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How Steve Case Beat Bill Gates, Nailed the Netheads and Made Millions in the War for the Web

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In 1975, Bill Von Meister, a Washington based telecommunications entrepreneur and Alan Peyser started a company which they called TDX Systems Inc. TDX was in the process of developing a new technology for low cost routing of long distance telephone calls. Von Meister later lost control of the company, which, after being renamed Cable & Wireless PLC, rose to have annual revenues of more than $1 billion.

Being at somewhat of a loose end, Von Meister noticed that Compu-Serve and a number of other new companies were focusing on delivering information to business customers, and thought that a "home information utility" using the low-cost telephone routing technology he'd helped develop at TDX would be a good idea. He called the new company The Source and formed a partnership with Jack Taub, a Washington investor. That deal also went badly, and after burning through all their start-up capital, Taub ousted Von Meister and sued him for mismanagement.

Bill Von Meister next worked on a project called The Home Music Store, which proposed beaming studio-quality music via satellite and cable line to homes. One of the staff members he hired on this project was a programmer called Marc Seriff, who had worked on the government funded APRANET which was the precursor to the Internet. The Home Music Store concept failed when the major record companies refused to support the idea.

Von Meister then thought he could adapt the concept to deliver video games to homes rather than music. Bill Von Meister was ultimately able to interest a venture capitalist, a bank's investment company, an investment banker and the founder of a computer games company to put up $100,000 each and in late 1982, Control Video Corporation (CVC) was formed to develop a video game delivery system for Atari computers.

By the 1983 Consumer Electronics Show in Las Vegas, CVC had developed the prototype of a new device called a "GameLine Master Module" by which video games could be delivered to consumers. This generated loads of interest at the show - both from potential customers and from venture capitalists. CVC looked to have a bright future as funding for the consumer release of the GameLine service was arranged. The only problem was timing -- unbeknown to CVC, the video game industry was just about to go cold, with Atari announcing huge losses and dozens of video game developers going out of business.

As a result, after burning through all of the available funding of $9 million, Bill Von Meister again lost control over a company he had founded as the major shareholders installed James Kimsey (one of CVC's minority stockholders) as a replacement CEO and fired all but 12 employees. Fortunately, however, one of the CVC employees who kept his job at that time was Stephen Case, who was the brother of the investment banker who had provided $100,000 of the original seed capital. Stephen Case was initially employed in the marketing department of CVC.

Prospects looked rather bleak at that time, however, for all of the employees. It turned out that in addition to using up $9 million in equity funding, CVC also had outstanding bills for another $7 million. For all that, the company had sold only 2,400 GameLine modules.

"My job was to make chicken salad out of chicken shit."

– Jim Kimsey on his new job at CVC

"A lot of companies are born from disaster, and since this is a first-class fiasco, maybe it'll work out."

– Citicorp's George Middlemas' comment to Jim Kimsey

In February 1994, CBS, Sears Roebuck and IBM announced a joint-venture to develop an online service for the users of personal computers. With this as a background, CVC approached Bell South and secured a $5 million line of credit to test market an at home subscription service for Apple II and Commodore computers, using some of the technology developed for the GameLine console to provide a specialized modem. The test was unsuccessful and Bell South asked for their money back, but it had already been spent keeping CVC afloat. Bell South joined the long list of CVC creditors.

While all of this was occurring in the background, the CVC team organized themselves along functional lines: Jim Kimsey would focus on finance, Steve Case would figure out what could sell and Marc Seriff would build it. In early 1985, they heard that Commodore Computers wanted to develop an online service for its computer users. In the end, Kimsey, Case and Seriff were able to convince Commodore to put up $1 million in start-up funding for the new service -- as long as none of CVC's previous business arrangements created any liabilities for Commodore.

To structure this, a new company, Quantum Computer Services Inc. was formed in May, 1985 and CVC's stockholders were offered warrants to purchase Quantum stock. Other new stockholders were also found, and Quantum ultimately had around $6 million in start-up funding available to it - a loan of $1 million from Commodore and $5 million in equity funding.

At the inception of the new company, the staff presented a cartoon of a cockroach wearing boxing gloves to Jim Kimsey. This alluded to an earlier news article which had described CVC as a bug that couldn't be killed no matter how hard you tried. It was an apt description of the near death experience the company had gone through, and its metamorphis from CVC to Quantum.

By November 1985, Quantum was ready to launch its first product -- the "Q-Link" service. At a cost of $9.95 per month plus 6 cents per minute for connect time, Commodore computer users could log on for news, soap opera updates, a number of games and a chat service which enabled anyone to send messages to anyone else on the service. Q-Link was available from 6:00 pm to 10:00 am each day, with the other hours being used by Quantum to do service programming.

The first night Q-Link was available, 24 users logged on. A few nights later, the system crashed when 60 users were logged on. Soon, though, Q-Link managed to go two weeks in a row without a system collapse, an impressive achievement for the size and scale of equipment Quantum had available.

Although the joint marketing program with Commodore did not go as well as had been originally projected (mainly due to internal problems at Commodore), Q-Link had 10,000 subscribers by January 1987, giving Quantum annual revenues of $8.6 million and net income of $238,000. It was a good start, but the main problem was obvious:

"Our fate is inextricably linked with Commodore. We have to take control of our own destiny. If we stay on this course, we'll have to eventually shoot the company".

– Jim Kimsey

In addition, Sears and IBM (CBS had by then dropped out) were now getting close to launching their very well funded online

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