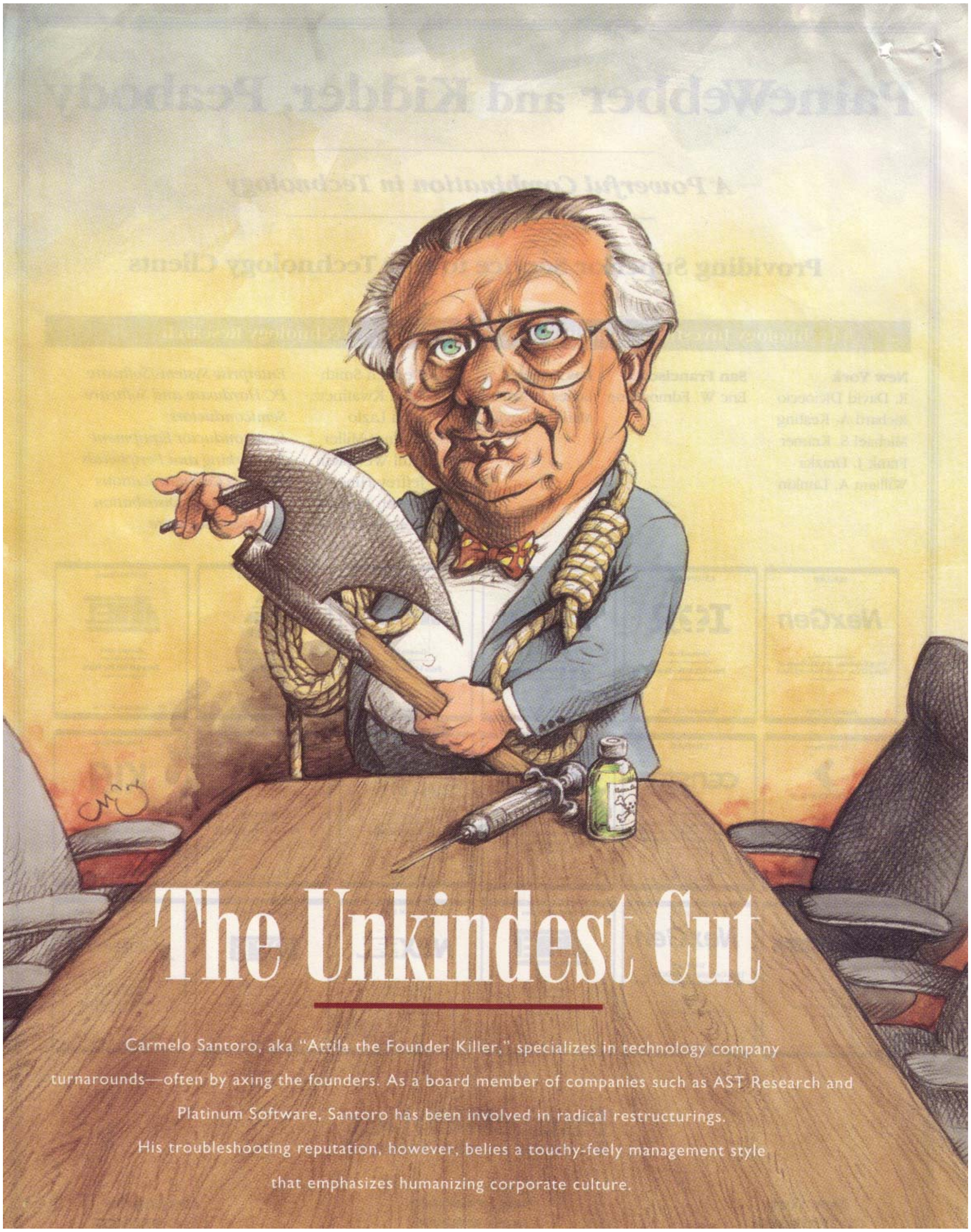

The Unkindest Cut

Carmelo Santoro, aka "Attila the Founder Killer," specializes in technology company turnarounds—often by axing the founders. As a board member of companies such as AST Research and Platinum Software, Santoro has been involved in radical restructurings. His troubleshooting reputation, however, belies a touchy-feely management style that emphasizes humanizing corporate culture.

BY KATHLEEN MURRAY

Carmelo Santoro shows up for this interview wearing a golf shirt and tan slacks. Leaning against a windowsill, he affects a pose somewhere between casual and bored—legs crossed, head resting on his fist. Occasionally, he makes eye contact, but other times looks as if he'd rather be somewhere else. His office is bare except for a desk, some empty shelves and the table where we're sitting. In a way, it's as if this gray-haired gentleman, with his suntan and aviator glasses, is just passing through—an elder statesman dropping in for a meeting between nine holes and a clubhouse beer to philosophize about the frenetic pace of corporate life. He says he used to be a workaholic, but now he has slowed down. Last winter he golfed regularly, toured Europe, skied 40 straight days. "I was a blissful retiree," he says.

It's a nice image. A casual image. Maybe it's even the image he wants to convey. But don't buy it. Over the last six months, Santoro, 53, has fired four executives. One of them was a friend—Santoro broke the news to him over pasta and a bottle of wine at a local trattoria. Then he stepped in to handle the turnaround of his pal's company, Platinum Software Corp. The $28 million maker of financial software in Irvine, Calif., was drowning in financial woes. Santoro quickly booted two other executives off the board, helped settle a shareholder lawsuit, furloughed another 100 or so employees and began a top-to-bottom restructuring of the firm. In his free time, he continues to provide informal consulting to computer maker AST Research Inc., also in Irvine, where he serves as vice chairman. And don't forget Silicon Systems Inc., a $200 million manufacturer of integrated circuits in nearby Tustin, Calif., where he's still chairman and meets regularly with CEO Alan King to discuss strategy. That is, when he's not carrying out director duties for several other technology companies.

Sound like a headache? Not for this guy.

In the high-tech hallways of the Los Angeles basin, a region the locals dub Silicon Beach, Santoro has built up a tidy little reputation as the man to call when your computer company is in trouble. In the style of turnaround artists-cum-venture capitalists Bill Davidow and the once revered, now fallen Q.T. Wiles, Santoro has developed a profitable niche and a touch, some say, for helping management transition out of their jobs. Over the last decade he's overseen shake-ups at Silicon Systems, AST, Ashton-Tate Corp. and a handful of smaller technology firms.

It's a job that has earned him a small fortune, along with a nickname he seems to take pride in—"Attila the Founder Killer," as in Attila the Hun. He claims his strategy is not to look for fires to put out, but to seek board positions in technology companies. He sees it as the best way of leveraging what he has learned in 20 years of working in the industry. "Heck, I was in the [PC] industry when it started," he says. According to Santoro, it's only when some of the companies on whose boards he serves run into problems that he pitches in to help—in return for an equity investment, of course.

Fans say Santoro's knowledge of the industry, his connections and his willingness to roll up his sleeves and get dirty make him an effective board member. Says Martin Jurick, a senior vice president of corporate planning at Silicon Systems, where Santoro took over as chairman in 1979: "He's very good at working through management and one of the best I've seen at setting a company straight." Critics paint him as an opportunist, a dabbler with a talent for finding companies where he can out the founders, reap huge financial rewards and then take more credit than he deserves. "It's very easy to look at a few pieces of paper and think you know what's wrong with a billion-dollar company," says Tom Yuen, an AST cofounder who was asked to resign after Santoro joined its board. "I think he has a knack for finding companies where he can get juicy options. That has to be more than coincidence."

Santoro says the coincidence is that entrepreneurial companies encounter a predictable series of growing pains. His experience and years in the industry make it easy for him to see certain patterns and know what strategies work. Is it a case of a founder who doesn't want to turn over the reins? Or maybe an entrepreneurial firm that needs more structure and a hands-on manager to grow? Conversations with Santoro tend to veer more toward pop psychology than finance. PCs, soft-ware, peripherals, it's all the same to him. "After a while the products these companies sell don't matter," he says. "The problem sets are the same."

Now he's turning that formula to Platinum, which could turn out to be his biggest challenge. Until about a year ago, Platinum had a good reputation as a provider of accounting software for medium-sized companies. The popularity of its SeQueL to Platinum, a client-server series of financial applications for use on databases from Sybase Inc., Emeryville, Calif., had given the company a recognizable profile and helped boost its market value to $500 million by late 1993. But problems surfaced last April when Platinum founder Gerald Blackie resigned amid disclosures that the company had overstated sales for 15 months of fiscal '93 and '94. Fiscal '93 sales were restated to $28 million from $39 million. Shareholders have sued, and the Securities and Exchange Commission is still investigating Platinum to determine if management fraudulently inflated revenue figures.

While wording on Motorola's first microprocessor, Santoro discovered that what he really enjoyed was troubleshooting.

Meanwhile, customer confidence has been shaken and questions about the long-term viability of the company remain. "They're not out of the woods," says Chuck Phillips, an analyst with Kidder Peabody & Co. in New York. Santoro "is making steps in the right direction, but there's that cloud out there."

Can Santoro dissipate the cloud, or will he wish he really had retired?

THE MAKINGS OF A GENERALIST

Santoro likes to say that his career path evolved gradually, but it is clear the seeds of his success were planted early. He grew up in Portchester, N.Y., in what he terms a typical Italian-American household. His father, Fred, was pure Depression-era—security-minded, reserved and content to stay in the same maintenance job with Con Edison for his entire career. His mother, Celeste, was strong-willed, ambitious and more outgoing. As the oldest of three children, young Carm, as he was called, became his mother's confidante. "She was acting out all the frustrations she had about my father not taking more risks," he recalls. It was his mother who taught him the axioms he now teaches his staff: "There are two positions—number one and the other guy's," and "You don't play until all the work is done."

Santoro got his first exposure to computers while studying for a PhD in physics at Rensselaer Polytechnic Institute in New York. His project was studying solid state phenomena and the effects of electron winds in metals—essentially trying to figure out how to make semiconductors more reliable. In 1975, that led to a job at Motorola Inc.'s plant in Phoenix, where he worked on the team that developed the company's first microprocessor. Although he was technically competent, Santoro discovered that what he really enjoyed was troubleshooting. As he moved up through the ranks at Motorola, he found himself tackling everything from delays in finishing development to unprofitable divisions.

In 1977, about a year after he left Motorola for a short stint at a small semiconductor firm in the San Francisco Bay Area, Santoro was hired by Monolithic Memories Inc., Santa Clara, Calif. It seemed like a dream come true. Founder Zev Drury tapped Santoro as COO with the understanding that he would become president after three months of on-the-job training. But when it came time for Santoro to take over as president, Drury balked. So Santoro took matters into his own hands. "I was so incensed and naive," he remembers, "that I said I'm not going to take this anymore." He called a board meeting to have it out—and didn't get one vote. "What they had out was me," he says. But the experience taught him a valuable lesson. "When the founder says come and take over, you better get the promise up front."

In addition to this humiliating experience came the breakup of his 17-year marriage to his college sweetheart, Elizabeth, who also got custody of the couple's three children. Santoro felt stifled in the tight-knit community of Silicon Valley, where an industry newsletter would report that he was at a competitor's Christmas party with a woman in black. "It was impossible to have a personal life," he says. He moved back East, taking a job as COO of RCA Corp.'s money-losing semiconductor division in Summerville, N.J. He cut costs, streamlined manufacturing operations and changed the management structure. Within a year, the unit started to turn a profit. Santoro also remarried—to his current wife, Nancy.

In September 1980, a recruiter called him about a job at Silicon Systems, which at the time was a $10 million chip designer. The recruiter told a familiar story. The founder of the company, Gene Potter, had decided the business was getting too big for him to manage and was looking for a new president to help expand the company beyond custom chip making. When Santoro got to Silicon Systems, he found an entrepreneurial company that was a textbook case. "It had phenomenal technical capability, but its founder management was at the end of its capability," he says. Employees were frustrated because the five founders insisted on making all the decisions.

Santoro accepted the job, but with the proviso that Potter would have to step down, as agreed, after 18 months. When the time was up and Potter resisted, Santoro was ready. He had spent a year and a half at the company meeting with staff, building trust with board members, identifying problems and laying out a strategy for the future. When it came time for a board vote, the directors went with Santoro as CEO.

A DIFFERENT STYLE

At Silicon Systems, Santoro found a laboratory for many of his management strategies. "This was going to be my chance to evolve a certain kind of culture," he says, one that would be more humanized. He began the process by bringing in industrial psychologists. Ron Reeder, a founder, remembers sessions where managers were encouraged to discuss personality conflicts. At one of these sessions, another founder, Bill Drobish, became so upset he stormed out. On the other hand, at company-wide meetings, Santoro would sometimes read sentimental poems he had written. "I never knew if that was how he really felt or if he's just one hell of an actor," says Reeder.

While predecessor Potter was an exacting guy who didn't want to give up any control, Santoro was willing to spread the responsibilities around. "The culture before he arrived was engineering-driven. Technical people were on a pedestal and called the shots at the company," says SVP Jurick. "Gene [Potter] couldn't trust marketing and sales guys." It wasn't rare, he adds, to find the founders meeting at midnight to make decisions. Santoro opened up the decision process. Employees no longer had to know physics to have an opinion about the company's direction. Santoro initiated "rap sessions" where he'd spend hours with employees—from the secretarial pool on up—discussing their concerns.

Santoro also set up a bonus and profit-sharing system. There were "employee of the month" contests, with the winner getting use of a BMW and a company parking spot by the door. Not everyone was comfortable with such largesse. "He really loved money," says Reeder. "Sometimes I think he was a little too generous."

Santoro offers few apologies for the money he has made or his spending habits. Until recently, he boasts, "I owned five homes." He adds, "The defining factor of my life was that I grew up a poor kid in New York." He's willing to extend employees the same opportunity to reach for the good life. "Those who work hard and contribute to the company's bottom line should be rewarded," he says. And, in the case of Silicon Systems, his incentives paid off. In five years, Silicon Systems grew to $100 million in sales. In 1989, Japan's TDK Corp. bought the company for $200 million.

Ironically, Santoro couldn't take his own advice when it came to leaving Silicon Systems. Former employees and associates say he stayed too long, outlasting two handpicked successors. In the early 1990s, he selected Steve Cooper, a vice president of marketing, to take over for him. But after Cooper was elevated to president, he couldn't handle the responsibilities, according to Santoro. Others tell a different story. When employees went to Santoro instead of Cooper to complain that things were being done differently, Santoro let himself be dragged back in. Bill Baker, an outside candidate who replaced Cooper as president, met a similar fate.

Dick Strayer, a management consultant and clinical psychologist who was working with the company at the time, confirms this. "Carm has a hard time letting go because he loves to be loved and be needed," he says. On his third try, Santoro selected outsider Alan King from Precision Monolithics Co., Santa Clara, Calif., as his replacement. After the announcement, the company held a two-day, offsite meeting. Strayer calls it a kind of Irish wake, where Santoro was toasted and his accomplishments revisited. And it was made very clear to him that this time there was no coming back.

Santoro acknowledges that it's hard for him to sever ties. "If I err, it comes from my basic emotional state when I was a kid, from wanting to be loved and liked," he says. Santoro can be so adept at volunteering feelings and psychological insights that he gives the impression of being very open. His tight, pulled-in posture suggests otherwise.

BOARD MEMBER TO THE RESCUE

Even before he joined Silicon Systems, Santoro had begun laying the ground-work for his unusual specialty. He had rubbed elbows with most of Southern -California's high-tech wizards and industry financiers. They started to ask him to join boards of fast-growing companies, where becoming a director meant solving problems, not just acting as a figurehead. In 1983, connections with investment bank L.F. Rothschild got him on the board of Ashton-Tate, an early database firm in Torrance, Calif. Shortly after that, he also became a director at Seagate Technology Inc., Scotts Valley, Calif., which was one of Silicon Systems' customers.

In late 1984, Ashton-Tate hit some rough spots. First, founder George Tate died. Three months later, the number two man, David Cole, left for another job. Santoro and the board were called upon to find a successor. They chose Ed Esber, Jr., a marketing vice president who had been at the company just over a year. Over the next five years, Ashton-Tate managed a 30 percent annual growth rate, reaching $300 million in sales, but beneath the glowing numbers were growing problems.

The company botched three acquisitions—spending $22 million for a word-processing company whose key staff deserted after the takeover, buying a graphics firm too late competitively and acquiring some Macintosh programs that were poorly conceived. Ashton-Tate also ran into copyright problems and was nearly two years late with a revised version of dBase IV—its premier product.

Then there were internal disputes. Esber told Santoro that Luther Nussbaum, whom Esber had hired as COO, was alienating staff and undermining him. Esber, who considered Santoro his mentor, wanted to fire Nussbaum. "Carm said, 'I've seen this situation before. I've made the mistake of picking the wrong person as president,' "Esber recalls. Based on Santoro's advice, Esber asked Nussbaum to resign. He also hired ex-IBMer David Proctor to handle the problems with dBase, but, as it turned out, he didn't act quickly enough. The board called a meeting and decided Esber should be replaced. Santoro voted against it, but it still fell to him to break the news to Esber.

"Somehow that always ends up being my job," Santoro says. "I guess it's because I move quickly to stabilize things and get the organization going in the right direction when chaos is going on. I can keep a cool head." During the transition Santoro took over as chairman, a role he would reprise often in the future. Ultimately, the board brought in industry veteran William Lyons to take the top spot, while Proctor remained second in command. In 1991, Ashton-Tate was sold to Borland International Inc., Scotts Valley, Calif., for $439 million. The deal called for each share of Ashton-Tate, then trading at around $14, to be swapped for a portion of a Borland share worth $17.50. Esber and others in the industry believe the deal could have been sweeter for Ashton-Tate shareholders. Santoro defends his role. "Ashton-Tate could have been a better deal, but nobody's perfect," he says. However, the deal was not too bad for Santoro, who held 25,000 warrants to purchase Ashton-Tate shares for $6.38 each.

Santoro, seeing a niche for himself as a hands-on board member, began to actively seek out seats on companies in different segments of the PC industry, like Dallas Semiconductor Corp., Pro-tools Inc. and Personal CAD Systems. Then, in 1991, his personal friendship with AST cofounder Safi Qureshey led to a spot on its board. AST was the largest company Santoro had worked with—at $2.4 billion, it was the fifth largest manufacturer of personal computers. It was also a company he'd always admired. For years he'd watched as founders Qureshey and Tom Yuen continued a successful partnership past the early entrepreneur phase. They' seemed to have it together. But once he got inside the company, he learned differently. Both Yuen and Qureshey admitted the partnership wasn't working. Each felt he should be chief executive, rather than sharing the job in a copresidency. In 1991, Santoro and outside director Richard Giglein brought in organizational consultants and began evaluating the company to determine who should become the top executive.

Everyone involved concedes it was a touchy situation. Qureshey and Santoro were friends, but Santoro might have to ask the AST cofounder to step down. Consultant Strayer, who worked with Santoro and AST during this time, says that initially the friendship may have hampered Santoro in probing the company. "In the beginning it seemed that he wanted to be so much a friend to Safi that he wouldn't go in and push around," says Strayer. "That's how I've seen Carn err, usually to be a friend."

Once Santoro did get started, he spent a month analyzing the company and how it operated. After talking to a number of employees at all levels, as well as customers, it became clear that Qureshey was the person to move the company into the next phase. "To everyone it was Safi's company," says Santoro. "They looked to him as the leader." In May 1992, the board agreed, and voted in favor of Qureshey as CEO. Santoro was picked as the one to deliver the news to Yuen. He came prepared with a four-page report outlining the board's reasoning and showing data supporting its decision.

Santoro saw Platinum's problems as a pretty straightforward case of a company outgrowing its entrepreneurial phase.

To this day, Yuen remains embittered. He says people warned him about bringing Santoro on the board because of his record for getting rid of founders. "How does he know in three or four meetings that I'm the villain?" he says. "He based his decision on too little input."

But Santoro denies this: "I have the utmost respect for Tom as a man and an executive," he says. "But we needed to make a decision for the company and even though a lot of people think Safi got the job because he's Carm's buddy, that absolutely never entered into it. He got the job because he was the right person." Qureshey is less effusive, saying only that "if you look at the time [the board members] spent having detailed review meetings, . . . the decision was not made hastily." What if Santoro had asked him to step down? "It would have been difficult, but I would have moved on. If I look at my future as a single role, I would be in trouble," he says.

SLOWING DOWN

After AST, Santoro became involved with a management transition at Mentor Graphics Corp., a Portland, Ore., manufacturer of CAD software. Santoro was doing the preliminary work to pave the way for a new chief executive when his wife was diagnosed with cancer. Santoro dropped off the Mentor Graphics board and curtailed most of his activities to spend time with her. Fortunately, she went into remission in early 1993. Since then, she has not had a relapse, but at the time Santoro made himself a promise: "I said I would never work full time again."

Then along came Platinum. To Santoro it looked like the kind of company that might need occasional advice as it experienced growing pains, but otherwise was doing well. From all appearances, the men behind it were a formidable triumvirate who had weathered the usual ups and downs that go with a startup. Chief executive Gerald Blackie was a charming New Zealander with a flair for ideas. Tim McMullen was the techno wizard. Kevin Reigelsberger handled sales. To Santoro it seemed like a fit—a board seat on a software firm to fill the hole in his portfolio left by the sale of Ashton-Tate. The founders had told him they were having a hard time keeping up with the company's rapid growth and there was not enough communication between the executives and their employees. "We were thrilled to get someone with his experience," says McMullen. Santoro saw the problems as a pretty straightforward case of a company outgrowing its entrepreneurial phase. Platinum would most likely need to set up a new organizational structure.

Then, in January 1994, Platinum announced that earnings for the preceding quarter had dropped 65 percent because the sales staff had problems closing orders. A class-action lawsuit was filed by shareholders alleging that Platinum had violated federal securities laws. Santoro and the other outside director, Bruce Edwards, who had already gleaned from looking at the numbers that things were not as good as they seemed, brought in auditors from Ernst & Young. When the auditors completed their report in April, all hell broke loose. Platinum had been booking sales at the time the order and deposit were received, a questionable procedure that could easily result in overstated revenues. Santoro called the three founders into a meeting. "You've got a big problem here," he told them.

Santoro and Blackie went out to dinner after the meeting and Santoro broke the news that Blackie would have to leave the company he'd founded. Well after midnight, Blackie called both McMullen and Reigelsberger to let them know what was going to happen. He was going to resign and the company would be restructured. In a 15-minute board meeting the next morning, Reigelsberger and McMullen were asked to stay on but step down from the board. Were they being pushed aside?, asked McMullen, who was beginning to hear rumors that this was a planned coup by Santoro. He was assured that this was not the case.

By the following Sunday, Santoro had installed a new controller, Mike Simmons, whom, ironically, he had fired from Silicon Systems. Santoro set up residence in his Laguna Beach condo near company headquarters, and the 80-hour weeks began. So much for a comfortable board seat. Even as he worked to save the company, Santoro was pessimistic. "I didn't think we stood much of a chance," he says. He told his top lieutenants that the company had only a 20 percent chance of survival. Santoro and Edwards split the duties. Edwards would work with accountants on restating revenues and settling the two class-action lawsuits facing the company. Santoro would work on restructuring the company into three divisions—one for Platinum's LAN-based financial management software, one for SeQueL to Platinum and the third for service.

Santoro himself began calling customers, even visiting some of the larger ones in person. On the morale side, he talked once a week to the 450 employees via voice mail and threw out the dress code as being too formal for a creative firm. He held weekly meetings with managers, where they each were required to give themselves numerical ratings on how close they had come to meeting their goals.

Generally, he's gotten high marks from within the company. "He's an incredibly quick study," says Reigelsberger. Santoro's wooing of the employees culminated in an emotional announcement in early May that he would be the new chief executive. He reached the decision after a discussion with his wife. "I was bitching and moaning about how much work it was," he recalls. "Nancy said, 'You're really enjoying yourself, aren't you?' And then I told her it would take at least two years. She said okay." He took the job and brought in Proctor, who had worked with him at Ashton-Tate, to be his second-in-command.

Santoro's focus is curing the company of some of its overly aggressive traits—like never saying no even when it can't meet the order. "We've got to start making our commitments," he says. "That means being honest with a customer about when we'll be able to get something to them—and not promising it earlier because that's when they want it." His goal is to make Platinum the premier provider of financial software and to develop relationships with companies that offer the "best of breed" in other areas, be it human resources, manufacturing or sales. "I contend that companies that offer soft-ware on all the platforms offer mediocre to adequate software," he says. "If you're willing to work at it you can have the best of breed in every element, but you can't get it all from the same company."

Competitors and industry analysts say Santoro's strategy could backfire because the business applications industry has become so competitive, with large players like Oracle Corp. and SAP America Inc. jousting with up-and-comers such as PeopleSoft Inc., which has 53 percent of the market in human resources packages and is now eyeing the financial market. "Best of breed is making a comeback," says Wayne Eckerson, an analyst with The Patricia Seybold Group in Boston, "because many companies don't want to get locked into the same vendor for every-thing." But he still sees problems with integrating the different packages. Platinum is also limited because its SeQueL only works on the Sybase database and its competitors offer sever-al platforms.

David Duffield, president of Walnut Creek, Calif.-based PeopleSoft, acknowledges that Platinum has a "good, low-end product," but not the kind that is going to attract larger companies that want something more sophisticated. Platinum may do well in the short run, but eventually could get squeezed out along with other smaller players, Duffield warns. "Customers today are looking to overhaul everything," he says. "They want a system that looks the same throughout."

Santoro acknowledges these are valid concerns. "A shakeout doesn't have to be bad," he points out. "It can mean someone else buys the company and the shareholders make a great return. What's wrong with that?" He and other boosters also point to the progress the company has made already. Customers, in particular, give the new management high marks for staving off panic. "They were on the phone to me right away," says Robert Sellers, vice president at United Video Satellite Group Inc., a $110 million company in Tulsa, Okla., that has used Platinum for two years. "So far I've been impressed with what Mr. Santoro had done."

In its fourth quarter, Platinum took a $17 million charge to settle share-holder litigation. While one analyst described the move as "paying blackmail to the legal profession," Santoro defends the move. "We needed to get that behind us or we might not have been able to go on." In September, Platinum reported a loss of $59 million on $53 million in revenue in the fiscal year ended June 30, 1994, compared with a $17 million loss on restated sales of $28 million for fiscal 1993. But its first quarter of fiscal '95, which ended in September, showed a narrow profit of $51,000 on revenue of $14.5 million, compared with a loss of $4 million on revenues of $11.4 million in the previous year's first quarter. Its share price over the past year, which once nudged $30, plunged to as low as $3.50 before stabilizing in the $10 range.

The first-quarter results give Platinum hope. In September, Santoro was able to convince two respected venture capitalists to back a $13.8 million private placement of Platinum preferred stock, alleviating a cash crunch. John Doerr, a general partner at Kleiner, Perkins, Caufield and Byers, and Arthur J. Marks, a principal at New Enterprise Associates, also joined Platinum's board. "After due diligence, we're confident of Platinum and its products," says Doerr. But going forward, Platinum's success will depend on delivering a product that meets customer needs and expanding its customer base amid fierce competition.

As for Santoro, he likes to say he was drafted to this position—the reluctant chief executive who had to step in because there was no one else to do it. He'll be out in two years and back to semiretirement, he says. But some associates and friends are betting that Platinum won't be the last company to drag him back into service. In October, a shareholder suit was filed against another company where Santoro is on the board—S3 Inc., a Santa Clara, Calif., manufacturer of graphics accelerators. Santoro dismisses the suit—"I've been under some form of litigation for the past seven years"—but seems eager to have another fire to put out.

If Santoro ever does retire, what will he do? He has often talked about writing a book detailing his theories on the different stages of an entrepreneurial company's growth. Meanwhile, he hopes he'll be able to keep up with the boards he serves on today and insists he won't take on any more. "Seven is about all you can handle," he says. The he adds jokingly, "But if Callaway Golf wants to make me a director, maybe I could be persuaded." ■

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