

# The Changing American Dream

written by CHRIS ALLISON

**F**RANCIS FORD COPPOLA'S EPIC, "THE GODFATHER," begins with the line, "I believe in America."

The film chronicles the tragic story of the Corleone family and their twisted version of the American Dream. It characterizes our national ethos by believing anyone can attain their version of societal success, regardless of where or into which class they were born.

In the past, the American Dream meant building a lasting business and passing it on to one's children.

But we don't build to last anymore, and business schools don't teach that philosophy. Today, entrepreneurs seek to find the Holy Grail of a "killer app" in an overhyped emerging market.

After obtaining venture capital financing for their unicorn, they throw tens of millions of dollars into marketing. Profit is secondary to revenue momentum.

If, and only if, they can demonstrate massive growth, they can then sell their brainchild to a publicly traded corporation seeking to feed the ravenous beast satiated only by the mother's milk of the gods: double-digit earnings growth. That beast is not called Grendel from *Beowulf* nor Viserion from *Game of Thrones*, but Wall Street.

Many embark upon this quest, yet few succeed. According to *What's The Big Data*, tech startups fail 90 percent of the time. Noted venture capital investor and

author Andrew Chen writes, "Over the past few decades, a small number of startups — 6 percent — have ended up driving 60 percent of the returns."

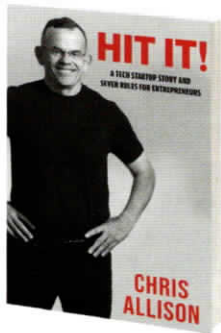
Tech startups routinely fail for one simple reason: They must solve a relevant problem in a large and growing market.

The company I ran, Tollgrade, became solvent by stumbling upon a product that helped telephone companies eliminate unnecessary repair calls so that our customers could recoup their initial investment in 2.5 months.

To fund our nascent startup, our management team raised \$6 million in invested capital from angel investors throughout western Pennsylvania. Our initial share price, depending on the investment round, ranged from \$0.67 to \$3.50 per share.

That \$6 million had grown to an initial valuation

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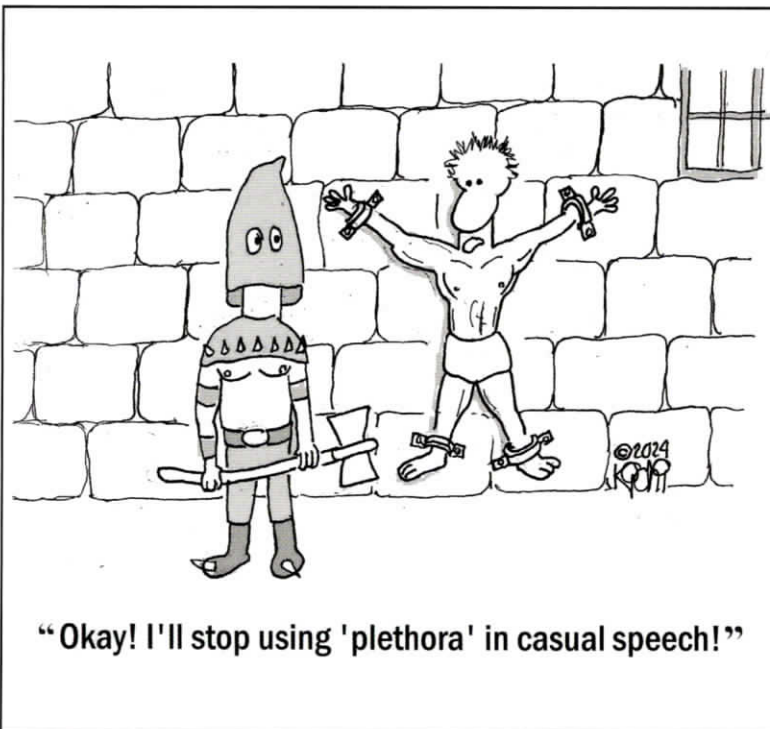
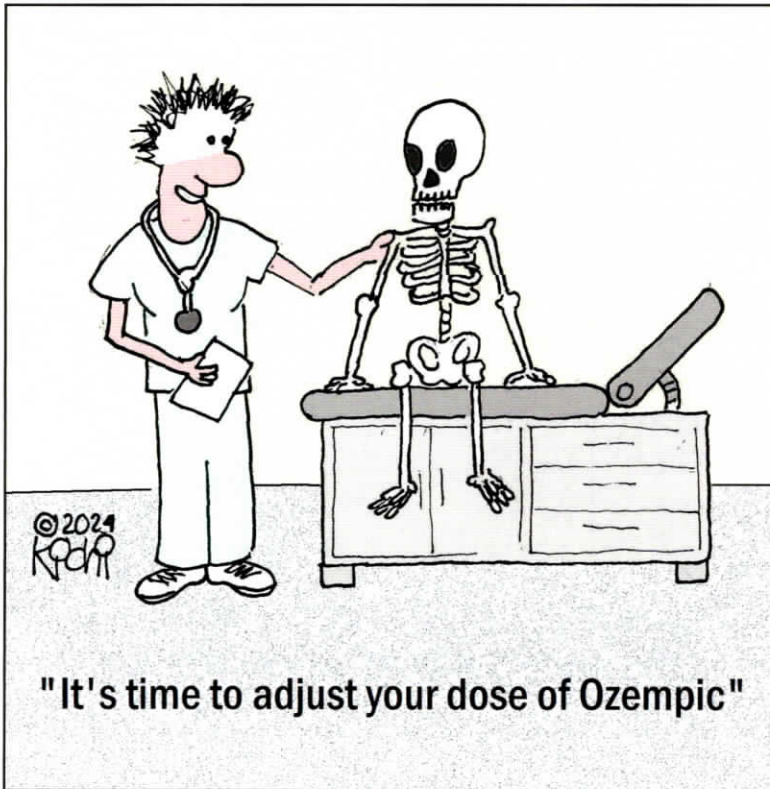
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**"He loathes how gray and colorless the landscape becomes after Christmas"**



**"If you must know, I was driving at Warp Speed to go back in time to when I was young and desirable."**



of \$62 million when Tollgrade completed its initial public offering on the NASDAQ exchange, opening at \$14 per share on Dec. 14, 1995.

From 1995 to 2006, when I retired, Tollgrade generated \$667 million in revenue and \$135 million in EBITDA. Our fantastic team enabled the company to exceed stock analysts' earnings expectations in 40 out of 41 quarters.

In 2000, Tollgrade's revenue reached \$114 million and its total value, or "market capitalization," on NASDAQ reached \$2 billion when its share price reached \$300 per share and then split.

That's not a typo. In less than 10 years, \$6 million of invested capital turned into \$2 billion in market value. And along the way, the company created 300 jobs.

Of course, my taking credit for any of it would be like a rooster taking credit for the sun coming up in the morning. As I look back, I felt more like an observer than a catalyst. Credit goes to our team of talented young executives, our private and public board of directors, and, most important, our hearty band of angel investors, who believed in my dad, who founded the company.

I remember a discussion with one of our original investors a while back.

He said, "It's good that we went public, huh?"

I shrugged, "Maybe. Maybe not?"

He said, "What do you mean?"

I said, "From 1995 to 2006, we've generated \$180 million in cash from operations. Being a public company costs us \$2 million annually, so throw \$20 million on top of that. Let's call it a gentlemen's \$200 million."

Then, the investor said, "I still don't get the point."

I explained, "You could have used a decent chunk of the cash to pay dividends to yourselves rather than go public."

He just looked at me and said, "Hmm."

The moral of the story is this: Build your company to last, not flip.

Great family-owned Pittsburgh businesses like Giant Eagle, Sheetz, Industrial Scientific and 84 Lumber still run strong.

Former Pittsburgh tech titans, such as Fore Systems, Freemarkets, Automated Healthcare, and Avere were all gobbled up by bigger companies.

After I retired, even Tollgrade was bought and sold twice.

Tollgrade's original stakeholders and employees got a great return on their investment, but if you ask them what they liked best, I'll bet they would say that it was the ride. And many wish they were still on it.

Ralph Waldo Emerson, the American transcendentalist philosopher, famously said, "Life is a journey, not a destination."

So, what are you waiting for? **Hit it!** ■

*Chris Allison, the former CEO of Tollgrade Communications, Inc., teaches business at Allegheny College and is the author of the new book, "Hit It!: A Tech Startup Story And Seven Rules For Entrepreneurs."*