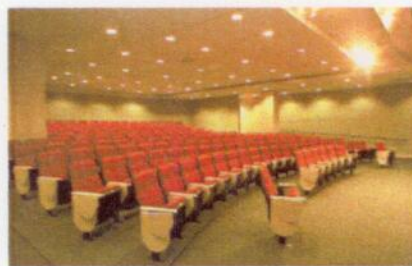


## Entrepreneurial Management Center Event Summary

- Title:** L. Robert Payne distinguished Entrepreneur Lecture Series
- Featuring:** Robert Beyster
- Location:** Aztec Athletic Center Auditorium / Hall of Fame
- Date:** Wednesday, September 26, 2007
- Time:** Lecture – 4:00pm until 5:30pm  
Reception – 5:30pm until 7:00pm

The L. Robert Payne Lecture Series brings an outstanding entrepreneur to campus to lecture and interact with students, faculty, and members of the business community. This year, our featured speaker is Dr. John Robert (Bob) Beyster, the founder and, until 2004, the CEO of the Science Applications International Corporation (SAIC). SAIC is a large technology firm with numerous federal, state, and private sector clients founded in 1969 in La Jolla, California. SAIC has worked extensively with the US Department of Defense and the Intelligence Community, including the National Security Agency. Dr. Beyster will be speaking to the attendees on "Unlocking the Power of Ownership" joined by Tom Darcy, the former CFO of SAIC, and Gangaram Singh, Chair of the Management Department at SDSU, as the moderator.

This event will be held in the The Aztec Athletic Center Auditorium. The Aztec Athletic Center is a four-story, 130,000 square foot structure located just west of Cox Arena on 55th Street, just south of Peterson Gym. The auditorium is on the 1<sup>st</sup> floor and seats 200 stadium style. There will be a podium brought in for opening remarks, and an interview-style set up for the presentation consisting of 3 leather chairs and a coffee table. Each speaker will be equipped with a wireless microphone.



The reception will be held in the hall of fame which is the 5,000-square foot museum located on the first floor outside of the auditorium.



**SDSU – September 26, 2007**

FIRST OF ALL, THANKS TO ALL OF YOU FOR BEING HERE THIS AFTERNOON. IT IS GREAT TO SEE SO MANY PEOPLE INTERESTED IN ENTREPRENEURSHIP AND THE EMPLOYEE OWNERSHIP MODEL WE DEVELOPED AT SAIC. I HAVE HAD AN INTEREST IN EMPLOYEE OWNERSHIP SINCE 1970. BY APPLYING THE PRINCIPLES OF EMPLOYEE OWNERSHIP, I HELPED BUILD A SUCCESSFUL COMPANY AT SAIC, WHICH NOW HAS \$8 BILLION IN ANNUAL SALES AND IS HEADQUARTERED HERE IN SAN DIEGO.

I TOOK THE OPPORTUNITY AFTER I RETIRED IN 2004 TO WRITE A BOOK WITH PETER ECONOMY ABOUT MY EXPERIENCES AND I'M HERE TODAY TO TALK ABOUT THOSE EXPERIENCES AND SIGN COPIES OF THE BOOK AFTER OUR PRESENTATION.

AS YOU KNOW, THERE ARE A NUMBER OF WAYS TO SHARE OWNERSHIP WITH EMPLOYEES IN A COMPANY. THE PROCESS WE ESTABLISHED AT SAIC WAS THAT OF A MERITOCRACY. EMPLOYEES, BOARD MEMBERS AND SOMETIMES CONSULTANTS WERE AWARDED OWNERSHIP COMMENSURATE WITH THEIR CONTRIBUTION AND THERE WERE A NUMBER OF CRITERIA USED TO MEASURE THIS. DID THEY HELP WIN CONTRACTS? DID THEY DO A GOOD JOB ON THE CONTRACTS THEY

WERE AWARDED? WERE THE CUSTOMERS HAPPY WITH THEM? DID THEY BRING IN GOOD PEOPLE TO WORK ON THE CONTRACTS? AND SO FORTH. THE SYSTEM RELIED ON PEOPLE WHO USED GOOD JUDGMENT IN BUILDING AND SHAPING THEIR BUSINESS AND HAD A GOOD ATTITUDE TOWARD THE CUSTOMER. THIS SYSTEM VIRTUALLY IGNORED THE SENIORITY SYSTEM THAT IS POPULAR IN SO MANY BIG COMPANIES TODAY. IT DIDN'T MATTER TO US WHETHER YOU HAD BEEN AT SAIC A SHORT TIME OR A LONG TIME. YOUR RAISES AND BONUSES WERE BASED ON YOUR UNIT'S PERFORMANCE AND YOUR PERSONAL CONTRIBUTION, NOT ON YOUR TENURE. THIS POWERFUL COMBINATION OF EMPLOYEE OWNERSHIP AND MERITOCRACY IS WHAT WE CALL "THE SAIC SOLUTION," THE TITLE OF MY BOOK.

WHEN I WAS PREPARING FOR TODAY'S SESSION, ONE OF THE PROFESSORS AT SAN DIEGO STATE TOLD ME THAT THE "TRADITIONAL" MODEL OF ENTREPRENEURSHIP IS TAUGHT IN BUSINESS CLASSES HERE THAT IS THE USUAL PATH FOR SMALL COMPANIES AND THE WELL-WORN PATH TAUGHT IN MOST BUSINESS SCHOOLS. BASICALLY THAT MODEL SAYS YOU START WITH AN IDEA, WRITE A DETAILED BUSINESS PLAN, ASSEMBLE A TEAM, AND IDENTIFY YOUR FINANCING, USUALLY VENTURE CAPITAL FUNDING. YOU DECIDE ON YOUR CORPORATE STRUCTURE – EITHER A "C" CORPORATION, "S" CORPORATION, LLC, OR PARTNERSHIP – AND INCORPORATE.

DEPENDING ON THE TYPE OF BUSINESS YOU ARE IN, WHEN THE COMPANY NEEDS FURTHER FINANCING, SECOND AND THIRD ROUNDS OF PRIVATE OR BANK FINANCING ARE ARRANGED. THE END GAME – THE POT OF GOLD AT THE END OF THE RAINBOW – IS TO EVENTUALLY TAKE THE COMPANY PUBLIC SO THAT THE VENTURE CAPITALISTS CAN GET PAID BACK WITH A HANDSOME PROFIT AND THE SENIOR MANAGEMENT CAN GET RICH.

BUT THAT APPROACH WAS NOT FOR ME.

BEFORE FOUNDING SAIC, I WAS A STAFF MEMBER IN THE PHYSICS DEPARTMENT AT GENERAL ATOMIC CORPORATION. I RAN THE ACCELERATOR PHYSICS DEPARTMENT. I LEFT GENERAL ATOMIC BECAUSE IT WAS OWNED BY A LARGE OIL COMPANY THAT HAD LITTLE INTEREST IN WHAT I WAS DOING. NUCLEAR RESEARCH WAS NOT A MAINSTREAM ACTIVITY FOR THEM.

SO I FOUNDED SAIC IN 1969 BECAUSE I WANTED A GOOD PLACE TO WORK.

SAIC WAS FOUNDED BY JUST TWO PEOPLE, MYSELF AND A PROGRAMMER.

I USED MY OWN MONEY AT THE BEGINNING. THE BUSINESS GREW WITH LITTLE EXTERNAL INVESTMENT OTHER THAN SOME BANK LOANS. SAIC GREW BEYOND MY WILDEST EXPECTATIONS OVER THE NEXT 35 YEARS AND I BELIEVE IT WAS BECAUSE WE ESTABLISHED A HIGHLY MOTIVATING PROGRAM OF EMPLOYEE OWNERSHIP. WE TOTALLY BY-PASSED THE CONVENTIONAL ROUTE AND OWNERSHIP WAS SHARED ON THE BASIS OF PERFORMANCE.

WE INTRODUCED SEVERAL INNOVATIVE APPROACHES TO GETTING THE COMPANY IN THE HANDS OF THE EMPLOYEES SUCH AS THE USUAL STOCK AWARD PROGRAMS, STOCK BONUSES AND, OF COURSE, OPTIONS. WE HAD AN ESOP THAT HELD 25% OF THE STOCK AND A 401K WITH AROUND 24% OF THE STOCK AND 51% WAS EMPLOYEE-OWNED DIRECTLY.

IN ADDITION, WE MADE IT POSSIBLE FOR EMPLOYEES TO EARN THESE REWARDS. EMPLOYEES WERE GIVEN THE OPPORTUNITY TO SET THEIR OWN GOALS, BID ON PROJECTS OF THEIR OWN CHOOSING WITHIN REASON, AND DO THEIR OWN MARKETING. THE FACTORS THAT MOTIVATED TOP-NOTCH TECHNICAL AND ADMINISTRATIVE PEOPLE TO JOIN SAIC WERE (1) THE ABILITY OF EMPLOYEES TO EARN MORE THAN A PAY CHECK; (2) THE FACT THAT EMPLOYEES WERE REWARDED ON A

PERFORMANCE BASIS – OPTIONS AND OTHER FORMS OF STOCK REWARDS AND MANAGEMENT AND INTERNAL BOARD POSITIONS WERE ASSIGNED BASED ON DEMONSTRATED ABILITY; AND (3) THEY HAD THE OPPORTUNITY TO WORK ON NATIONALLY SIGNIFICANT PROGRAMS.

IN THE PROCESS, WE CREATED AN “EMPLOYEE FIRST” CULTURE, WITH EMPLOYEE PARTICIPATION THROUGH COMMITTEES AND COMPANY-WIDE MEETINGS AND THE FREEDOM TO TALK TO ANYONE IN THE COMPANY.

SAIC GREW UNEXPECTEDLY FAST AND SOON WE HAD ACCUMULATED THE RESOURCES TO MAKE ACQUISITIONS. AMONG OUR FIRST MAJOR ACQUISITIONS WAS NETWORK SOLUTIONS, THE COMPANY THAT RAN THE DOMAIN NAME REGISTRATION FOR THE INTERNET AT THE TIME WHEN THERE WERE ONLY ABOUT 100,000 DOMAIN NAMES, MOSTLY PEOPLE AT ACADEMIC INSTITUTIONS AND GOVERNMENT AGENCIES. WITHIN THREE YEARS WE HAD REGISTERED 3 MILLION DOMAIN NAMES AND ONLY ONE YEAR LATER THE NUMBER HAD GROWN TO 6 MILLION NAMES. NETWORK SOLUTIONS WAS GENERATING \$100 MILLION IN PROFIT FOR SAIC. THERE WERE SOME WHO BELIEVED WE SHOULD NOT HAVE A MONOPOLY IN THIS BUSINESS. I WAS NOT ONE OF THEM, BUT WE WERE EVENTUALLY FORCED TO SELL IT FOR BILLIONS OF

DOLLARS AND WITH THE FINANCIAL RESOURCES GRANTED BY NSI WE WERE ABLE TO MAKE LARGER ACQUISITIONS.

AT THAT TIME, THE REGIONAL BELL OPERATING COMPANIES WISHED TO DISPOSE OF BELLCORE, WHICH WAS THEIR ANSWER TO BELL LABS ON A LOCAL SERVICE BASIS, NOT LONG DISTANCE. WE WERE FORTUNATE TO WIN THE BID FOR THE ACQUISITION INCLUDING ALL CONTRACTS, BUILDINGS AND INTELLECTUAL PROPERTY. WE CHANGED THE NAME TO TELCORDIA AND EVENTUALLY THAT COMPANY WAS GENERATING A HIGH LEVEL OF PROFIT FOR SAIC. WE SOLD THAT BUSINESS SEVERAL YEARS LATER AND FROM THAT POINT ON SAIC HAD NO NEED FOR FURTHER FINANCING.

I RETIRED FROM THE COMPANY IN 2004 AND HAVE SINCE THEN DEVOTED MY ATTENTION TO WRITING AND TALKING ABOUT MY BOOK. MY DAUGHTER STRONGLY SUGGESTED THAT I WRITE A BOOK ABOUT SAIC. SAIC LIKED THE IDEA. THE BOOK IS ORGANIZED INTO 14 CHAPTERS. TWELVE CHAPTERS FOLLOW THE OUTLINE OF SUBJECTS TREATED IN A BROCHURE I WROTE FOR THE EMPLOYEES IN 1987 CALLED "THE PRINCIPLES AND PRACTICES OF SAIC." THE 13<sup>TH</sup> CHAPTER IS ON GOVERNANCE IN AN EMPLOYEE-OWNED COMPANY AND THE 14<sup>TH</sup> IS ON THE OPPORTUNITIES I SEE FOR TECHNOLOGY COMPANIES IN THE FUTURE. THIS BOOK IS OBVIOUSLY NOT CHRONOLOGICAL AND WE

WROTE IT IN A WAY THAT WE HOPED THE READERS CAN UNDERSTAND FROM THE EXAMPLE OF SAIC AND APPLY THE LESSONS WE LEARNED TO THEIR OWN ENTREPRENEURIAL ACTIVITIES.

MY PLANS FOR THE FUTURE ARE TO IMPROVE SUBSEQUENT EDITIONS OF THE BOOK AND TO HELP OTHERS THROUGH THE FOUNDATION FOR ENTERPRISE DEVELOPMENT AND THE BEYSTER INSTITUTE TO UNDERSTAND EMPLOYEE OWNERSHIP.

THERE ARE TREMENDOUS BENEFITS TO A COMPANY IF YOU CAN KEEP THE COMPANY PRIVATE AND EMPLOYEE-OWNED SUCH AS:

- THE BENEFITS OF STOCK APPRECIATION GO ONLY TO THE EMPLOYEE
- EMPLOYEES MAKE THE DECISIONS
- RESOURCES ARE SPENT WITH THE APPROVAL OF THE EMPLOYEES
- THE MAJOR COMMITTEES AND THE BOARD GOVERNING THE COMPANY HAVE A MAJORITY OF EMPLOYEE OWNERS

THANK YOU AGAIN FOR INVITING ME HERE AND I AND WOULD BE HAPPY TO ANSWER ANY QUESTIONS.