It was great to work with brilliant, technical people, learning from them how to solve tough technical problems. But even with the most brilliant technology team, no one could explain how the operating system as a whole behaved. Each person knew their own little piece, but no one had the visibility to be able to see the big picture. Without adequate visibility, even the best systems are going to have problems. . . . Part of the epiphany for me was, how can I make this complex, object-oriented software system visible, so we can see how the whole system will perform? I thought, there's an opportunity here to make the potential a reality.

Cirne loved the technical challenges and "the fact that people came to work excited every day," but he felt restricted by the narrow specialization his role demanded in such a large company. In addition, he wanted to start building the skills he would need to play a central role in a start-up: "I wanted to learn how to be a founder or an early employee of a new company. I wanted to gain breadth, compared to my more focused role at Apple." To do so, Cirne wanted to work for a smaller company for two years, after which he planned to leave to start his own company. That month, Cirne got a call from an executive recruiting firm that was trying to hire software engineers for Hummingbird Communications, a small public company. Cirne agreed to meet with Nick Gault, the vice president of corporate development at Hummingbird, who would be his boss there. Gault, who had engineering degrees from Stanford, had founded Common Ground Software. When he was 32 years old, Gault had sold his 30-person company to Hummingbird. Cirne said:

> I met with Nick, and the job opportunity fit what I had in mind, between Hummingbird's size and Nick's background. The company had just hit $100 million in revenues with 350 employees, and Nick would be a great mentor for me. He was a developer turned business-man, just like I wanted to be. I was very up front with Nick, telling him, "You've had success at starting a company and selling it. I'd like to work for you and learn from you."

Cirne joined Hummingbird as the lead engineer for its Macintosh product. Culturally, Cirne found Hummingbird quite different from Apple. Apple was a product-driven organization, Hummingbird was sales driven. Apple employees would talk about "shipping the product," while Hummingbird employees would talk about "making our quarterly numbers."

Without informing Hummingbird's headquarters, Gault created a "skunkworks" project to which he assigned Cirne, with the mandate to rewrite their viewer product in Java, an object-oriented language that was beginning to gain wide acceptance. As he started using the technology, Cirne became impressed. He came to believe that companies would start using Java to develop enterprise systems but that those companies would face the same problems Apple had faced in developing Copland: that it would be very hard to knit together all of the individual components into a coherent system that performed and scaled well. Cine said:

> The more successful Java would be, the more the problems would abound for these companies. It was a belief that came from my personal experiences, both at Apple and at Hummingbird. . . . As I was driving home through the mountains, on a curvy road on the way to Santa Cruz, I had a second epiphany: that if I could make the Java program "self-diagnostic," then I could help those companies solve that problem in a big way. I would solve the problem I had experienced myself. When it hit me, I almost drove off the road. When I got to Santa Cruz, I knew I'd start a company with this idea as a core foundational technology.

During discussions with Gault, Cirne shared his vision of the potential opportunity he had perceived during his "epiphany," and Gault helped Cirne understand how potential investors would view his venture, what types of people he should plan to hire to work with him, and a wide variety of other issues. By the time Cirne left Hummingbird, he was leading a team of half a dozen people, managing both the technical and managerial aspects of the effort to develop a Java version of Hummingbird's viewer product.

Founding Wily

Cirne believed that he would need $100,000 to get his company started and prepared a 12-page plan for the first product. (**Exhibit 1** shows Cirne's resume from the plan.) In December 1997, Cirne showed the plan to seven friends of his parents. "They didn't understand any of it but were willing to bet on me. I didn't go after Silicon Valley money or try to get a top lawyer. I didn't have the contacts, and I didn't have the confidence that I had any business talking to those folks." Within a week, the seven friends of Cirne's parents had committed $35,000 to the venture. With the money committed, Cirne decided that he was comfortable quitting his job at Hummingbird in order to focus his full attention on starting the company. Cirne chose the name Wily Technology for the company. The name "Wily" came from his old Power Macintosh project team at Apple: "'Wily' was the word we used for anything innovative and cool. When I was discussing my concept for the company with people, I was repeatedly describing my idea as 'wily,' until it hit me that it would make a great name for the company." Over the next couple of months, Cirne got in touch with the headmaster from his old high school and a wide variety of other people he knew from Ontario and raised another $35,000 for Wily. He then had a half-hour conversation about his plans with Carey Heckman, an attorney who had been one of his old mentors from Dartmouth. "At the end of our meeting, Carey asked me, 'How much do you still need? $30,000? Okay, I'll give it all to you.' So I had the full $100,000 I thought I needed to get everything going, and Carey joined the board."

For the next year, Cirne worked alone, developing the core technology for Wily's first product. "It was a critical year, and a real test of my inner fortitude. There were a lot of sleepless nights, from work, excitement, fear, and anxiety wondering whether it had any commercial value." The product concept was based on a high-profile vision proclaimed by Larry Ellison, the charismatic founder and CEO of Oracle Corporation. Ellison had predicted that big enterprises would deploy large numbers of "Java clients" that would access mission-critical, Java-based applications over corporate networks. Cirne planned to develop a system that would manage the Java clients on workers' desktops and built much of the core technology to do so during 1998.

While developing the technology, Cirne also took time to write a white paper describing his concept for self-diagnostic programs and sent it to IBM. The paper was forwarded to IBM's office in Raleigh, North Carolina, where researchers were working on the company's On-Demand server product. A member of the On-Demand team called Cirne and asked him to come to Raleigh to discuss the concept. Cirne quickly threw together a prototype tailored to the On-Demand client-side product, bought his first suit, and flew to Raleigh. He recalled:

> It was one of the most exciting days of my life—every person I showed the demo to introduced me to their boss. In the end, I went high enough up the chain to meet Vic Nyman, a product-line manager in its systems-management division, who decided to pay Wily $50,000 to productize the demo I showed him. IBM wanted to combine my client product with Version 2.0 of its own client-side Java product. It was clear to me what needed to be done: hit the IBM milestone, write a business plan that built on it, and raise money to go from there. I had the confidence I could code it, but not that I could code it, write the documentation IBM required, write a press release, put up a Web site, and do everything else we needed.

I knew that it meant that I would have to hire someone, but also that I finally had money to hire someone. Out of everyone I knew, my gut said I needed someone who could do things I couldn't anticipate. I needed a generalist who could take anything that we got thrown at us.

The first person who came to mind was the husband of a friend of Cirne's. Cirne had been impressed by his sharp intellect, and Wily's other board members agreed that he would be an excellent complement to Cirne and would be able to take on almost all of the noncoding duties. However, the board was hesitant to give him more than a sliver of the company's equity. As the two began working together on Wily's tasks, Cirne became worried. His partner had taken a substantial cut in pay in order to join Wily and had a young family to support, and his already small equity position would shrink considerably after Wily raised more outside money. Cirne said:

> I could have tried to convince the rest of the shareholders that he deserved more equity but felt they would likely push back, and I wanted to preserve my relationships with them. So I carved out some of my founder shares and transferred them to him, rather than dilute the rest of the shareholders and have to have a tough conversation with them. A key lesson I learned was: don't worry about your own dilution, worry about Wily. Don't be distracted by "turning shares." If you're going to make mistakes, it's better to be too foolish rather than too greedy.

Working together, Cirne and his partner were on target for hitting the IBM milestone. They wanted to introduce the product at the IBM trade show at the end of the summer. As the deadline neared, Cirne asked IBM for a list of the customer sites that were pilot testing IBM's client-side Version 2.0 so he could have some of the same sites test Wily's product. Cirne discovered that IBM had not been able to convince any potential customers to serve as pilot sites: "A manager at IBM told me, 'IBM has a wide array of products, product lines, and business units. We can afford for this to fail. But your product is your company. I'd rethink your company's strategy if I were you.' He could see that client-side Java wasn't on the trajectory everyone expected it to be and that a server-side product would be where the action would be."

Cirne decided to shift his attention to developing a server-side Java performance-monitoring product. This would be based on Wily's existing core technology, but he only had six weeks until the IBM trade show, where he wanted to introduce a working version of the new product. He lacked the money to hire a full-time developer; instead, he hired a summer intern to help him develop it. They completed it in time to demonstrate both products at the July trade show. Although the client-side product was largely ignored at the show, the new server-side product got quite a bit of interest.

That same month, Cirne met a venture capitalist who was also a Dartmouth graduate. The VC asked Cirne to show his plans to an executive at BEA Systems, a large application infrastructure software company. BEA was the clear leader in the Java application server market, though IBM was very aggressively entering the market. After seeing Wily's demo, the executive offered to introduce Cirne to some of BEA's customers who might be interested in buying Wily's system. One of those customers was Sparks.com, which sold paper greeting cards online. Cirne said, "As our CEO and our sole salesperson, I dressed up for the first meeting with them. I walked into the meeting and found myself sitting on a bean bag chair, the only one at the meeting not having a body piercing. However, I made our first sale: Sparks bought four CPUs [central processing units] of the product at $7,500/CPU."

David Strohm, who later invested in Wily, had been impressed with Cirne's early successes: "Lew managed to get BEA's attention and convince them Wily could grow their business faster. The relationship Lew established there turned out to be quite instrumental—many of Wily's earliest customers were BEA accounts, and BEA's people helped Wily refine the product and its go-to-market effort."

Cirne was also responsible for Wily's second sale. That sale was also for four CPUs and a total of $30,000, to someone Cirne had known at a technology company.

With its new push to develop a full-scale server product, Wily would need to hire more people and invest in product development. Cirne decided that it was time to raise more money. He targeted raising $2 million and, in the hot venture-investing environment of 1999, figured it would take two or three months. Heckman, one of his board members, cautioned him to take a targeted approach with a few, high-quality VCs. Cirne ended up pitching the plan to six or seven VCs, but they did not want to invest in "developer tools." Heckman also introduced Cirne to Strohm, a general partner at Greylock Partners who had helped build some of the most successful information technology companies over the previous two decades, including Legato Systems, Mentor Graphics, Forte Software, Internet Security Systems, and DoubleClick. Cirne sensed that Strohm "got it" with regards to Wily's technology and market opportunity and liked what he read about Greylock's approach to working with entrepreneurs (see **Exhibit 2**). However, Strohm was not ready to invest yet.

After a few months of trying to raise the Series A round, Wily got some interest from Peninsula Capital and from a small institutional investor from Toronto whom Cirne knew. The two parties agreed to colead the round, in which they would invest a total of $2 million for 33% of Wily. Peninsula and the Toronto investor would each contribute $600,000 of the $2 million. "And then we found out that our Toronto colead was dropping out of the round," Cirne said. "I think he had underestimated how much say he had within his firm. I had to convince every other investor to stay in, even though a lead investor was dropping out." Cirne and the board decided to do a "first close" of the Series A round, with the total of $1.4 million. As a retention mechanism, instead of his continuing to fully own his stock position, Cirne's stock would vest over the next four years.

The VC from Peninsula, who had been playing an active role in Wily, reintroduced Cirne to Strohm from Greylock. Strohm agreed to replace the old colead and to invest $1 million in a second tranche of the A round. The board would consist of Cirne, Heckman, and a representative from Peninsula, with Strohm receiving board-observer rights. The round closed in December 1999. Cirne recalled, "Greylock had the largest share but wasn't yet an 'active' investor, given our stage of development. David attended an occasional board meeting, and I began to develop a relationship with him outside the board room."

Building Wily

Once the Series A round closed, Cirne moved Wily into a 2,000-square-foot office and began hiring. Heckman, Wily's outside board member, introduced Cirne to Mark Sachleben, a Stanford MBA whom Heckman had met while Sachleben was in college at Dartmouth. Although Cirne was not sure that the company was at the stage of development that was ideal for bringing on a person like Sachleben, he "knew that Mark would be an awesome hire." At a previous position, Sachleben had learned some technology finance, so Cirne made him Wily's CFO. Cirne recalled:

> Mark would be my gold-plated Stanford MBA, though I wasn't able to pay him much gold. I really liked that he had incredible integrity and a self-effacing nature. He is the most fair person I've ever known, and I had a feeling at the outset that he would set a great example for our employees and represent the company very well to shareholders. . . . Given that we didn't have much money, we were forced to develop a lean, open, and supportive culture. We learned to pay close attention to how we spent our money—our investors' money. This was before austerity became fashionable, but it helped us survive when things got thin. Rather than buying already-built desks, I remember my Stanford-MBA CFO hand assembling the desks we had bought, rather than paying $50 for Office Depot to assemble them.

Next, Cirne convinced Jeff Cobb, his role model from college whom he had followed to Apple, to join Wily as chief scientist. In that role, Cobb revamped product development, bringing rigor to the process and making the product production ready. By the summer of 2000, Wily was ready to introduce its crucial next generation and to move into a new phase. Cirne said:

> I transitioned leadership of the technology to Jeff, which was a pretty challenging thing for a technical founder to do. "Version 2" would be our first real product. It would be our chance to show that enterprises could really use the product, and we needed a disciplined technologist to do it. Version 1 was based on my creativity and wasn't industrial strength. Version 2 benefited from Jeff's rigor. . . . We were building out the early team but weren't ready to ramp up the sales force. I hired a CFO and a chief scientist as employees number three and four—even agreed to pay them more than I would be paying myself as CEO. By taking less money than them, I wanted to signal to everyone that we're not going to skyrocket costs.

At about the same time Cobb joined the company, one of Wily's VCs began recruiting Vic Nyman, with whom Cirne had crafted Wily's IBM partnership. Cirne recalled:

> I had been impressed by Vic from our very first meeting at IBM. Vic was very charismatic, had turned into a great mentor to me even while he was at IBM, and would always take my call and try to help Wily along. Within IBM, he was an internal champion for us, smoothing the bumps in the road. . . . In late 1999, as we were raising the Series A round and the VC from Peninsula was doing due diligence on us, I gave Vic as a reference. During the call, the VC asked Vic if he had been impressed enough with what we were doing that he'd be interested in joining Wily, and Vic said yes.

Nyman was not able to leave IBM for several months but came to Wily in February 2000 as the vice president of marketing and also took charge of sales and product management. In making his subsequent hiring decisions, Cirne relied heavily on the input of Cobb and Nyman. Cirne assessed whether each candidate would fit into the culture he wanted to build, while relying on Cobb to assess skills of candidates for technology jobs and Nyman to assess the sales and management candidates. He said:

> We were very democratic in our hiring decisions. Everyone had input, you had to be interviewed by virtually everyone in the company to get a job. We once rejected someone when our receptionist told me, "That candidate was rude to me when he thought no one else was looking." . . . Who we hired was important, because we were trying to build a culture that felt like a family.

In building the company, Wily also received some important help from Greylock. Greylock employed two very experienced executives as part of its "Fast Forward" team, which had been formed to help start-ups gain resources they could not have accessed otherwise. Greylock had found Fast Forward to be particularly effective in cases where the team could augment less experienced founders and where the general partners involved did not have the time to work extensively with the founders. In early 2000, Strohm began getting the Fast Forward staff more involved with Wily. Strohm stated, "They provided me with visibility and confidence on how the business was developing. I trusted their judgment, and they could keep me informed constructively on operational progress, as well as where more attention was needed, thereby leveraging the time I spent with Wily." For his part, Cirne recognized both the benefits and management challenges introduced by Fast Forward's involvement:

> The Fast Forward people were senior to me in experience and didn't report to me, but they did interact with my VC regularly. I had to spend time calming nerves within my team about that. However, they were a big help, because I would have been hesitant to bring a lot of these

questions to David. It would have been disrespectful to his time, it was operations-level stuff, and he didn't have an official board seat.

Cirne did make sure to stay in touch with Strohm on a regular basis, meeting with him every four to six weeks to update him and to solicit guidance. The meetings also helped the two men improve their familiarity with each other and increased the level of confidence they had in each other.

Planting the Succession Seed

Wily began shipping Version 2 and started negotiating its B round of financing. Greylock would be the major participant in the round, but Accel Partners also wanted to invest a small part as the new investor in the round. Strohm of Greylock would join the board, and Peter Fenton of Accel would receive observer rights to all board meetings. Cirne agreed to all of the terms proposed by Strohm and Fenton, until being surprised by one last term: Strohm wanted Cirne to agree to give up his position as Wily's CEO within the next six months.

Cirne was taken aback: "Things became really tough after I had heard that. All I could think was: 'Where have I messed up? What have I been doing so wrong?' It must be a reflection on me—it had to do with me and my performance." In Strohm's mind, though, the issue had already been introduced almost a year before, when Strohm had first invested in Wily. Strohm said, "Our initial seed investment and my involvement in Wily had been predicated on an understanding that we would need to bring in an experienced CEO."

After thinking about it, Cirne pledged his support for the CEO search process, with one caveat:

What helped me get through the shock was the realization that the world's best speedboat captain isn't able to pilot an oil tanker. It's not who's the best flat-out leader, but who's best suited to the tasks at that stage of development. . . . However, I said to David, "My biggest worry is that we find a CEO candidate who looks good on paper but is a poor cultural fit. I'm really scared about that notion. If I give pushback on a specific CEO candidate, and I can't easily or clearly articulate why, please don't interpret it as my unwillingness to give up the reins. Because I believe it's going to be the intangibles that will make or break this turning point for the company." I was very happy with the people I had hired and the culture we were building and wanted someone who wouldn't feel that he needed to put his mark on the company, to assert control and feel like he had to make changes in the team.

The sooner we would get this CEO-transition question out of the way, the better it would be for everyone involved. The longer it's an ambiguous thing, the harder it will be to make the transition. You have to commit to it before it is clear the company needs a CEO. If you do it when things are going well, there won't be an internal conflict. . . . As the company gets more traction, the founder gets more and more attached to the role and the power that comes along with it, and the more difficult it is to let go of the role.

Strohm agreed to Cirne's request:

Lew really wanted a culture where the founders could be comfortable and productive. A principal element in this seemed to be not having a leader who was too visibly aggressive. However, it would be difficult to write this into a spec for the CEO search, so we agreed that "We'll know it when we see it." . . . Lew was likely to bias toward someone more senior. He was motivated to find someone with tangible credibility, for what that could do for the business, but he also wanted someone more senior because it would be an easier sell internally.

The Search

At the first board meeting after the round closed, Cirne and the board decided to begin the CEO search. At the same time, Cirne wanted to make sure that the search did not proceed too quickly:

> I didn't want us to rush. When you have high pressure to find the right CEO, you're going to rush into taking the person who "looks good" on paper but doesn't fit too well with your organization and its culture. An important, and challenging, thing is to provide pushback to investors on the fit piece, because they'll be pushing hard on the people whose resumes look really good. But the investors aren't the ones who have to spend every day with them, we are!

On the recommendation of Greylock's Fast Forward personnel, Wily engaged a small boutique search firm Greylock had used in the past. Cirne adopted a very open approach to the CEO search, involving many of Wily's senior managers in the search. However, over the next few months, the search firm sent Wily few candidates, and Cirne was not happy with the candidates they did send: "Many of the candidates would have been disastrous. A few scared me because they were so confident because they hadn't made any mistakes yet—no ups and downs, so no humility. Others were exactly what I feared: good on paper but a bad fit with our culture."

Three months after retaining the search firm, Cirne met with Strohm to review the search progress, sought his support to break ties with the search firm, and did so. They were worried that another search firm would not have Wily's best interests in mind and did not want to see more resumes of "people who were out of work and should continue to be." So Wily decided to try leveraging its own network of contacts. Cirne polled Wily's investors and managers to solicit names of potential CEO candidates. However, "The first candidates we approached didn't want to take our call. It was hard to get a high-quality person's attention to even hear our elevator pitch."

Cirne also began considering another source they had not considered before: candidates who were already working for Wily. As Wily had grown, Cirne had been impressed with the ability of Nyman, the former IBM executive who was head of sales and marketing, to contribute to almost all business areas of the company and began wondering whether he should be considered for the CEO position:

> Vic was an absolutely key person in the growth of Wily. In general, he was a great team player who would take on whatever job we needed him to do. Aside from G&A [general and administrative], he'd had every part of Wily reporting to him at some time. . . . At the same time, he was clearly aspiring to be a president or CEO. He served the company and team very well, but all the while accomplishing his own objective of gaining breadth in his own career.

> I brought the notion up to David as something to consider: "What if we had Vic as interim president?" I imagined it as Vic's being interim president until we hired a CEO, effectively having everything reporting to him. My one doubt was that Vic would have had his heart set on staying CEO for a long time, so we might instead have to just make him be the CEO. However, David immediately rejected the idea. He said, "Lew, if I thought it was a viable option for us, that's the first option I'd go for." Also, the uncertainty of an interim presidency would hurt us, and it would also slow down the CEO search.

Strohm explained his thinking:

> To many people in the company, looking at internal candidates for this job seemed reasonable, certainly a low-risk path and one with a certain amount of conflict avoidance. My perspective led me not to be comfortable with the internal candidate.

> The leadership team at Wily was largely comprised of people who had grown into jobs within Wily, some without extensive prior experience at leading teams or managing functions.

As the company grew, and more organizational structure was required, some people on the team assumed specific functional management responsibilities; this often seemed to be more of an evolutionary process than the result of focused decisions. In this type of environment, stronger and more assertive personalities often prevail, and the definition of these roles often got determined by who was most assertive. The sales and marketing functions were where most of the growth-induced conflict was occurring.

In the spring of 2001, Wily began getting some sales traction. They signed the largest deal in company history and achieved a run rate of $500,000 per quarter. (**Exhibits 3 and 4** show Wily's financial performance.) This brought added pressure to ramp up the CEO search. Cirne said:

> Certain new challenges were too important for me to be learning on the job: personnel issues between VPs, resolving disagreements across functions, recruiting a VP of sales, figuring out how to get predictable growing business. We were also going to have to raise another round and worried that we wouldn't be able to raise it if we didn't close new business or make some changes.

As the summer approached, Cirne and the Wily board decided to reassess their search progress and made two changes in their approach. The first was the decision to engage another search firm. Cirne said:

> We felt that in hiring the search firm, we'd have a better chance of finding a CEO, even if the specific candidate didn't come from the search firm. David thought that even if they didn't find someone, if they gave us some reasonable competitors to a candidate, it would help drive the search to a close. It would make it a more competitive situation from our perspective, and it would feel better having two to three strong candidates competing than having just one.

Second, in contrast to Cirne's democratic approach to the CEO search, Strohm pushed for Wily to involve few employees in the search process and said that he would become more involved himself. As a result, only Cirne and the two VCs on the board would be involved. Strohm said:

> When you include everyone in it, the process quickly becomes a plebiscite, which can be quite off-putting to serious candidates. It also can result in a "least common denominator" outcome, with the candidate who is least threatening or most agreeable to everyone on the team surviving. And finally, it can be a hugely divisive and disruptive process within the company, as each candidate dragged through the process evokes varying reactions, and fears, within each member of the team as to how their life might change.

Adding stress to the CEO search was that Wily was going to be raising a new inside round of financing in the next few months, and Accel in particular wanted to see some progress on the search before agreeing to lead the next round. (**Exhibit 5** shows Wily's financing history.)

The Finalists

Within weeks, the new search firm brought several solid candidates to Wily. One of them had been the senior vice president of products at a significant public software company, and Strohm liked him a lot: "I interviewed him at length and came away quite impressed with him. He was a strong leader and manager, fairly assertive and blunt, but clearly a capable general manager with a full set of functional skills and overall business management skills." However, Cirne disagreed:

> I thought he was the wrong cultural fit and vetoed the selection. His anecdotes about how he managed his people scared me. He had a great track record of success, but talking to him about his success stories, it seemed like he used motivation by fear. He believed in doing

everything to get the house in order, even if he had to break some eggs. "When the stock gets to $30, you'll thank me for it." I just felt that the company would change in ways I wasn't excited about. He had a style of aggressiveness that left me very uncomfortable.

Strohm ended up placing him as CEO at another Greylock portfolio company.

By spring 2001, Wily had looked at 120 resumes and had interviewed 20 candidates. The leading candidate had been the COO at a public software company in a related segment before retiring recently. He had been one of his company's earliest employees and had helped grow the company and take it public. Cirne said: "He had a thoughtful, deliberate style that I liked a lot. I really respected him. The problem with him was that he wasn't sure if he wanted to come out of retirement. That was a yellow flag for us; we didn't think he'd be as motivated." Before Cirne's second meeting with the candidate, he got a call from Peter Fenton, the Accel partner who had invested in Wily. Cirne said:

> Peter told me that Richard Williams, who he called "one of Accel's favorite CEOs," might be coming out of retirement to find a new CEO position. "He may be out of Wily's league, so manage your expectations about getting him, but getting him would be tremendous." Wily was by far the smallest company he was considering; there were even some public ones he was looking at. Peter said that Richard would be willing to meet with me to discuss Wily but that I would have to recruit very hard if I wanted him.

The following week, Williams drove to Wily's office and went to lunch with Cirne at a local deli. Cirne admitted, "I was nervous meeting him, because of his reputation as a superstar." Williams told Cirne about his 22 years working at IBM, where he had been a vice president in two divisions. From there, he had moved to Digital Research, an operating-system company that had competed against Microsoft in the 1980s. As president and CEO there, he had led two turnarounds before selling the company to Novell and working at Novell as the executive vice president of sales. When he had realized that the founder of Novell was not planning to step aside anytime soon, Williams had decided to become president and CEO of Illustra Information Technologies, a 30-person enterprise database software company. Williams had grown the company to 200 people before selling it in 1996 to Informix Software, a large database company, for $400 million in stock. When he had left Informix six months later, Williams had declared, "It's clear to me that my true vocation is to take early-stage technology companies and define, create, and develop new markets in which they can flourish."[1] Williams was then a founding director of Quokka Sports, which provided sports entertainment for the digital world. After Quokka went public in 1999, Williams served as vice chairman under Quokka's founder, who served as chairman of the board, and took some time off after Quokka ceased operations two years later. Cirne said: "I really liked the fact that Richard was not Donald Trump in the boardroom, having people always on the defensive. He was also not someone younger, very ambitious with the constant need to prove himself. My gut feel was really good."

In Cirne's mind, Williams ranked above the COO from the software company, which made Cirne hesitant to meet again with the COO:

> I didn't feel comfortable interacting with someone I knew was our second candidate and didn't want to continue selling him on Wily when I knew that he wasn't tops on our list. I didn't want to be misleading him. . . . Yes, I liked the idea of having a couple of candidates competing for our position. At the same time, I didn't want to play people off of each other. We shouldn't spend a lot of time fighting hard on the negotiations side. We're going to have to work with these people as soon as we sign an agreement. It was the same philosophy as I had with raising money from VCs.

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[1] Informix Software press release, August 12, 1996.

Cirne's second meeting with Williams was held at the office of Wily's executive search firm, and the discussion focused on Wily itself. Cirne described Wily's market opportunities, why its technology was defensible, and why he thought that Wily could become a significant company under Williams's leadership. After the meeting, Cirne sent Williams an analyst report that mentioned Wily and described its opportunities. He also set up a meeting between Strohm and Williams, at which "David was able to get Richard from being interested in Wily to being *very* interested. Richard said to me, 'Wily must be doing a lot of things right to attract someone like David.' That was a critical element of recruiting him." After the meeting, Strohm gave Cirne the go-ahead to introduce Williams to the other members of Wily's top management team. Cirne recalled: "The thing I was eager to do was introduce Richard to my VPs. But we couldn't do it too early and have it be disruptive. When David said I could, I ran Richard through the VPs, which closed the deal for him. Richard felt that he could work with the existing team and didn't have to replace them. That's what clinched it for me."

When Cirne and Strohm met to discuss the candidates, they agreed to make an offer to Williams and put together an attractive offer package for him. Cirne would give up the CEO position and step down to take the vacant "chief technology officer" title, and Williams would become president and CEO. (**Exhibit 6** shows the proposed organization chart.) Cirne would remain chairman of the board. He said:

> We ended up going far above the band we had initially set. We didn't want to open our relationship with our CEO with a nickel-and-dime negotiation—the difference in equity would pay for itself in better valuation in venture rounds and eventual value at liquidity. We had to think about it for a bit, though, because you're talking about some big nickels and big dimes! We were offering Richard 250% of my cash compensation and similar equity to mine.

> Prior to Richard coming along, I felt it was my company—"Lew's company." Having the chairman title intensified that notion. But also the primary motivation of starting Wily was to grow professionally by achieving as a businessperson, not as a technologist. With my president and CEO titles going away, being chairman takes on more importance, with my knowing that I still have a role that goes beyond technology leadership.

Because Wily's market was so new that there were no good projections about its potential size, Williams spent two months doing due diligence on Wily's business, calling customers and talking with other people involved with the company. Two other key factors in his decision were Wily's achieving record revenues that quarter and that Williams had come to trust a senior Wily executive who had a similar background, had recently joined Wily, and spoke very highly of the company. Williams tentatively agreed to join Wily, subject to the negotiation of a few final details.

Strohm was very happy with the result of the search process and its implications for everyone:

> Richard was mature enough to see that there were many personalities and existing organizational expectations to be dealt with at Wily. Lew was entirely enthusiastic about getting Richard, and this put some of the usual issues in a CEO hire—role definition versus the founder, the compensation package—deeply into the background. Also, Accel had been quite focused on our ability to hire a "world-class" CEO, and our getting one might even have been an unspoken condition of their completing the investment. Their willingness to participate was significantly higher due to Richard's recruitment and the risk reduction which this implied.

> The package we negotiated with Richard was off the charts. Because there was about to be a round of dilution from the financing being discussed with Accel, we consciously "grossed up" Richard's equity package to target an ownership position after this financing that would still be at least 50%–60% above "comparables." This put Richard in an equity ownership position almost equivalent to Lew, which probably turned out to be very healthy for all involved.

After 13 months of searching, it looked like Wily had finally found its new CEO, which would also enable Wily to close its next round of financing. (**Exhibit 7** shows the proposed terms of the new financing round.) Cirne paused to reflect on the process:

> It's possible to do the search and transition too early, which would really hurt the company. Doing it early would keep you from attracting as good a CEO—one who might take us up one notch, but not three or four. A more entrepreneurial, nimble, work-from-your-gut, early-stage guy would have more to deliver to the company while it was building product and building culture, but not as much after that, when we start to scale the business. . . . I think of it as shifting gears on a car. When you shift early, you don't get everything out of that gear and all that gear has to offer, but if you do it too late, you burn that gear out. By the late stages of recruiting Richard, it felt like the car was getting close to overheating.

Closing the Deal

Williams and Cirne met face to face to finalize the deal. Cirne recalled:

> Richard said, "Almost everything looks very good. There are just two adjustments I'd like to make." The first issue was about a small increase in his compensation. The second and final issue was, "Lewis, I think the world of you, but you're not the right person to be chairman. I want David to become chairman instead. I'll only take the CEO job if he is the chairman." I didn't see it coming at all. I was taken aback for a good 15 minutes. I immediately changed the topic and started talking about other things.

His mind racing, Cirne wondered how to respond. He had already agreed to give up operational control of his "baby," agreed to take on what could be a largely symbolic CTO title, and still had one year until his stock would be fully vested. He had also agreed to give Williams roughly as much of Wily's equity as Cirne himself owned, and Williams would be drawing far more compensation than he did. And now Williams wanted Cirne to give up the chairman's position Cirne had held since the company's founding. Should Cirne give in once again and agree to step down as chairman? Should he push back and tell Williams that he had given Williams everything else Williams had wanted but wanted to remain chairman? Had he been wrong about whether Williams would fit into the company and not disrupt its culture? As he thought about Williams's incredible final demand, Cirne reflected on everything he had already given up to get Wily to this point.

Exhibit 1   Lew Cirne's Resume

<div align="center">

LEWIS K. CIRNE

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Work Experience

Hummingbird Communications Ltd., Mountain View CA
Java Development Project Lead (October 1996 to present)
- Designed and implemented the majority of the Common Ground DigitalPaper viewer for Java (http://www.hummingbird.com/cg)
- Managed a team project that grew from myself to a team of 5 engineers. Responsibilities include project management, feature determination, user interface design, risk management, development of strategic partnerships outside of the company
- Help define the future direction of the Common Ground product line, including product definition, feature set, technical architecture and relationships with third party companies

Senior Software Engineer (May 1996-October 1996)
- Maintained MacOS specific portions of the Common Ground product. Developed new features and fixed bugs for the MacOS Common Ground MiniViewer
- Conducted investigations into potentially new areas of expansion for the product line, including network fax and Java

Apple Computer Inc., Cupertino, CA
Senior Software Engineer (June 1993-May 1996)
- Lead engineer for Copland HI Objects. This API was slated to replace the MacOS user interface toolbox as a collection of SOM classes that would simplify user interface development for MacOS applications
- High Level Toolbox team Quality lead: defined the short and long term qualification strategy for the MacOS toolbox source base
- Developed WorldScript PowerAdaptor, an extension that improved Power Macintosh performance on certain operations in 2-byte systems by as much as 20%

Engineering Intern (June 1992-June 1993)
- Member of the original Power Macintosh system software team.
- Designed the boot time native code installer for System 7.1.2, the original Power Macintosh Operating System
- Worked closely with the lead engineers of Mixed Mode, the 68k emulator and the Code Fragment Manager to put these pieces together at boot time

Inventions (patents pending)

- "Dialog Item Interface Definition Objects" (sole inventor)
- "Method and Apparatus for determining user interface tab order in a graphical computer system" (sole inventor)
- "Event Routing Mechanism in a Computer System" (Co-inventor)

Other Distinctions

- Speaker, 1996 Apple Worldwide Developers' Conference: "MacOS 8 HI Objects"
- Speaker, 1995 Apple Worldwide Developers' Conference: "Copland User Interface Services"
- Panelist at several sessions in Apple Worldwide Developers Conferences, 1994-96

Education

Dartmouth College, 1989-93 (Hanover, NH)
- Graduated with a B.A. majoring in Computer Science, 3.4 GPA
- Only Computer Science Major in the 1993 class to receive high honors
- Honors Thesis: a Macintosh IRC (Internet Relay Chat) client implemented in C++
- Received Harry H. Enders scholarship for personal achievement

Source: Wily Technology "Seed Plan" document.

Exhibit 2   Greylock's "Our Approach" Page from greylock.com

Approach

Greylock's strategy is to partner with management in building companies that have the potential to become industry leaders. We prefer to build around an outstanding entrepreneurial leader or team with a powerful technology and market vision. We tend to focus on capital-efficient businesses where high barriers to entry can be constructed, and we work closely with the start-up team to build the organization.

Other key aspects to our approach include:

A Focus on Early-Stage/First Outside-Capital Investments

- Leveraging our company-building expertise, operational experience, and domain knowledge

- Committing significant resources and time to help make our companies successful

A Values-Based Philosophy

- Seeking partnership built around integrity, honesty, and teamwork

- Maintaining our belief in the entrepreneur as "Star" and Greylock as "Invited Guest"

- Seeking to be a long-term partner

A Focus on High-Value Sectors and Creating Significant, Long Lasting Companies

- Communications

- Enterprise Information Technology

- Select Other Outstanding Opportunities

Across our investments, one thing that remains constant: Our entrepreneurs deserve and get the credit, while we are a key resource to help build their company. We are company builders who partner closely with our entrepreneurs and put in the time and hard work that is needed to create world-class companies.

Source: Greylock Web site, http://www.greylock.com/strategy/approach.cfm.

Exhibit 3   Company Performance since Founding

	Jan - Mar 00	Apr - Jun 00	Jul - Sep 00	Oct - Dec 00	Jan - Mar 01	Apr - Jun 01	Jul - Sep 01	Oct - Dec 01
Revenues								
Revenue	50,000	25,000	187,356	-111,673	146,471	264,184	558,733	1,674,329
Expenses								
Sales Commissions	0	0	0	56,445	36,330	95,325	133,496	476,568
Bonuses	0	0	0	0	25,000	0	4,000	68,380
Personnel Expense	227,884	374,541	620,760	1,213,500	1,215,145	1,442,191	1,518,024	1,731,799
Consultant/Contractor Services	30,056	32,812	21,486	108,155	324,731	353,198	142,617	177,562
Travel/Entertainment	2,557	12,131	57,137	127,598	129,838	223,512	117,553	157,101
Education Programs	0	0	0	0	0	0	0	0
Marketing Programs & Marcom	75,070	25,929	10,805	47,222	165,450	149,256	36,561	71,046
Sales Dept Programs	0	0	0	0	0	0	0	0
Business Development Programs	2,500	0	0	0	0	10,030	7,590	0
Software Development Expenses	4,980	26,526	200	13,100	94,501	26,235	22,599	23,221
IT Expense	2,095	3,144	4,538	-1,535	40,843	10,291	15,699	21,282
Office Expense	38,290	65,323	129,415	155,347	194,326	254,588	229,804	259,443
Depreciation Expense	0	0	0	59,268	28,280	57,850	63,094	67,143
Stock Based Comp (Non-Employee)	0	0	0	0	0	0	0	29,341
Legal and Accounting Services	25,059	13,919	31,554	6,301	32,342	134,388	86,546	23,204
Business Tax Expense	800	0	0	0	0	744	1,417	3,469
Total Expenses	409,291	554,325	875,895	1,785,401	2,286,786	2,757,608	2,379,000	3,109,559
Net Ordinary Income	-359,291	-529,325	-688,539	-1,897,074	-2,140,315	-2,493,424	-1,820,267	-1,435,230
Net Other Income	21,743	22,060	12,409	78,899	90,648	43,163	22,992	36,648
Net Income	-337,548	-507,265	-676,130	-1,818,175	-2,049,667	-2,450,261	-1,797,275	-1,398,582

Source: Wily Technology.

Exhibit 4   Quarterly Performance since Founding

Wily Quarterly Revenues and Net Income
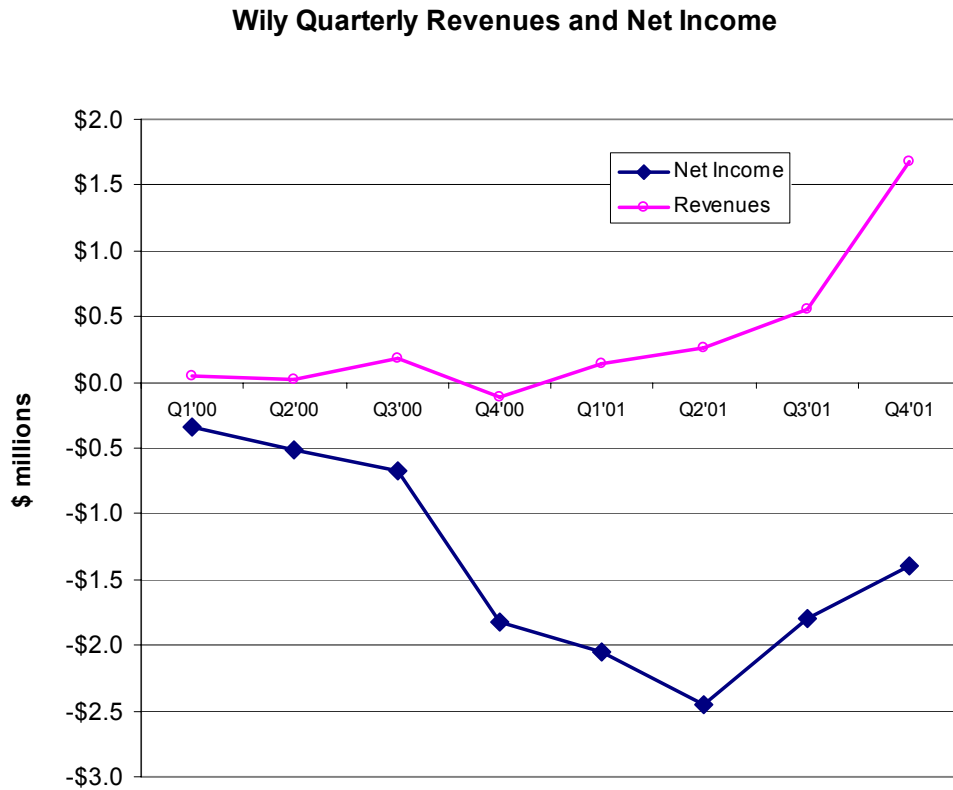
Source: Wily Technology.

Exhibit 5   Company Financing History

Round	Timing	Amount Raised ($ millions)	Valuation ($ millions)	Per Share
Seed Round	1998-1999	$0.3	$1.0	$0.25
A round	Nov-99	$2.4	$6.4	$0.90
B round	Oct-00	$10.0	$30.0	$2.28
Proposed round	Oct-01	$10.0	$48.4	$2.28

Source: Wily Technology.

Exhibit 6   Proposed Organization Chart after Richard Williams Joins Wily
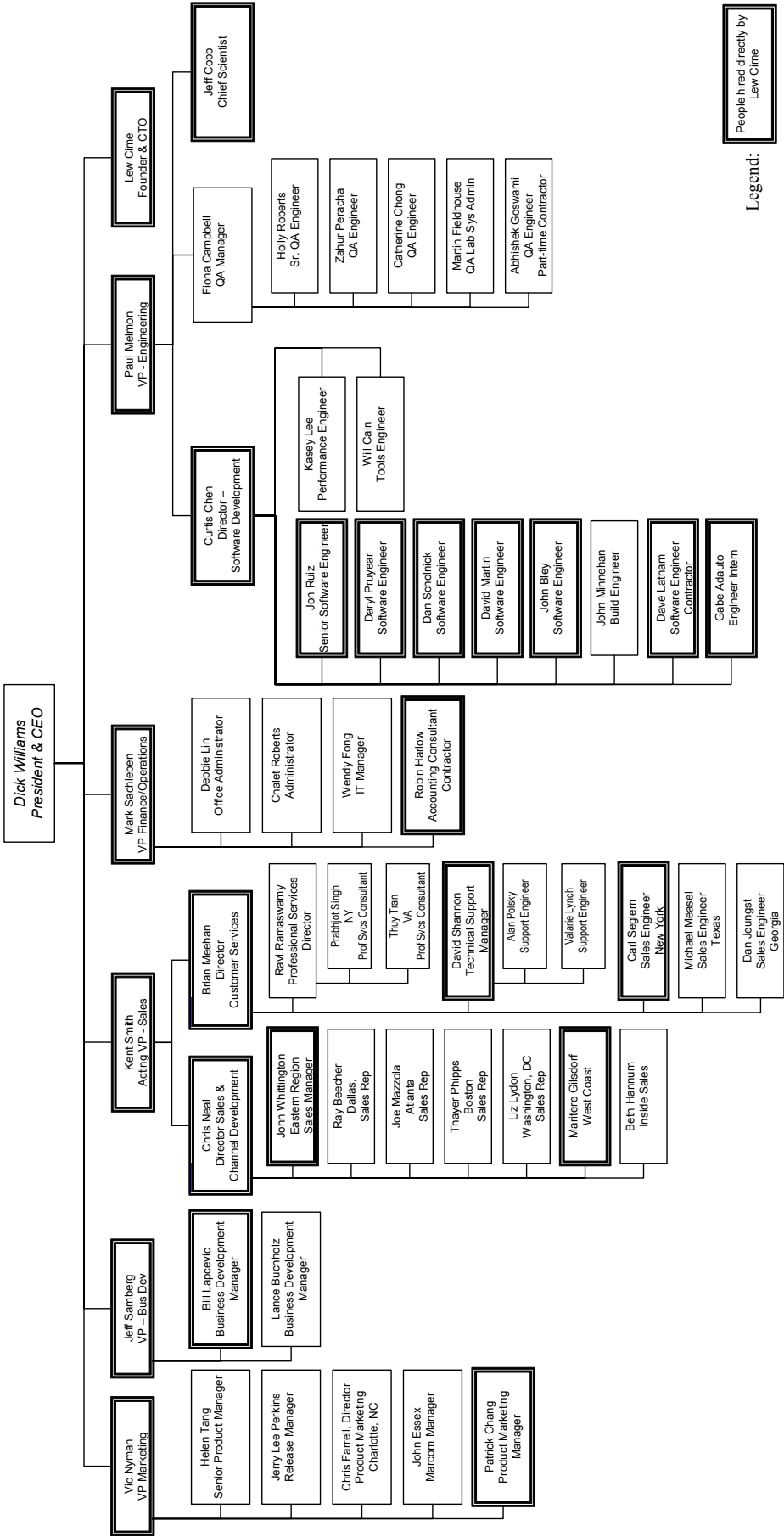
Source: Wily Technology.

Exhibit 7   Proposed Financing Terms, Series C Round

WILY TECHNOLOGY, INC.
Summary Capitalization Table (1)

	Pre Financing (1)		Current (9/01) Investment		Post Financing	
	Shares	**% of Total**	**$ (millions)**	**Shares**	**Shares**	**% of Total**
Greylock	3,712,698	26.1%	$2,610,133.87	1,146,304	4,859,002	22.8%
Accel Partners	1,302,884	9.2%	$6,722,116.73	2,952,181	4,255,065	20.0%
BEA Systems	842,337	5.9%	$ -	-	842,337	4.0%
Peninsula Capital	665,350	4.7%	$300,000.00	131,752	797,102	3.7%
Fayez Sarofim	332,675	2.3%	$ -	-	332,675	1.6%
Other Preferred Shareholders	857,299	6.0%	$367,749.40	161,506	1,018,805	4.8%
Non-Founder Common Shareholders (2)	705,832	5.0%			705,832	3.3%
Founder	1,886,664	13.3%			1,886,664	8.9%
CEO (3)	1,709,828	12.0%			1,709,828	8.0%
Options Issued (4)	2,208,600	15.5%			2,208,600	10.4%
fOutstanding Option Pool	-	0.00%		2,659,416	2,659,416	12.5%
Total	14,224,167	100.0%	$10,000,000.00	7,051,159	21,275,326	100.0%

Financing Assumptions

|		
Amount Raised	$10,000,000.00	
Series C Price	$2.277	per share
Pre $ Valuation	$32.4	million
Post $ Valuation	$48.4	million
Dilution	50%	

Source: Wily Technology.

Notes

(1)   Fully diluted capitalization as of 26 Sep 2001

(2)   Includes 35,000 shares allocated (but not yet granted) to Executive Search Firm in connection to CEO search

(3)   Final option documentation in process - assumed to be completed for this analysis

(4)   Includes all options issued or agreed to be issued and not cancelled (employees, advisors & directors) other than to CEO (481,000 options exercised)

Exhibit 8   VC Investment Activity, 1997-2001

Average Technology-company Valuations, Expansion-stage Investments (1997-2001)
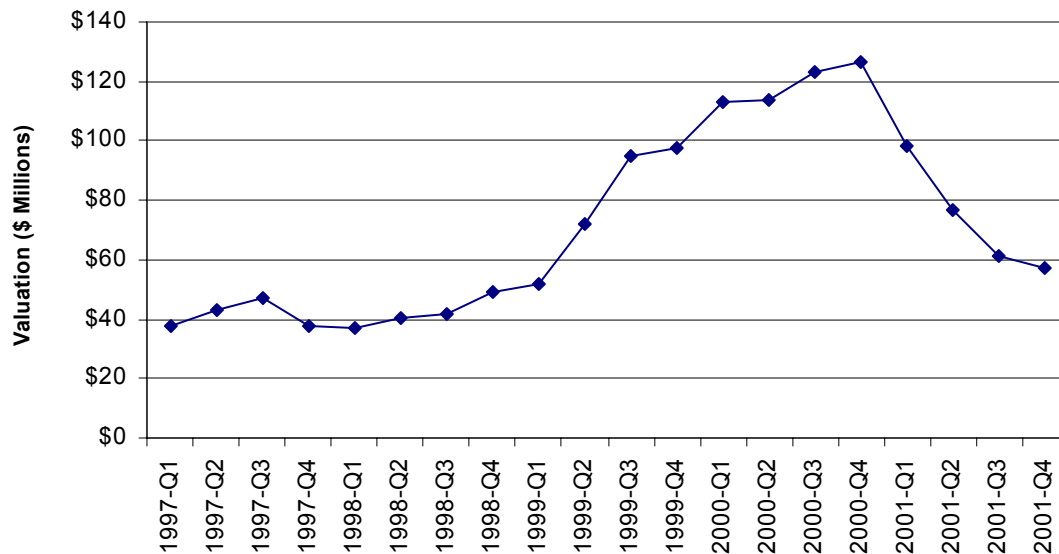
VC Investments in Technology Companies, 1997-2001
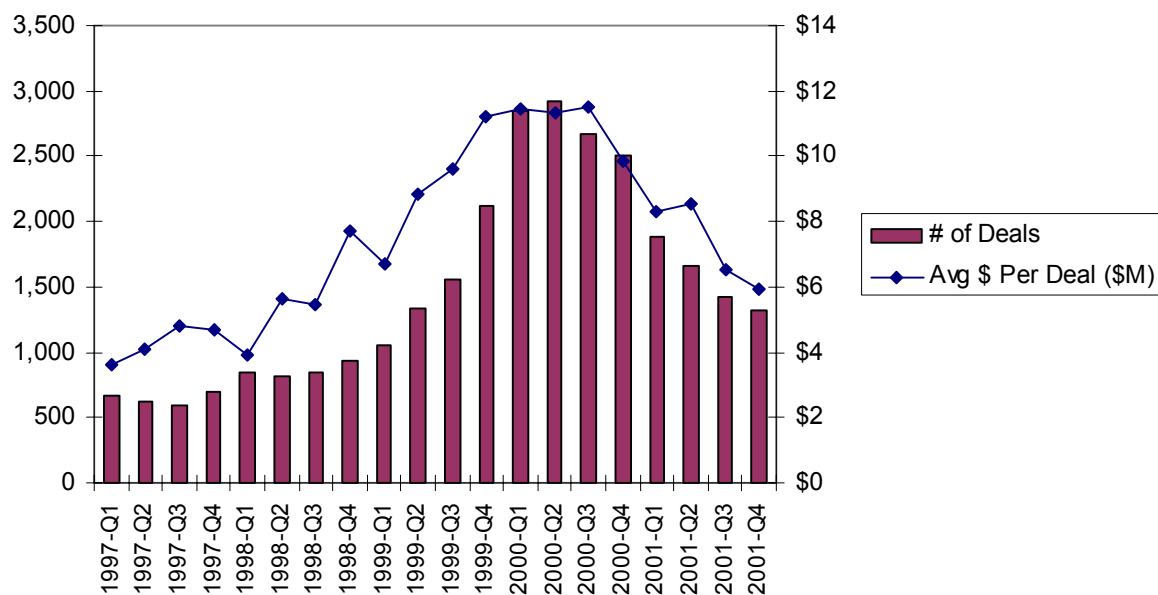
Source: VentureXpert Database (accessed 10/1/2007).