

STEVE CASE

ORAL HISTORY

COMPUTERWORLD HONORS PROGRAM

INTERNATIONAL ARCHIVES

**Transcript of a Video History Interview with
Steve Case
Chairman, AOL Time Warner**

**Recipient of the 2000 Morgan Stanley Leadership Award for
Global Commerce**

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DSM: This program is made possible by a generous grant from Morgan Stanley Dean Witter, and Mr. Case joins Michael Dell as the second recipient of the Morgan Stanley Dean Witter Leadership Award for Global Commerce.

This interview is taking place at the headquarters of American Online, in Dulles, Virginia, and is being conducted for the permanent research collection of the Smithsonian Institution's National Museum of American History, and for the archives of the Computer World Smithsonian Award Program--their archives online.

Without objection, the video, audio, and transcripts of this interview will become part of these collections and will be made available to the general public, subject to the standards of the Smithsonian Institution governing public access to its collections. This discussion, however, is private. Should any participant wish to withhold from the public record, any, all or part of the recordings of these sessions, that request will be honored for a period not to exceed 25 years. All present here are bound to respect such a request, and by remaining in the room for this interview, accept a personal, professional and legal responsibility to abide by that pledge.

While no objections having been expressed, and no one having left the room, it's my great pleasure to begin the interview by thanking you, Steve, for spending this time with us, and congratulating you on the honor of you Leadership Award.

SC: Thank you. It's a great honor and it's great to be talking with you.

DSM: Oh, great to be talking to you. I would like to start at the beginning. Tell us where you were born and something about your parents.

SC: I was born and raised in Honolulu, Hawaii. So on a little island in Hawaii. My parents were terrific. One was an attorney and the other was a teacher. We had a wonderful upbringing in the time. However, since I was born and raised in Hawaii, before I went to college I don't really fully understand the concept of four seasons or snow or things like that. It was always sunny and always warm. It was a nice place to grow up.

DSM: Born in paradise.

SC: Exactly. My parents still live there, so it's a nice place to go back and visit.

DSM: That's great. Do you have brothers and/or sisters?

SC: Yes, a younger brother, an older brother and an older sister.

DSM: How about family roots? How did your family get there?

SC: It's a little unusual. My parents were both born in Hawaii and grew up on different islands. My father was on an island called Kauai, and my mother was on Hawaii, the Big Island.

My father's father worked as a treasurer at a plantation and my mother's father ran a general store in Hilo, Hawaii. So he was sort of the entrepreneur in the family. So they've been there for some time.

DSM: So your grandfather was the first of the Cases to...

SC: Right.

DSM: Is he from California?

SC: They're from California and Kansas. They basically migrated West, I guess to find a new frontier. I don't think they were running from the law, but I guess nobody's ever fully told me.

DSM: Is it a very close family?

SC: I think reasonably close family. It's harder to be a really close family when people don't live in the same city anymore. But we certainly were close growing up and I keep in touch with my brothers and sisters. We try to get back every year or so to Hawaii for a family reunion. With everybody's busy schedules and lots of kids and so forth, sometimes it's hard to pull off, but it's always fun when we can do it.

DSM: When you were growing up and a little kid in Hawaii, were there relatives that really made a difference in your early life, an uncle or your mom?

SC: I'd say all of them did to some degree. I think it's unclear when you're growing up. You don't fully understand exactly what all the different influences are, but I think they were all a little bit different and all provided some different perspectives.

And I feel like I was really quite lucky to grow up with the family and all the different relatives that we had around, mostly living in Hawaii. Some, like my grandmother, was living in San Francisco, and occasionally I would go and visit her. But most of the family was still in Hawaii.

DSM: One of the questions I've asked all of the honorees in this program about stories their parents tell about them when they were kids that may be indicative of any early signs of things that were to come.

SC: Yes, I'd think probably my parents would say that it was probably clear relatively early that I would do something entrepreneurial. I didn't know what an entrepreneur was when I was growing up, but I did know when I was relative young--10, 11, 12--I was getting involved in starting different kinds of business. Not anything of any real significance; selling watches door-to-door, greeting cards or having a newspaper route and things like that. I was just sort of curious about business and particularly curious about creating new kinds of businesses and would be tapping away on my typewriter with business-related things early on.

I used to always love getting mail, so when I came home from school I would get the mail. I usually got more mail than the rest of my family from the early days. So there was always something to that. Now, I get thousands of e-mails every day. I wish I got less mail. So I've sort of come full circle. Before, I was delighted when there were a few things in the mailbox for me. Now I'm overwhelmed by the volume of mail I get.

DSM: What did you send away for when you were young, things offered in the backs of comic books?

SC: Oh, sure. I sent in for a lot of stuff. I was a big mail order consumer and thought that all the get rich quick schemes that were advertised in these magazines sounded pretty good. They usually weren't very good, but they were intriguing at the time. So I just got involved in different kinds of businesses and was sort of curious about more the idea generation side.

My older brother is head of Hambrecht & Quist, which just was acquired by Chase, one of the largest investment banks. He was always the financier in our family and the venture capitalist. I was always the entrepreneur. So I'd usually come up with the idea, but I never had money. So he would put the ten bucks or whatever was necessary in to fund this new venture. He'd get half the company, and I would get the other half. I would do it for a while and then be on to something else. We went through a steady stage of those kinds of ventures.

DSM: You've been doing this since you were 6, 7, 8?

SC: Oh, it wasn't quite that young, but it was certainly by 10, 11, 12, 13 years of age. Again, they were not exactly businesses that were going to take the world by storm. But in retrospect I think we did learn a lot about business from these relatively young kinds of experiences.

DSM: So you started school, I guess it was 1963--about the time Kennedy was assassinated?

SC: Right.

DSM: And your mom was a teacher.

SC: Right.

DSM: Did you learn to read early?

SC: I don't remember when I learned to read. I do remember when Kennedy was assassinated. I think I was in kindergarten. I was five, so I guess it probably was kindergarten. I remember all the teachers being kind of upset and you know, school ending early and so forth. So I remember it being kind of a traumatic thing.

DSM: You were in school--literally in the classroom?

SC: I was in the classroom. So I remember it was quite traumatic. And I remember watching on television the next couple nights as the whole nation was mourning the death of the President. Sorry I don't recall much about it specifically, but I do remember, even though I was just five, there was something traumatic going on that all the big adults seemed to be quite upset by.

DSM: Any teachers that really made a difference in your life, any grammar school or even your high school teachers that you'd like to talk about?

SC: I wouldn't say there's any one that really emerged. There were some that provided a little bit more guidance, particularly in high school and then in college. I was always wrestling with this tension between recognizing on the one hand that school was a good thing, and taking these classes seriously was a good thing; on the other hand my curiosity about these business ventures sometimes was taking precedence over my schoolwork.

Sometimes people would say, "You only really have one opportunity to go to school. Maybe you'll have other opportunities in the future to do these business things." On one level I believed them, and I probably should've listened to them a little bit more. I probably should've spent a little bit more time when I was in school, being schooled. But it worked out okay.

DSM: It seems to have worked. Well, your school starting times match up with some interesting things going on in the world. You started grammar school about Kennedy was killed, and then you started high school about the time of Watergate and end of the Vietnam War.

Now, you went to a really huge high school--private high school. Tell me about it. Was it Punahou?

SC: Punahou. Actually, it's the school I went to from kindergarten through 12th grade. So I was there for 13 years. It's a wonderful school in Honolulu, Hawaii, and I think it's relatively large. I think it's three or four hundred people in each class by the time you graduate--something like that. But it was a great school and a beautiful campus. I think it was a wonderful atmosphere.

DSM: What sort of things did you do when you were a high school kid?

SC: A variety of different things. I was continuing to be involved in some of these businesses outside of school. Within school, I played basketball. I was not destined for the NBA. I was on the junior varsity team, that was kind of fun. I was the editor of the newspaper for a year or two, and I was a photographer. I was really intrigued with the idea of taking pictures and having a darkroom and developing pictures and things like that.

While in high school I also got very interested in music, and figured out that if you were a music critic, you wrote reviews of albums and concerts, then everybody would send you their albums and give you free concert tickets. When you're in high school, it was really quite an important insight. So I got on the mailing list of all the record companies and went to concerts a lot and really was fascinated with that whole side of things.

DSM: Who were your favorite groups?

SC: In high school, Aerosmith was probably my favorite rock group. And they're still alive and kicking. Steve Tyler must be 50 by now, but they're still touring and recording and so you've got to give them credit for staying power.

DSM: So the interest in music--I know you did radio while you were in college.

SC: Yes I was a disc jockey for a very small college station. I thought that was fun, mostly because you got to play the music you wanted to play because particularly in college stations, there was no format. It wasn't programmed. So it wasn't like you were just announcing records that had been picked by a program director, which is more common on the major stations. You kind of play whatever you want. So that was kind of fun.

DSM: Do you have any air checks from your time on the air in college?

SC: I think I do. I'm not sure where they are, but I think I probably do.

DSM: How about your record reviews?

SC: I got a few things like that. I'm not particularly good at saving stuff, but I've seen from time to time when I've moved, some boxes of things and I remember some concert reviews and some things like that.

DSM: Well, if you ever want to get rid of them remember that one man's junk is another man's treasure.

SC: Perhaps, but in this case it may be that one man's junk is everyone's junk.

DSM: That's great. You started college in '76 and I guess Jimmy Carter's in the White House.

SC: Right.

DSM: ...And you choose Williams.

SC: Right.

DSM: Why Williams?

SC: There were a couple of reasons. My father had gone to Williams, so that's why I knew about it. Williams was not a particularly well-known school around the country, even less so in Hawaii. He had gone to Williams and had good things to say about it. And I remember my older brother did a college tour, I think when he was a junior, and I was a sophomore in high school.

So one summer my family kind of combined that with a trip to the East Coast. I don't think we'd ever been to the East Coast before. We went to Washington and New York and Boston and so forth. I got to see Georgetown or Princeton or Harvard, those kinds of places. So I'd gotten some exposure to other colleges and I thought Williams was great. I ended up applying to Williams and then one school in Los Angeles, Occidental. I was intrigued with Los Angeles because it seemed like a big city, and it was kind of the music capital. Since I had an interest in music, there was a certain draw to that. I almost went there, but finally decided that Williams probably was the better school, at least the better school for me. I was really quite happy there.

DSM: Well, Williams is in the Berkshires in Western Massachusetts. I guess the countryside's not that much different from just west of where we are now in Virginia.

SC: Yes that's right, it's very pretty. It's a classical small town, a college sort of town. It really is a nice atmosphere. The down side of it, which also is the up side of it, is there's not a lot of stuff to do. But that also has the benefit of having fewer distractions. I think if I was in Boston or New York or Los Angeles, I probably would've been a less diligent student, because there are so many things to do. So I think it creates an atmosphere of where you're likelier to learn and likelier to feel a sense of camaraderie, almost a sense of community with your fellow students because you're all kind of together in this one area.

DSM: Now the cultural change to the East Coast, and the weather, were significantly different from Honolulu. Was it a really big shock for you?

SC: It was a little bit of shock. I kind of knew that it would be colder and there would be winters and things like that. I do remember my freshman year at Williams, the coin really dropped about the snow thing when I went to class in October in shorts and slippers, because I think it was like 75 degrees. Two hours later I left class and there's two inches of snow on the ground. It had dropped 40 degrees and started snowing in the space of two hours while I was in that class. So as I staggered back to my dorm, with snow coming down, that was the recognition that we're not in Kansas anymore. This was a different, different world and I best be better clothed, because you never quite can predict the weather.

But I really learned to love the diversity of the seasons. I loved being in Hawaii, but I really like having different seasons, a different atmosphere as the year progresses.

DSM: Who were your heroes when you were growing up? You were in college in a really interesting, interesting time.

SC: It was kind of a mix. When I was younger, I, like a lot of kids, was interested in sports, so I had baseball, football kinds of heroes; the San Francisco team, Willie Mays and people like. I was a fan. Then as I got a little older, got into high school, I was intrigued with music. I also was interested in journalism. I was editor of the paper and got involved in other things. So in that high school phase, I was interested in a lot of the investigative journalism then, like Woodward and Bernstein and people like that. It seemed like maybe one day I'd grow up to be a great journalist and bring truth to the world and things like that. As I went on through college, a lot of it was the people who were innovators in whole new areas. I was very intrigued with the early days of television, for example. David Sarnoff or Bill Paley in television, or Henry Ford in cars, those kind of things were intriguing to me. So I remember reading a lot of biographies.

There always was a backdrop of recognizing that great businesses have a significant impact on society. I remember one of the courses I took at Williams was on leadership from James McGregor Burns, who was one of the great professors and really expert in presidencies and wrote a book called "Leadership." So I was intrigued with that aspect as well. It was sort of a mix of things. I wouldn't say there was one particular hero, if you will. It was more of a collage of things.

DSM: Was Burns your favorite teacher at Williams? He's a legend.

SC: Yes, well, I think there were many that were good. I do remember his class, partly because I think it was my senior year. It was a smaller group of students. It was a dozen or so people, and the particular topic was leadership.

DSM: You're Poly Sci?

SC: Right, Poly Sci. Williams is a great Liberal Arts school. In retrospect, I appreciate the benefit of Liberal Arts, particularly in a world that is so chaotic and so many major changes are happening in terms of technology, or business, or the economy, or society, or politics, or what have you. Knowing a little bit about a lot of things and being able to try to connect the dots, I think, is useful.

At the time, at Williams, since I was more of an entrepreneur, more of a business person, really more of a marketer, I would have been inclined to have more of a business or marketing degree. They don't have that at Williams, so the closest I came to marketing was Political Science, and I have learned over the years that politics is a lot about marketing. So I guess my instinct was a good one.

DSM: Excellent. You were talking about early ambitions and maybe becoming a journalist and bringing truth to the world. In a sense, you've done that with this new medium. You must be pleased.

SC: I am pleased. I've always viewed this in a kind of dual context. I'm pleased with the progress we made in the last 15 years since we started the company, and particularly the last 5 years when the notion of the Internet and email and e-commerce and AOL have really become more a part of everyday life. So I am pleased with that. At the same time I recognize that there's still a long journey ahead, that most people aren't connected. The kind of ripple effects we'll have on the economy, on society, still are only beginning.

So I don't spend too much time in trying to get people in the company. I don't spend too much time waxing nostalgic about the past. I'm instead focusing more on the future, and being pleased with the progress we've made, but also recognizing that the best is really ahead and there's still a lot of work to be done to really make this medium all it can be.

But it's nice to have a medium emerging that is empowering people in ways that weren't possible before. I remember when I was growing up there were only four TV stations you could watch; ABC, NBC, CBS and PBS, and maybe a few of the kind of UHF signals if you could get them. There wasn't much diversity on television. Now there are dozens of channels. If you have satellite, there are hundreds of channels. It's extraordinary.

When I was brought up, there were really not that many magazines. Everybody read *Reader's Digest* and *Time* and things like that. Now there are thousands of special interest magazines. And certainly the Internet has really created this diversity of ideas, that almost everybody is becoming a publisher. Everybody has their own website and things like that. So it's fascinating to be participating in that. I think it really is a magical time, in terms of changing the way people get information, and how they communicate, and how they buy products, and how they're informed and things like that. It's exciting.

DSM: If you're a political scientist you're looking at whole new communities of people that never would've been possible.

SC: Yeah, it does change a lot of things. I think nobody's quite sure exactly what all the ripple effects will be, but it's clear that it's going to be more profound than anything I thought, 15, 20 years ago when I was getting intrigued by this new medium. It really is starting to take hold and is going to have a quite extraordinary impact.

Part of the challenge we have, and I think a responsibility we shoulder, is to make sure we do shape this medium in a positive way. So when it's all said and done it's a medium we can be proud of. I think it's sad, unfortunate, that television - although television is wonderful and there are wonderful networks, and with the AOL/Time-Warner merger we're going to be a major player in television - has been saddled with a reputation of being sort of a vast wasteland.

Newt Minnow, who was the FCC chairman at the time, said that 30 years ago, that television was a vast wasteland. And that image has sort of stuck. There's sort of a cynicism about it that I think is unfair and unfortunate. I'm hoping that as we build this new interactive medium, that people can focus more on the positives that it brings and less on the negatives.

DSM: Well, certainly, the response from the customer base in this new medium you've created is a lot different.

SC: Right.

DSM: You hear from them I gather?

SC: Oh yes, there's no question. It's a very interactive, participatory medium. You have to understand that and really internalize that. You do have an unusual ability to have a sense of what people are thinking and what they want and what they like and what they don't like, because they can tell you. And the questions are, are you going to be listening well, are you going to be responding well? I think to a large extent, AOL's success over the years has been just that factor, that we really have recognized that it was a participatory medium. Our members, and we call them members, not subscribers, because we wanted them to feel part of this community, part of helping us build this thing, were really working with us to shape this. It was not something that we were imposing on them. It was something that we were kind of jointly building.

I think that mentality, and that recognition that you constantly have to enhance what you're doing and be very responsive to what people are saying, has been a kind of core principle for the company and served us very well.

DSM: I've been given the five-minute signal. I can't let you get out of high school without talking a little bit about your musical career. And, interestingly enough, it seems to be a fairly common thread about people who are fascinated by this industry and have done well in it. A lot of them have ties to music, and a lot of them to rock and roll. Do you think there's some link between the art and science of music, and the art and science of being a successful entrepreneur?

SC: It's hard to say, but there is probably some link. At the same time, some of it may just be that rock and roll emerged in the '60s and '70s and really was in many senses, a kind of a voice of that generation. It really was resonating with people in a very significant way.

So people who grew up in those times, I think, would feel more of a connection to it than if they had grown up either earlier or later. I think some of it may be coincidence, but I do suspect there's something more than that. Music has always really resonated with people. There's something very emotional, almost magical about how you interact with music, and how you remember a certain song and tie it to a certain event, and it sticks with you forever. So in some ways, it is sort of the sound track of people's lives. It really has more of an impact on most people than the books they read, or the movies they saw, or the television they watched, or things like that. I must say, though, in terms of my music career, it's more an observer with a slight business interest. I was never particularly skilled. So I never really imagined that I would be the next Mick Jagger or something like that.

DSM: One of things I was going to ask you about the bands you worked with.

SC: Well that was a triumph of marketing over competence, really. I was in college and I recognized that if you have a really good band, and I knew a lot of people who were really good musicians and very skilled, then a really good band could cover for a pretty mediocre singer, number one. And number two; I recognized that a lot of music is image building. If you created some momentum and got people excited about a concept, then they might gravitate to the concept. So my actual singing ability was probably limited at best, but because I was smart enough to align with musicians who really knew how to play and market it in an effective way, my few appearances turned out to be successful appearances.

DSM: Do you remember the names of any of the guys in your band?

SC: Larry Sissan was one. Burt Snell was another. There were three or four others.

DSM: If we could get a tape of some of your bands, and...

SC: Never. Never.

DSM: No?

SC: If I showed it to you I'd have to kill you.

DSM: It'll be in the archive. We will hold it for 50 years and nobody will ever know.

SC: A hundred years, maybe you have a deal.

DSM: Deal.

SC: Talk to my counsel.

DSM: Oh, okay. In 1980 when you were about age 22? 21, 22, you graduate, and the first job is with--out of school--is with?

SC: Proctor & Gamble. I graduated when I was 21 and I knew I wanted to do something that was in that marketing kind of oriented focus. I interviewed at a lot of New York companies, advertising agencies. Home Box Office, which was a part of Time-Warner, was one of the companies I remembered interviewing with. But I knew that Proctor & Gamble would be the best company to work for if you had a consumer-marketing bent because they really were the world leader in marketing. They also had a great reputation for training people. So particularly coming right out of school with a Bachelor of Arts degree and not having gone to business school, the best place to learn about business was P&G. So I moved to Cincinnati, Ohio, to join P&G.

DSM: Who hired you?

SC: I interviewed with probably a dozen different people. Some of the people I worked with included Bob Herbold, who went on to become the COO of Microsoft. I was a couple levels below him, but his office was 15 feet away.

He was kind of overseeing our group. I also remember John Costello, who ended up becoming CEO of Sears and some other ventures. So it was a lot of great people at the time. Others who emerged in the technology industry, including Steve Ballmer at Microsoft, and Scott Cook at Intuit and Meg Whitman at eBay, were all veterans of P&G. They, like I, spent a few years there and then moved on.

DSM: You did product financing?

SC: The first thing I did was something called "Bounce." It was a test market product. It was only in Indianapolis and Peoria, I think. It was a dry towelette they used for, still use, for laundry. You drop it in the dryer when you're drying your clothes, and it fluffs them up and so forth.

And they said, well we have this technology, how do we use it in hair care? And somebody came up with the idea to take that dirty towelette, and you embed it with conditioner, and then people can rub it on their hair, exactly where they need their hair to be conditioned. And the slogan was "Towelette, you bet." I spent the first year working on that. It turned out to be a dumb idea. When people think of hair care they really think of the glamour of hair care, and they want to believe the dream. This was a very tactical, scientific, not very exciting kind of concept. But the lesson I learned there was great marketing just kills a bad product faster. That they actually did okay in getting people to try the product. They all rejected the product, and so it went out of business quickly.

So there were a lot of lessons I learned that did apply to AOL. We did send out trial discs, free samples. You know, here's a free disc, try a free month, because we recognized that would be a good way to stimulate trial and build awareness and so forth. But we also knew that if you give somebody a free trial, the only way you're going to make money is if they like what they try. So we really focused on trying to create great software and a great service so that the trial really turned into a membership as opposed to a rejection.

DSM: So marketing really drove the lesson?

SC: Oh, absolutely it did. I've seen it time and time again. In the Internet world, people focused on raising money to advertise their product on television maybe for the Super Bowl or something like that, and think that's building a brand. That's part of building a brand, but really having a great product is the essence of building a great brand, and sometimes people confuse the two. If you do advertise on television and you get people to try the product, to try their service, it better be a good product or service or you're simply accelerating your demise.

DSM: In 1982 about age 24, you leave P&G and go to work for Pizza Hut.

SC: Right. I enjoyed P&G. I could've stayed there longer, but I just thought this was a great opportunity. I had a bigger title, a bigger salary, but more importantly, Pizza Hut really is a company built around entrepreneurs. I think they have 5000 different restaurants around the country, something like that, and it was owned by PepsiCo so it had sort of a some of a sense of scale and bigness. But in fact, the way the company was operated, was through franchisees - somebody owning New York, and somebody else owning Chicago and so forth.

I thought that would be an interesting bridge from the world for P&G, which was a big company, structure, a kind of a cookbook approach to marketing. That it served them well for many years. I knew I wanted to do something more entrepreneurial, and Pizza Hut struck me as a good bridge, that it was still part of a big company, but much more entrepreneurial in character.

I was responsible for new pizza development. So I traveled around the country trying things out, and trying to figure out what idea in some city might turn into being a product that might have national appeal.

DSM: Real close to customer feedback again. I gather this is where--I've heard stories about your buying a Kaypro and subscribing to The Source.

SC: Right.

DSM: Was that your first computer?

SC: That was my first computer. I had been curious about the interactive world even when I was in college. I remember one Christmas vacation reading this book by Alvin Toffler called "The Third Wave." It spoke of a sort of a global village and it was kind of viewed as a futuristic view of things, but it struck me as kind of an obvious sort of next step. It didn't seem all that futuristic, and certainly not at all unrealistic. Even while I was thinking about what to do after Williams, as part of my job hunting research I was reading things like *Advertising Age* magazine, others. They were talking about two-way television, video text, all these different things. So I really was quite curious about it, even in the late '70s while I was in college.

So I wanted at some point to see it first hand. When I moved to Kansas in 1982, that was just when personal computers were starting to come out. The first home computers were starting to emerge--Commodore, Vic 20s and the Apple II and IBM had just come out with an IBM PC. So I bought this Kaypro, which at the time they called the portable computer. It was this huge thing that weighed, I don't know, 50 pounds or something. So it was not at all portable, but conceptually it was portable.

My general interest was learning about computers. They just seemed like kind of the next big thing. But my particular interest was hooking it up to a modem and accessing all these interactive services I'd been thinking about.

It took me months, and lots of money, to finally get this computer hooked up to a modem. I remember buying a modem, but then I realized that you needed a cable to connect the modem to the computer, and I finally got that. Then you needed this thing called communication software to load on your Kaypro to talk to things. Then you needed something to talk to, so you had to subscribe to The Source, which is one I picked, and they sent their information. So it took me months to finally get this stuff to work. When I finally did, it was exciting that I finally got connected, sort of magical that I could talk to people all over the world, get information from people all over the world. At the same time, it was maddening that it was so hard to do, so slow, so ugly, so boring, so expensive. There was a lot left kind of lacking.

That's really when the coin dropped for me that the power of the idea was significant, that some day people would be living in a more connected world. But it was a long day away unless it got a lot easier, a lot more useful, a lot more fun, a lot more affordable. And that's really when the focus started developing on how do you make this something that really is something that has mass market people. It's kind of wacko to spend all this time and money for months trying to get it to work. How do you make it super simple for real people?

DSM: Were you talking to your brother about this when he introduced you to Control Video?

SC: He was aware that I was doing it. He was not really focused on the technology so much. He was doing some venture capital at the time, and he knew I was looking to do something after Pizza Hut that was more entrepreneurial. I was particularly interested at the time in consumer electronics. Atari video game machines were kind of all the rage and it was attractive. So when he would go out to the consumer electronic show, I remember one in Chicago, one in Las Vegas, I went with him, just to kind of look at the booths and get a sense of it. And I started doing some consulting on the side with some of these new companies that were emerging.

One of the ones that I hooked up with was called Control Video Corporation. They had a product coming out called Game Line, that basically was a modem. They didn't call it a modem. They called it a Game Line Master Module. It basically was a modem that plugged into an Atari video game machine and then allowed you to download video games into your machine, almost like an in-home arcade. And the reason it was attractive was I thought the idea of an in-home arcade would be great, but even better was the idea of then using this modem to deliver stock quotes or e-mail or other kinds of interactive services. So that was the one that caught my attention, and I ended up joining the company in the fall of 1983.

DSM: You're not that far out of school. Did you actually play video games?

SC: Oh yes, but not a lot. I was never a huge video game fan, but I did play. Particularly in 1982, '83, I played some of the Atari games. I remember Asteroids and things like that were popular. I think I was in college when I was playing some of the simple arcade games like Pong and things like that. So I was into them a little bit, but I was never a huge video game addict as some were. It was definitely kind of intriguing that this television that I'd grow up thinking was only used to deliver these sitcoms to you that suddenly you had some control of the screen and could make it move around and play games and play against people, and that struck me as something that made a lot of sense.

DSM: What was your job?

SC: I think I was responsible for corporate development or something like that. I joined them in the spring of '83. Their product was shipping in the summer of '83, but I took the summer off and traveled to Europe and joined the company formally in the fall, in September of '83. So from the time I accepted the job, which was I think in April or May, to the time I actually showed up for the job, it was four months, which turned out to be a very traumatic four months for this young company because their product shipped and was an instant failure. The Atari video game market, which had been so hot early in the year, got ice cold and retailers stopped carrying Atari video game products.

Atari announced a huge loss and almost put Warner under. Companies that had gone public on the momentum of video games were in serious trouble, just as this Game Line product was coming to market. So it did not sell well at all. In fact, the best comment from one of the board members in that September timeframe was when they looked at all the money spent, tens of millions of dollars to build inventory and get retail distribution and manufacture all these different modems, only something like 2000 of them had gotten sold, the comment was, "Gee, you would have thought more than that would have gotten shoplifted."

So there really was a huge, huge disaster, just as I was showing up for the company. And I think it was a week or two after I joined that the board, backed by venture capitalists, decided that the CEO, at the time, Bill von Meister, who was a great entrepreneur, was not the right person to take this company to the next stage, which was basically try to keep it from going bankrupt. And Jim Kinsey was an investor in the company. He had bought the rights for the Washington area, as an affiliate of this Game Line program, and he was a friend of one of the venture capitalists. So they said, "Well this is the guy who at least has some business experience. He's already in Washington. Why don't we put him in on an interim basis, and maybe he can figure out how to stabilize this ship."

Then we went through a process of lots of different layoffs and the company was downsized significantly. And Jim increased role for me, and Mark Steriff who was the technologist there, really were the people trying to keep this thing together.

DSM: So you're married at this time?

SC: No, I was not married. I got married a couple years later.

DSM: Tell me about the change from Control Video to Quantum Computer Services, the transformation of that company and then your role in the companies like the folks like Apple.

SC: Game Line was, well I still think it was a great idea, but it was basically a proprietary modem technology that worked specifically to download games quite effectively. But it was a nonstandard technology, and what we realized after beating our heads against the wall for a couple years, was the video games platforms were not the place to focus. You'd be better to focus on home computers, and it really required a standardized Hayes-compatible modem, not a kind of a proprietary modem. So the main asset the company had--some might argue the only asset the company had--was a proprietary modem technology, which turned out not to be valuable at all.

So we were looking for potential partners and ended up establishing an alliance with some of the computer companies like Commodore and with Apple, to do some test marketing. That didn't go particularly well, but we came up with the idea that maybe we'd create a new company, and brought in some new investors, and embraced standardized technologies, and maybe we could get a fresh start.

And that's what happened in 1985 when we founded Quantum Computer Services with support particularly from Commodore, which was the leading computer company with the Commodore 64 at the time. Then we were kind off to the races. We launched our first service called Q Link, in the fall of 1985, just for Commodore 64 users. That went pretty well. After a year, we had about 50,000 members. We were barely profitable, but profitable. So we said, "Now let's go to the other computer companies." We wanted to work with Apple because they were the next biggest company. I knew the future of the company rested on doing this deal with Apple. So I pretty much moved to San Francisco and pretty much camped out at their doorstep until we were able to get an agreement. Finally, they even gave me a little cubicle there to work from and everyday, This was right after the time of the Iranian hostage crisis, so I had this sign that every day I'd update how many days I'd been held hostage at Apple, trying to simply have them shamed, to feel so guilty about the fact that I was being held hostage, that finally they would sign the darned contract and we'd get the deal. So finally we did.

DSM: Who was there?

SC: I don't recall exactly who signed it. It might've been either Jerry Devlin or Bill Campbell who was overseeing that group at the time.

DSM: So...

SC: I'm sure now, none of them would want to own up to the fact that they signed the contracted. It didn't work out so well.

DSM: Tell me about the birth of America Online.

SC: As we were moving to the end of the decade, 1989, 1990, we recognized that the world was changing and that having a unified service that cut across all these different computers made sense, and our deal with Apple was unraveling. Nobody was really happy with it. So we decided that instead of developing a service for each computer, we needed to develop a service for every computer, and instead of having it be a custom service with each computer company, we needed to create our own brand.

That led to the development of the service, and we needed to name the service. We had lots of different names that were suggested and one of them was Online America. And it was thought maybe if it was switched and it was America Online instead, that would be better. So that was the one we picked for the service.

Then, a year or two later, we thought it made sense to rename the whole company. Instead of Quantum Computer Services, we would name it America Online Inc., because American Online had become sort of our flagship service.

DSM: So at age 34, this was about 1992, you were named president and CEO of this new company. Do you remember the NASDAQ IPO? It was sixty, sixty million dollars, roughly. It was a major deal.

SC: It was a major deal, but not in current contexts. It was about \$60 or \$70 million valuation. We actually raised \$10 million. We were selling 15 percent of the company. We had been in business then seven years. We had revenues of 30, 35 million dollars. We were profitable. We had, I think it was a little under 200,000 customers.

So the road show for that public offering was really more evangelism about the concept of interactive service. The Internet didn't exist as a commercial entity. In fact, at that time, it was illegal for companies to be part of the Internet. It really was an educational government kind of a network. And people weren't familiar with modems. Computers were still designed as stand-alone devices to do things like spreadsheets. They were not connected devices. So most of it was just explaining the concept, and some people believed us, most people didn't. But we finally got public and that got us a little bit more visibility, and that enabled us to kind of take it to the next step and the next step and the next step. Then finally we really hit our stride and in the last five years have gone from about a million members to now 25 million members. So it's really been quite a ride. I think it took us nine years, from 1985 to 1994, to get our first million members. Now we get a million members typically every quarter or so. So it really shows you how the market has come of age.

DSM: Yes an entirely different world that you helped create.

In 1993 you're making, like many companies now, you're making a profit, and some folks wanted to take over the company, I guess.

SC: Right.

DSM: Tell that story.

SC: Well there were companies that sort of got the sense that maybe we were onto something. Our service was better than others out there. We used the computer more fully. We had a graphical interface with icons and things. It was a friendlier service. It had more of a sense of community. So I think people sensed there was maybe something there. CompuServe, which was the leading company at the time, wanted to acquire us. I wasn't too keen on it, but some others on the board were, and so we negotiated a little bit. Luckily, couldn't agree on price, so it never came to kind of a key decision.

Some bigger companies, AT&T, Microsoft and others, were rumbling around. We were having conversations. We were trying to establish alliances with them, because we recognized we were a little company, they were big companies, and we maybe could figure out a way to partner with them. But their interest typically was trying to buy, control the company. And, thankfully those things never really amounted to much. Paul Allen, who was a founder of Microsoft, bought a major stake in the company, and we had some issues for a while with not really being sure what his agenda would be. Early on, we viewed him as a potential ally to help build the company faster, build the medium faster, but then we started to get a little worried about his motivation. So we had a big battle there and he eventually ended up selling the stock, which worked out well for us.

So there was a lot of that in that 1993, '94, kind of '95 time frame, when people were starting to wake up to the fact that maybe this notion of an online service was going to have appeal and who are the companies there? America Online looked interesting. They wanted to figure out a way to buy or partner with us. Thankfully, we had a lot of discussions particularly focused on how we took these big companies and turn them into allies. But, for the most part we were unable to do that. So had to fend off their acquisition interests, and obviously, it's good that we did that.

DSM: Indeed. Rather than being bought, you set off in 1994, buying some things of your own, including a company called Red Gate Communications.

SC: Right.

DSM: Tell me about your relationship with Red Gate.

SC: Well, a number of things were happening. We recognized that we needed to get big fast. Because we had these discussions, with Microsoft and AT&T, we knew they were coming. And so we had a sense of urgency to get big fast. And that was partly fueling our acquisitions. We also recognized that it's a big world out there and we had developed a lot of expertise in certain areas, but we lacked expertise in other areas. So we started looking around particularly at leaders of those companies, who can help fill out our portfolio. Red Gate emerged as one, primarily because of Ted Leonsis, who really was a new media pioneer and quite a showman and salesman. We thought that he would bring a multimedia perspective that we lack, because he'd done a lot of multimedia development at Red Gate, and also a new media marketing perspective. We knew over time advertising and commerce would become more interesting. So we made an offer to acquire Red Gate and we came up with a price and that happened. We put Ted in charge of the AOL brand for a few years and he did a great job in scaling it up to sort of the next level.

Then we did a number of acquisitions of Internet companies. We knew Internet technologies were important, so a company like GNN and Navasoft and Book Link and others that we acquired because we just needed the technology. We also needed the people who brought that, that perspective to us. We've always tried to reinvent the company every few years to be able to take us to the next level. And a lot of that is reinvigorating the company in terms of the leadership, and the best way to do that, usually, is through acquisitions.

DSM: And, even in the midst of those acquisitions, you stay profitable.

SC: Right.

DSM: How'd you do that?

SC: Back then we thought we had to. This was sort of the old math. It was pre-Internet mania and IPO mania. We just thought that you go the old fashioned way. You can't go public until you have a business model that's clear, and have a track record of a least a few quarters of profits, and a pretty clear visibility over the next, next few years. So we just felt it was important to continue to build our business and do it in a profitable way. That limited us to some degree, but we felt that was the price you pay as being a public company.

DSM: You've already said that we're not at a stage in which you could really say that you've come of age.

SC: Right.

DSM: Because there's so much left to do.

SC: Right.

DSM: What I'd like to get is sort of your feel of when you knew that you would sort of achieve this. I guess you had in embryonic form when you were in college.

SC: I think in the last few years it became clear that in order to really have the kind of impact we thought we could have on society, we needed to think beyond the boundaries of the Internet. That we thought the Internet was going to change a lot of things. At the same time, we recognized that there are other parts of people's lives. They were not just spending time on the Internet, they were spending time watching television and listening to music and going to movies and reading books and reading magazines and, and things like that.

So we wanted to paint on a bigger canvas. If we really wanted to reinvent how people were entertained, we couldn't just think about the PC. We also had to think about the television, which was the primary way most families are entertained. So we really kind of took a step back and said, "Maybe it's time to take the company to another level and paint on this bigger canvas." And instead of thinking about the Internet being in conflict with the media, think about what's possible if you really united these older, more traditional businesses and these newer emerging businesses, and didn't view it from the prism of how Wall Street analyzes industries and pigeonholes companies, or from the prism of technology and what's possible with broadband and what's possible with some wireless device or what have you. Instead view it from the prism of how real people live real lives. We said, "Let's figure out a way to truly enhance the way people get information and how they communicate and how they buy products and how they're entertained and how they're educated."

In order to do that, we need more tools in our toolbox. Time-Warner really emerged as the clear-cut best company to look to merge with. They were the leading media and entertainment company. They have one of the largest cable systems in the country. They own leading magazines like *Time* and *Money* and *Fortune* and *People*, that are just part of everyday life. They own TV networks like CNN and HBO, and the Warner Brothers Studio is part of the American history. And you kind of tick down the list. So it really seemed to us a kind of the magical marriage if we could pull it off.

I approached Gerald Levin, who's the CEO of Time-Warner, in the fall of 1999. I said, "It seems that we're kind of coming at this opportunity from very different positions, but we all have the same kind of end-point. Why don't we bring these companies together, and do things together that we could not possibly do if we were apart?" I do think in many respects that it connects the dots. I worked one year for a cable system in Hawaii, selling cable television door-to-door that actually happened to be a system now owned by Time-Warner. Really, I interviewed with HBO in 1980, and was turned down by HBO in 1980. So I was interested in the stuff and I didn't quite know at the time why I was interested in this or this or this, but in retrospect, I think it was sort of this instinctive kind of movement to where the action was going to be. And the action in the last few years has really been around the Internet. But the action in the next few years is going to be how do you take all these things and pull them together in a way that can really enhance people's lives and how can you build a medium that you really can be proud of.

That the legacy of this medium is that it really helped bring people together, create a new sense of community, empower people in ways that weren't possible, enhance the educational system, bridge this divide between the haves and have nots by creating opportunities that didn't exist before. Those are things that are far more possible through AOL/Time-Warner than they were just for AOL or just for, for Time-Warner. So it really makes sense at a strategic level, makes sense at a business level, but also makes sense at a personal level, because this is really going to be an extraordinary opportunity.

I think we are going to create what's hopefully going to be the most exciting company in the world, the most valuable company in the world, and the most respected company in the world. That's the bar we're aiming for. And it's, granted, a high bar, but that's what we're going to try to achieve.

DSM: What do you see as the biggest obstacles standing in the way of this new medium? Is it legislative, or social resistance, or fear of change?

SC: It's a mix, and at various levels. I think from a business standpoint it's an intensely competitive market with thousands of companies doing things. You always have to be innovating and staying on your toes and not taking anything for granted. If you get cocky or complacent, you're going to be out of business pretty quickly.

I'm actually less focused on the business aspects because I think we'll do pretty well there. I'm more focused on the broader, societal implications. It's not enough to build the most valuable company in the world; we also need to build the most respected company in the world. It's not enough just to build your business; you also have to build this medium that will have a positive impact on society. And those are the issues that are tougher, because it really is a balancing act trying to make sure that you're striking the right balance. You're really making an investment to protect people's privacy. You're making an investment to make the Internet safe, particularly for kids. You're really making an investment to try to use these new tools to help schools reinvent themselves.

So I think those are the tougher issues. And my hope is that at this particular time, beginning of this new century, I think will become known as the Internet Century, that maybe we can shoulder some responsibility, be a leader in trying to get people to think beyond just running the business to the broader societal implications, and get many companies working with many non-profits, government agencies, what have you, to, to work together in some kind of coalition--almost a crusade--to use these new tools in a positive way.

So 10 years from now, 50 years from now, when the history books are written about this new medium and the dawn of this new century, people can say that they really took their opportunity seriously, but also took their responsibility seriously, and really were trying to build something more than their own business.

Those are the tougher issues, but those are the issues that are going to get more and more attention. Part of the reason I was delighted to be chairman of AOL/Time-Warner and not CEO, is other people can focus now on running the business more effectively than I could. My passion has shifted a little bit to not just running the business, but really trying to build a medium we can be proud of.

DSM: Great. Well, we have run out of time. Thank you so much for spending this time with us. It was a great, great, great pleasure. Makes me wish I were 30 years younger so I could see how all this is going to come out.

SC: Oh it's going to be exciting. But I do think the Smithsonian is an important part of our nation. I even remember when I was in high school, when I had this journalistic side that I was trying to develop, I remember visiting Washington. I think it may have been on this tour I did with my family when my brother was looking at colleges.

And we were in Washington that week. I spent a lot of the week in the Smithsonian watching the teletype machines, which I was completely fascinated by. It's sort of a version of today's online services. And what they were reporting on--this must've been the summer of '74--was Watergate, and what was the late-breaking news about Watergate. So I was sitting in the Smithsonian, watching this teletype kick out the new information about Watergate. And that's really when I recognized the kind of role technology could play, but also the kind of role the Smithsonian plays.

DSM: Did you ever in your wildest dreams imagine that you'd be doing what you're doing now?

SC: Probably not. I mean, at some level, yes, because I always believed that this online service notion, even when I read about it in the late 1970s, was going to be a big deal. But I never would've been so presumptuous to imagine that our company would really emerge as sort of the leader of the pack, because it was such an intensely competitive business. So it's sort of gratifying to see how far we've come, but, as I said before, there's a real recognition that there's still a long journey ahead and we have to keep our head down and keep, keep, keep running, because there's a lot of work to do.

DSM: Are you kids as excited about this, as you obviously are?

SC: Well, they take it for granted, which is the way it should be. I think the ultimate test of innovation is how quickly it gets embraced in people's lives and people start taking it for granted. People don't think that television is so magical these days as I did when I was growing up. And telephones, who could believe it 75 years ago? A car, who could believe it when they first emerged? Now, people just kind of take for granted the electricity and television and cars. They are just there, part of everyday life.

I think kids growing up have that sense about the Internet. It's just part of life. If you tell them this didn't use to exist, it's sort of like, "Huh? How could that be? How could I be a teenager without that?"

So every generation takes certain things for granted that the people in the previous generations just were completely fascinated by, and invent new things that the next generation will take for granted. Instead of being sad about that, I think that actually is really the ultimate test for you or I. That you have created something significant, because it's no longer something that people are curious about, talk about in terms of futuristic terms, but it's so embedded in the culture, it's so taken for granted, it's just part of everyday life.

DSM: Great. Thank you.

SC: Thank you.