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"Same job. Different cubicle"

With the promise of stock riches now a distant dream, VA Linux's former programmers keep the open-source faith.

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By Sam Williams

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July 31, 2002 | In 1999, when 22-year-old Linux developer Michael Jennings accepted a job with the promising, albeit slightly obscure, West Coast start-up company VA Linux Systems Inc., he had no idea he would be participating in one of the biggest roller-coaster rides in Silicon Valley history.

"To be perfectly blunt about it, I had no idea what an IPO was or what stock options meant," admits Jennings.

Three years and $1.4 billion in evaporated investors' money later, Jennings can no longer feign ignorance. Like a farmer who has seen a tornado from the inside, Jennings recalls the company's historic first day of public trading with a mixture of bemusement and awe.

"None of us expected it to be nearly as big as it was," he says, drifting back to Dec. 9, 1999, the day NASDAQ investors turned Jennings and many of his co-workers into momentary paper millionaires. "I don't think even the president of the company knew it was going to be such a massive deal."

That was then, of course. VA's soaring stock price -- propelled by almost every major investment fad of the late 1990s: dot-coms, b2b, open-source software -- would soon come hurtling earthward. By the end of 2000, the company was outpacing the NASDAQ collapse. Caught between plummeting market share and an investment community clamoring for profits, VA Linux dumped its core hardware business in the spring of 2001. In October 2001, after posting a quarterly loss of $290 million, VA Linux laid off the bulk of its technical staff, including Jennings.

One could forgive Jennings a moment's bitterness. Since leaving VA, Jennings has returned to his native Louisville, Ky., where he now works as director of engineering at N+1, a Linux services and training firm with no immediate IPO prospects. Asked to dish dirt on the company that pulled him west, however, Jennings, like many of his former co-workers, can only shake his head and wax nostalgic.

"VA was, without a doubt, the most incredible team of people I'd ever worked with," he says. "Laid-back. Fun. Interesting projects. The managers and V.P.s were all very approachable. For the most part, they treated the engineers just like peers.

"We were all a big group of friends."

Three years after leading the Linux charge, the words "VA Linux" elicit a complex mixture of emotions. To investors, they represent the ultimate betrayal: a can't-miss stock that missed big. To the company that changed its name to VA Software Inc. last December, they signify the distant past. To ex-employees like Jennings, however, they symbolize something larger. They symbolize a time when many of the world's best open-source programmers worked under the same roof, a time of promise and, ultimately, of failed opportunity. The epitome of investors' irrational exuberance to some, VA Linux has become the corporate equivalent of paradise

lost to the open-source developers who used to work there.

"I think, had they concentrated on what they were good at, which was basically creating Linux boxes better than everybody else, they would have done well," says Jeremy Allison, co-leader of the Samba project and a fellow ex-VA employee. "Basically, if they hadn't gone public, they'd be doing fine."

Such comments might qualify as a final twist of the knife to investors who bought into the company during its heyday, but as Allison is quick to note, it was VA Linux employees who bled the most following the company's moonshot IPO. Thanks to the alternative minimum tax -- an obscure tax that kicks in as soon as options are exercised and that can wallop employees who don't sell immediately -- employees who bought VA Linux shares with an intention to hold paid dearly for their loyalty.

"I know people who are going to be paying off the government for the rest of their lives," says Allison.

One such victim was Ted Arden, a former sales engineer who, thanks to VA's knockout opening-day performance and the SEC-mandated six-month "lockup" period, wound up owing more than $100,000 on $180,000 worth of vested stock. Subtracting total taxes from total salary and the money he finally did recoup from stock sales, Arden estimates it cost him $25,000 a year to be a VA Linux employee.

"Don't get me wrong," Arden says. "I had a blast there. It was one of those places where you would come in at 7 a.m. and you wouldn't leave until 1 or 2 in the morning, because you didn't want to miss anything."

Arden, like Jennings and Allison, keeps in touch with his former work mates via an ex-employee mailing list. The list goes out to roughly 100 people, of whom 20 or 30 participate on a regular basis. Arden says the discussions are candid, offering plenty of analysis of what went wrong and which managers should be sharing a bunk with Kenneth Lay at Club Fed. For the most part, however, the list offers a way to keep in touch with some of the best programmers in the business.

"People feel remorse more than anything," says Arden, now working at another Linux company. "At VA, we had more Linux knowledge in our tech support department than most companies had on their entire staff. It's sad that something like this could be brought down through mismanagement."

The term "mismanagement" gets batted about a lot in ex-VA circles. Most industry analysts credit the VA swoon to heavy hitters such as Compaq, Dell and IBM carving up the Linux server marketplace. According to International Data Corp. (IDC), VA Linux's market share in the entry-level server marketplace (IDC's term for servers costing below $100,000) plummeted 78 percent in 2001. That statistic is offset, however, by VA Linux's decision to get out of the hardware server market midway through the year. Nonetheless, says Arden, it glosses over internal mistakes that magnified the impact of lost sales.

"We were pre-building systems for deals that were forecasted but never closed," Arden says. "If you pre-build a million dollars worth of systems and you don't sell them, it's all on the books. That's where the mismanagement occurred."

VA Software representatives declined to comment for this story, but ex-employees like Doug Bone, chief operating officer of California Digital Corp., the Santa Clara company that purchased the bulk of VA Linux's hardware division in the fall of 2001, are still willing to plead the old management team's case.

According to Bone, the investment community itself was the ultimate culprit. Until the April 2000 market correction, Bone says, the bulk of VA Linux's clients were Web start-ups looking for low-cost Linux servers. When the investment tap shut off, demand crashed. With no hardware revenue to support expansion into other, more profitable arenas, company executives had to perform the equivalent of corporate triage.

"It was a simple Econ 101 effect," Bone says. "As soon as they saw contraction, the fixed costs became untenable."

A VA employee from 1994 to 2001, Bone, like Allison, is convinced that if his former employer had somehow missed the IPO window, it would still be a major player in the Linux server market today. He offers his own privately held company as evidence. Although California Digital does not release financial results, Bone says the company has found a sustainable niche and is "on record" as being profitable.

"The market is still strong," Bone says. "It's different than it was during the dot-com frenzy. You don't get as many people calling and demanding 100 servers within a month. What you do get are more biotech companies,

more movie production companies and more oil exploration companies calling in and asking for Linux clusters."

As Bone is quick to admit, one major difference between the California Digital business model and the VA Linux model is cost. In 1999 VA Linux aggressively recruited programmers from throughout the open-source community, using the incentive of a big IPO payoff to distinguish itself from market rivals. Today, California Digital relies on a Bangalore-based engineering division to stay competitive. That makes it easy to understand why many open-source developers look back on the pre-IPO VA Linux with nostalgia.

Then again, time hasn't exactly been cruel to the ex-VA workforce. Because many had built up sizable reputations working on community development projects such as Samba, Enlightenment and the Linux kernel, few people contacted for this story seemed overly traumatized by the last 12 months. The same projects that once provided political cushion inside VA have performed equally well as flotation devices in the post-crash employment market.

"I didn't want to just run around and take the first job I could get," says Allison, recalling the few, brief weeks between working for VA Linux and working for rival hardware firm Hewlett-Packard. "There were plenty of companies wanting to fund Samba. It was mainly a matter of waiting until somebody came forward with the right contract."

Indeed, if the VA Linux collapse proves anything, it proves the continuity of open-source software projects and the growing power of the star programmers who run them. Reflecting on his current job, Allison sounds about as emotional as a major league baseball player who just switched uniforms.

"It's like a co-worker at SGI once said: 'Same job. Different cubicle.'"

For those working on less visible projects, the transition has been a little bumpier. Brian Finley is a former VA Linux sales engineer who also leads the development team of SystemImager, a software tool that automates the Linux installation process. During his days at VA Linux, Finley divided his time between providing software support to customers and working on SystemImager.

"During the downtime, I would work on SystemImager," Finley says. "It would make the periods of intense uptime that much more enjoyable."

Although Finley still finds SystemImager enjoyable, the number of companies willing to subsidize the work is small. Since leaving VA Linux, Finley has faced the age-old creator's dilemma.

"You want to be able to do the work you want to do, but you also want to be able to eat," says Finley, who, after a few months of contract work on non-SystemImager projects, has built up a roster of clients willing to fund SystemImager development. Clients include Hewlett-Packard, Compaq and Open Source Developers Network, or OSDN, an online subsidiary of VA Linux's current incarnation, VA Software Inc.

Because SystemImager is backed by the GPL (GNU Public License), Finley doesn't worry too much about companies misappropriating his work. Still, he has noticed a new twist to the creator's dilemma. Call it the creative manager's dilemma: Food, art or compatibility -- choose two.

"If what you're being paid to work on is specific as opposed to general, you're not getting paid to do the general maintenance work," Finley says. "If you don't find a way to fund that work too, then you ultimately end up with a piece of software that is buggy.

"It's a difficult balancing game."

Maybe that's why Finley's view of VA Linux is already sepia-toned. "It was one of the best jobs I ever had," says Finley, recalling the days when performing the usual open-source balancing act wasn't so difficult. "You were basically paid to work with Linux and do whatever you wanted to do."

Like the other veterans, Finley holds especially high regard for the pre-IPO days.

"Prior to the IPO, the company was small enough that each individual felt that their effort truly affected the company's success," Finley says. "After the IPO happened, there was a six-month period that no one could sell [shares]. I would say during that period -- I don't think that I'm alone in this -- I would have checked the stock once every five to 10 minutes. It was an exciting time. We even had a shell script written by [VA Linux CEO]

Larry [Augustin] and modified by [Geoff] Mandrake [Harrison] that would go out to Yahoo, pull down the .csv file and parse it. Some people even had it running as a cron job."

Jennings, too, remembers the collective fascination with the VA Linux ticker price.

"There were a lot of people who would check the stock ticker multiple times a day and keep track of the minute ups and downs," he says. "Needless to say, it tended to be extremely counterproductive."

When the ticker price began its yearlong tumble, it didn't take long for stress levels to climb within the company. Through it all, however, Jennings remembers a general feeling of calm in the engineering department. Whether it was because developers were better at tuning out the bad news or simply shielded from market pressures by the nature of their open-source work, Jenning says that calm is one reason so many ex-VA employees remain in contact today.

"The way a lot of people see it is we were doing open-source before [VA Linux] and we've continued doing open source after VA Linux for the exact same reason: because we love to do it," Jennings says. "It was nice to get paid for it, but getting paid was always viewed as kind of a perk."

That many ex-VA Linux employees still get to hack for pay is probably the top reason so few complain when it comes to the former company. As the old high-tech saying goes, it's the pioneers who usually end up with the most arrows in their backs. Rather than lament what could have been, Jennings prefers to hold on to what was.

"I am not really in a position to point fingers," he says. "There are a lot of other people who were a lot closer to management, but I can say with absolute certainty it wasn't for lack of talent. And I'm not talking about myself. I'm talking about all the other people they had."

"All I can say is it was an honor to work with those people on a daily basis, and it's an honor to still have them as friends."

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About the writer
Sam Williams is a freelance reporter who covers software and software development culture. He is also the author of "Free as in Freedom: Richard Stallman's Crusade For Free Software."

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