

ON THE MONEY

Step aside, old man. Let moxie and imagination lead the way.



Barry Ritholtz

ON INVESTING

On these pages, I have cast a rather skeptical eye on all matters financial. I have mocked the housing recovery calls, critiqued the valuation of Facebook, despised the robo-signing settlement, urged caution on the Black Friday retail hype. The silliness coming out of Wall Street is much like a carnival barker urging us to play one more of "games of skill." All of which goes to say I am not your run-of-the-mill perma-bull or economic cheerleader. Readers, in fact, have called me a curmudgeon.

And yet, as I look to the long term, I'm optimistic.

Part of my misspent youth involved a fascination with dinosaurs and astronomy. The vastness of space was unfathomable, the millennia across which the dinosaurs ruled unimaginable. At least, until I learned exponential functions in algebra, which gives you a framework for dealing with all those zeros.

Hence, one learns to think in different time frames, including very long geological epochs and astronomical eons. The Triassic period is replaced by the Jurassic, which in turn is replaced by the Cretaceous, and so on. This is important, not just because it helps to understand the long cycles, but also because it helps to grasp crowd psychology.

You see, there is a natural order of things, with the old replaced by the new, the more efficient displacing the less. The steam engine lost out to the internal combustion engine; dinosaurs were replaced by the smaller, more adaptive mammals; and you, old man, are going to have your sorry behind replaced by kids brimming with ideas and energy.

This is a good thing.



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Creative destruction can be wrenching — whether in technology, economics or evolutionary biology.

The economic upheaval of recent years has led people to feel oppressed and frightened about the future. And the public has plenty of legitimate concerns: People are fearful of losing their jobs, not interested in buying homes, uneasy about their long-term security.

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The fools in our midst are those who make a living scaring the bejesus out of the rest of us. Nothing is ever a mere problem, it is imminent catastrophe. There are no simple issues, only Armageddon. Debating taxes is not about revenue and spending, it is about class warfare. Even a cyclical recession, something we have had nearly 20 times over the past century is sure to slide into a depression. It's as if we now live in an ALL CAPS WORLD.

No wonder the crowd is suffering a malaise. In addition to the real fears, they have lots of fake ones hanging over their heads. After a Great Recession, this is to be expected. We had the rise of the End of Worlders and the Zombie Bears. They are best ignored.

I bring all of this up because I spent last weekend at a conference in San Diego checking out a run of start-ups. I had lunches and dinners with young entrepreneurs and techies and their angel funders.

The companies were impressive. Some were good, some were great, and more than a few were stunning. But this was not about any new hardware or app or gee-whiz technology. Beyond all that, I was truly taken with the entrepreneurs. Their ideas, energy, passion, competencies — all were just astounding. After seeing that, it's impossible to be negative about our long-term prospects — and, yes, I see the valley ahead of us.

It is not merely about the ideas and the technology, but about the drivers of them. If you want to understand the future of America, if you want to grasp why we are not doomed, then you must spend some time with young entrepreneurs. Their creativity, business acumen and technological insights are uplifting, energizing, empowering. It's fertile ground, not just in Silicon Valley but across the land: San Francisco, New York, Boston, Miami, Washington, San Diego, Denver, Atlanta. That is where economic growth will come from.

As the demands of life pile on, it's easy to forget how much you wanted to change the world when you were young. You might be stuck in a job you don't love, a too-big mortgage, demands of family . . . suddenly, we forget who we once were.

They still know. The youth of America don't care that their parents screwed everything up — they are going to steamroll over the old order and replace it with one of their own (just like their parents were and theirs before).

A thing I have noticed about today's youth: They have no illusion that any company will offer them much in the way of economic security. They have a firm grasp on the idea that they are a business of one — even if they work for IBM or Uncle Sam. They are their own team, a singular brand, their own idea factory.

These kids are not looking to Washington for help. They find political debates in this town laughable. Like two Tyrannosaurs debating who gets to devour the plant-eater, wholly unaware of the giant asteroid hurtling their way. How does this argument get resolved? It gets settled by a giant asteroid.

The old order, the political hacks and hangers on, the whiners and recessionists, and the permabears — these are the dinosaurs in our story — have no idea what is coming their way. They cannot see the asteroid hurtling their way from the deep black depths of space, so busy are they in pointless debates and parliamentary maneuvering.

The future of America is not being driven by Goldman Sachs or the GOP or President Obama. That's old school, the old order and oh-so-yesterday.

The future is driven by people who are young enough that they still want to change the world. They have the ideas, the venture financing, the technical acumen and the creativity to push us forward. Based on what I have seen, the old regime will still be arguing while the new one steamrolls over it. Sure, the old order has the money and the power, but it has run out of time, vision and drive. That edge goes to the youth.

Don't say you weren't warned.

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STEVEN PEARLSTEIN

CityTime warnings go unheeded at SAIC

PEARLSTEIN FROM GI

possibility of additional exposure to loss that is not currently estimable" that "could have a material adverse impact" on the company's finances.

It was just six months ago that SAIC got around to firing the three executives who were supposed to oversee the New York operations and letting shareholders know that the board of directors had formed a special committee and hired a couple of law firms to get to the bottom of things.

And it was a month ago that SAIC, acknowledging its responsibility in failing to detect a bribery and kickback conspiracy going on right under its corporate nose, agreed to repay the city \$500 million of the \$635 million it had received for the completed CityTime system. The settlement will allow SAIC to avoid criminal prosecution and the almost certain debarment from government contracting work that would follow.

Now with the appointment of a new chief executive, SAIC wants to assure everyone that the problems have been fixed and that the company has regained its "entrepreneurial spirit" and returned to its "core values."

Imagine that: In less than a year, SAIC has gone from having no problem at all with its CityTime contract, to having its entire business put in legal jeopardy, to putting everything right and putting it all behind them. The speed of these corporate cultural transformations is truly remarkable.

This familiar narrative, of course, comes straight out of the Official Corporate Scandal Handbook that they must pass out to all executives when they are first ushered into the C-suite. Ignore. Deny. Obfuscate. Fire a few bad apples. Hire expensive outside counsel. And in a final flurry, acknowledge that mistakes were made but assure that it's all behind us. The only thing left is for SAIC to quietly settle the inevitable shareholder class-action lawsuit to guarantee that the full story of who knew what and when will never see the light of day.

What is fascinating about the CityTime debacle is how many times SAIC was warned about irregularities and potential fraud without ever doing anything about it.

There was the February 2003 letter from Richard Valcich, director of New York's Office of Payroll Administration, complaining that SAIC was constantly rewriting plans, requirements and schedules without consulting the city, demonstrating a certain lack of conformity with acceptable industry practices. One tell-tale sign: Hardware purchases had been marked up 400 percent.

Then there was the 2005 letter from an anonymous whistleblower alleging that a subcontractor was receiving such preferential treatment, including a large no-bid contract that violated company policy, that the only explanation was that SAIC project manager Gerard Denault was receiving kickbacks. Higher-ups failed to investigate, failed to notify the customer and failed to inform the board of directors.

A few years later came another flurry of complaints from SAIC employees who ignored Denault's threats and went to his superiors to raise their concerns about irregularities with the CityTime contract. Their pleas were met with skepticism and they were told no further action would be taken unless they could deliver some proof of wrongdoing.

What is it about the corporate mentality that, when presented with repeated complaints from line workers that something is not right, the first instinct is invariably to treat them like disgruntled employees who don't see the full picture and are focused on minutiae rather than getting the job done and making a profit?

How many Enrons have to go out of business, how many

billion-dollar settlements with the Justice Department do there have to be, before corporate managers and executives finally learn to treat whistleblowers with the respect they deserve?

In the CityTime case, it took the power of the government subpoena and threat of prosecution to finally crack what turned out to be an elaborate kickback conspiracy. The key players were: Mark Mazer, a consultant hired by the city to help manage the contract; from SAIC, Denault, the project director, and Carl Bell, the chief engineer; and Reddy and Padma Allen, owners of TechnoDyne, a small subcontracting firm in Teaneck, N.J.

The speed of these corporate cultural transformations is truly remarkable.

According to the Justice Department, the conspirators were able to overcharge the city by hiring consultants that were not needed, inflating their hours and their hourly rates. Then dummy corporations and bank accounts were set up here and in India to launder the inflated payments and recycle the kickbacks to the conspirators.

Even without uncovering the details of the kickback scheme, however, there were plenty of warning signs for anyone with even a passing familiarity with the government contracting business, which includes almost everyone at SAIC.

Mazer and Denault were widely known to be longtime friends and associates who had most recently worked for the same consulting firm — not exactly the sort of relationship you want between a government contract officer and the lead contractor.

Shortly after SAIC took over the contract, the two arranged for it to be changed from a "fixed-price" contract that was losing money to a "fixed-price level of effort" contract that allowed the project's ever-escalating costs to be passed on to the city — an odd concession from the city, which got nothing in return.

Most significantly, the vast majority of the work on the CityTime project was done not by SAIC employees but by employees and consultants at TechnoDyne under a no-bid, single-source subcontract that violated SAIC's procedures, doubled the number of people working on the project and generated billing rates that ran as high as \$160 an hour.

The \$450 million it received from SAIC between 2003 and 2010 constituted almost all of TechnoDyne's revenue, with a significant portion of that subcontracted to firms with little or no other revenue.

In a "statement of responsibility" explaining its see-no-evil attitude, SAIC said its "failures resulted, in part, from an overemphasis on the financial and operational success of the CityTime project." Ah! So that's it.

Although the Allens, Reddy and Padma, are facing criminal prosecution stemming from the CityTime work, the TechnoDyne Web site still boasts SAIC as one of its satisfied clients. Among the company's other accolades: the 2010 Entrepreneur of the Year award for New Jersey from the accounting firm of Ernst & Young. Way to go, audit team!

What I'd still love to know is the name of that original whistleblower who figured out early about Denault and his kickback scheme. Neither the company nor the prosecutors would tell me the name of the employee, or even whether he or she is still working at the company. There will be a second column, and a dinner on me at Komi, whenever this hero is ready to tell his or her story.

Who knows, maybe Gen. Jumper will join us?

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