



## CASE HISTORY - CRISIS MANAGEMENT MEGACOM, INC.

**Background:** Following a 1984 IPO of MEGACOM (NASDAQ) and the depletion of initial proceeds raised, John L. Nelson joined the company as vice president. He was quickly transformed into a turnaround agent and made president of the financially troubled and technically challenged company. The business and technical challenges John inherited and the actions he took are the subject of this Case History. Through its proprietary software, MEGACOM was the first company to achieve the dynamic distribution of digitized printed material over a high-speed network (Ethernet) to multiple, addressable high-speed printers. To expedite the launch date MEGACOM had decided early on to focus all development energies on a recently announced 30 page per minute Burroughs laser printer. In theory, MEGACOM intended to prove the dynamic addressable print distribution concept through initial sales success. Once achieved, the plan focused on expanding MEGACOM's technology to support many printer brands and speeds. However, insurmountable engineering, quality and reliability issues arose with the Burroughs laser printer. MEGACOM and Burroughs made sales, collectively and independently, but product returns approached 100% due to poor quality printing output and chronic repair problems with the Burroughs printer. Following numerous promises from Burroughs to correct the engineering problems, none of which bore any positive results, Burroughs announced they were shutting down the engineering and production line, discontinuing the product forever. This exasperated an already untenable business condition at MEGACOM. The Company possessed advanced technology that only worked with a discontinued Burroughs printer. New sales were impossible. Operating funds were critically low.

**Action Taken:** When John was made president, he immediately revised the business strategy, developed a new business plan, led the preparation of private placement documents and obtained commitments from a major brokerage firm in Denver, CO to promote the sale of a significant private placement. During this re-positioning period, John funded operating expenses through "angel investors." In line with the revised business plan, John and his team successfully negotiated Original Equipment Manufacturer (OEM) agreement with Xerox and Kentec (supplying IBM with printers) for the rights to represent their newest high-speed laser printers. The strategy was to retool the MEGACOM proprietary software to support the Xerox and Kentec printers. Assuming this could be accomplished expeditiously, it was determined that MEGACOM could be reborn as a viable entity. Retooling demanded the retention of key technical staff, which John accomplished. John recognized that completing the retooling mission would require funding levels that exceeded the angel investor's capabilities. Therefore, retooling the MEGACOM technology was scaled to align with angel investors limits until a successful private placement produced additional funding. During the early stages of retooling the MEGACOM software, a low cost, high return market opportunity was discovered. Through the OEM agreement with Xerox MEGACOM recognized they could deliver here-to-four unavailable technology functionality that was in high demand and short supply, referred to as "What You See Is What You Get" (WYSIWYG). WYSIWYG technology ultimately became one of the key building blocks for Apple and Microsoft. On two occasions, John appeared before the NASD Board of Governors in New York, NY to appeal the delisting of MEGACOM for balance sheet ratio non-compliance. John was successful on the first appeal but was not on the second. Ultimately, the absence of a revenue stream, mounting debt, declining stock market conditions and de-listing of the company from NASDAQ was too great a burden to carry. MEGACOM Board of Directors and the Denver brokerage firm terminated plans to release the private placement offering.

**Outcome:** Under John's leadership an out of court settlement was reached between MEGACOM and the Burroughs Corporation. John was the key witness for the prosecution in a MEGACOM law suite that claimed the Burroughs Corporation knowingly made misleading and false claims pertaining to the performance of their laser printer, which directly precipitated the financial collapse of MEGACOM. Although the out of court settlement was an emotionally satisfying win, it did not produce sufficient funding to adequately support the reconstitution of MEGACOM. At John's recommendation the Board of Directors voted to terminate all operations, liquidate all assets and distribute the proceeds derived from the out of court settlement to creditors and stockholders. John's final act was to terminate himself, as MEGACOM's only remaining employee.