Carl Harkleroad with Imagined.cloud Interviewed on Capital Club Radio

Broadcasting live from the Pro Business Channel studios in Atlanta, Georgia. It's time for Capital Club Radio brought to you by Flock Specialty Finance. Please welcome your host chairman and CEO, Michael Flock.

Michael Flock: Thank you and good afternoon. Today we've got a really interesting guest with us, one of the top technology leaders in the credit and collection industry who's also a serial entrepreneur. That means he just can't stop he can't get enough of it he's addicted to being an entrepreneur. I'm talking about none other than Carl Harkleroad. Carl is Founder and former CEO of Latitude Software, one of the leading collection software solutions in the industry. He's now working on his second startup called Imagined.cloud with a new partner named Jonathan Olrich. Imagined.cloud soon will offer collection and agency management solutions to both creditors and collection agencies and master servicers. Carl started his career in 1973 writing software for the AFL-CIO. Can you believe it and later joined Capital Credit managing their large data center.

So, he got operations experience in that position then after five years he went to Corliss Credit that later merged with Master Collectors and then Nationwide Credit which many of us remember. Carl's many years of operational experience then enabled him to create software focused both on operational productivity and the importance of collection data in the process.

He founded Latitude in 1997 and sold it in 2010 and stayed for an additional three years, but after three years of fishing and being at the beach, retirement got really boring for Carl and he now has come back with a new company called Imagined.cloud. Whoa, so we're ready for, the second act, the second chapter in Carl's very colorful and rich career. Now Carl, your first couple decades in your career appear to be pretty operationally focused when you were employed by various collection agencies, although you actually started writing the software in 1973 with AFL-CIO.

You managed a large data center at one point. But how did you get into developing software? What motivated you personally to really find that as your passion?

Carl Harkleroad: Well, back in 1973, before I even understood what a computer was, I was around a lot of developers. I was actually an operational person in the data centers and saw them developing software and was very curious about what software development was. So, I wrote a couple programs, got in trouble with a couple programs, actually wrote my first program, a program to track horse races and my boss on the mainframe didn't like the idea that we were tracking trotters on the mainframe using all the cycles back then was a sin, but fell in love with developing software and been doing it a long time.

Michael Flock: And how did you learn to develop software? Did you teach yourself? Did you have formal training?

Carl Harkleroad: Sort of half self-taught and then while at the AFL-CIO I was lucky enough. I was there for about 14 years. They sent me to every trade school in the country that taught development. So, I've

written in various languages Assembler, Fortran, COBOL all the old Technologies. I was there when the IBM PC came alive and wrote software on the IBM PC.

Michael Flock: And what's most fulfilling about software is it the creative process or is it the technical aspects of technology that excites you? Why is this your passion?

Carl Harkleroad: A little bit of both. When you walk out on a collection floor and you see a thousand people using their software, your software, that you wrote you sort of get pretty excited about seeing that and then you know in today's world with the new technology with the cloud it's so exciting. There's so many things that you can do that you couldn't do ten years ago, five years ago. Software development today is so much rapid and so much more fulfilling.

Michael Flock: Its more rapid because of the cloud, meaning that there's less infrastructure required.

Carl Harkleroad: Yes, they're less things that you have to do, so we use the Microsoft cloud. It's called Azure. With that you get a lot of pre-built things so security you don't when you build an application, you don't have to worry about security it's built in, you know, your password maintenance all your rules. It's all part of the infrastructure so you can just focus on the business at hand.

Michael Flock: So, it's faster, cheaper.

Carl Harkleroad: I wouldn't say cheaper, developers today are very well paid. They're not as cheap as they used to be.

Michael Flock: Why is that? They're fewer of them?

Carl Harkleroad: Yes. I know there are fewer and I think it's the Googles and the Amazons and all the Ubers all the people that are driving up all the costs of development. We're lucky that at Imagined.cloud, Jonathan, one of our founders, is a senior engineer. He could be in Silicon Valley making a lot of money, but he has chosen to be on board with what we're doing.

Michael Flock: Now why did you start Latitude? When the time I remember there were, I think it was 1997 there were a couple big software leaders that had a huge market share, Ontario, Cub... What was the void that you were trying to fill in the market with Latitude?

Carl Harkleroad: One of the agencies I worked at, Nationwide Credit, we had 12 collection platforms because they made a lot of acquisitions. Part of my job was to convert those systems to platforms Ontario and Cubs. In that process, I learned all the things that those systems were deficient at, it really comes down to, I thought I could build a better mousetrap. I had a friend that had an agency and we decided to create a company, a software company, to build software that he would use. We completed that and we didn't really know what we had. We gave it to friends. We sold a few copies. It was actually here in Atlanta, 2000 we had about 20 customers.

Michael Flock: That was fast.

Carl Harkleroad: It was it was it was, we really didn't realize what we had. The whole premise of that software was to empower the companies that use it to control their own destiny.

Michael Flock: So, translate that power to create your own destiny.

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Carl Harkleroad: The other platforms were closed; they didn't let you get to your data. So, the idea we had was that we would use Microsoft Sequel Server, allow our customers to get to their data when they needed to get to it. It was their data to use it in the way they wanted to use it. So, all the tools we wrote, all the product we wrote, it was geared around that. Let them have access to what they need to have access to.

Michael Flock: So, it's much more, I guess, user-friendly.

Carl Harkleroad: Yes, but it was data friendly. It allowed them to get to the data they needed to get to without having to pay the vendor with the tools that we had developed. It really caught on and we grew like fire. I mean it was a fun ride.

6:15 Michael Flock: How did you capitalize the company?

Carl Harkleroad: I had a partner and he was the capitalization of the company and I was the technical part of the company. I bought the company from him in 2005, started really growing at that point.

Michael Flock: Were there surprises along this journey with Latitude?

Carl Harkleroad: There were a lot of surprises making payrolls, you know, we never missed a payroll, all the things that a typical business has, cash flow issues and my wife would see the bank deposits and see the money sitting in the bank and wonder why we didn't have a lot of that money and it was because we were putting it back in the business and money to grow the business.

Michael Flock: Those must have been interesting conversations?

Carl Harkleroad: They were, they were! No, honey we just can't write ourselves a check on the company's money, we need it to grow the business. So, the struggles of cash flow were probably the biggest struggles we had. You know, having a partner one of my theories about businesses is, if you can do it yourself, don't have partners. I learned that lesson through that whole period; I had ideas, he had different ideas. It really didn't start taking off until you know, until we separated.

Michael Flock: So, you weren't aligned on the strategy?

Carl Harkleroad: No, he had different from strategy than I did. I saw the vision of what could be in our industry with the software. He had different ideas and he had other companies that he was focused on and collection and other entities, but he wasn't really focused on this business.

7:32 Michael Flock: So, one of the lessons learned is you're saying don't have partners, or if you have a partner, make sure you are absolutely aligned.

Carl Harkleroad: Yes, make sure you're aligned, but if it's your idea half control the idea and the company and one of the other things I'd say is he and I were handshake 50/50, we didn't have anything in writing and I learned that this along the way I learned some of those mistakes. Have a good shareholders agreement and everything in place that you need to have. I learned that lesson when I did sell Latitude, how having all those things, the i's dotted and the t's crossed, make that whole process a lot easier.

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Michael Flock: So, you may have been a little naive then?

Carl Harkleroad: Oh, I was yes, I was very naive. I mean, I was a software guy. I was not a deal guy back then. Now, I love deals but, I was the guy in the closet writing the software and I didn't come out much, but I learned a lot along the way.

Michael Flock: So, is there going to be a new book, the art of the deal by Carl Harkleroad!

Carl Harkleroad: No. The mistakes not to make. There's a few things, like have a great attorney. I was lucky enough back in the 90s. I had a start-up idea for the internet and I started it with another guy here in Atlanta. We went out to Silicon Valley and walked up Sandlot Road and went to probably 30 different venture groups and none of them liked our idea. During that process, I met my attorney that I've had until this day. When I sold Latitude Software, he had three customers, Google, Dell and Latitude Software. Very expensive guy, but very, very good. That's the thing in software, I think that's a key too, is to have someone that is a technology attorney, you know an IP attorney.

Michael Flock: It's almost a whole different world.

Carl Harkleroad: It is, it really is. He helped us through the acquisition of Latitude, you know with all the things. I mean he was doing acquisitions for very large, large deals, ours was a tiny one in comparison, but very good for Carl and his family and six members of our, you know, my executive team who I sort of learned something there. The equity that they got was by word, I should have papered it because it costs them some money in taxes because it turned out to be short-term gains instead of long-term gains. So, that's one thing that I learned. I should have made that commitment in writing for that reason.

9:46 Michael Flock: During those years when you were leading Latitude, were there any nights that you were really worried that the company might not make it?

Carl Harkleroad: Probably after I purchased it from my partner because now I was on my own financially. But I was lucky enough, I met a gentleman that ran a big investment and he was responsible for several billion dollars. He had a sickness and I met him through my wife and he wanted a career change. So, he came on board as our CFO and he really straightened me out, you know. The money part of the business at that point, really started to solidify and Carl, the wild spender of money, had sort of leash around him at that point. So, he was able to get us a SBA loan, pay off the ex-partner, we were financing the company and the buyout of the company. The day the company came in to look at acquiring us, he handed them a binder and every single question they had was in that binder. He went back and created audited financials two years prior to us buying the company and all that paid off because everything was in its place.

Michael Flock: Another lesson learned, maybe is then have a CFO who knows the industry?

Carl Harkleroad: Yes. He didn't know anything about our industry, but he knew finance, he knew money, he knew where to go raise money and he knew software and intellectual property. Those are two key things that led to our success in the end and probably the most important thing was taking care of our customers. When I sold at somewhere between three or four hundred customers that we've had for a long time these customers and we always took care of them through the lean times and the good times.

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11:22 Michael Flock: Give us some examples of what that means, taking care of a customer? If you had a technical problem?

Carl Harkleroad: Technical problems were given. They knew that they could rely on us for that. But if they had tough times themselves, like they couldn't pay their bill on time. So we would help them, you know, if they made the effort to least try to stay current and you know, we'd help them and eventually they catch up and they were appreciative of that. And the other thing we did really well was we had three types of customers. We had collection agencies, we had creditors and we had debt buyers. We introduced all of those customers to each other through our user group and built this big community of people.

Michael Flock: I remember. I went to one of the conferences.

Carl Harkleroad: Yes, and we were known in the industry as having one of the best user groups.

Michael Flock: You know this resonates with me because we talk a lot about the power of community at Flock Finance and you built a community, a technology community of people that had very much aligned interest because they were all three categories.

Carl Harkleroad: I always call our industry, the debt collection industry, a community, you know, the creditors, the agencies, the attorneys, the vendors. It's a big community; and if you do a really good job in that community, then everybody understands that.

Michael Flock: And, what's so interesting about the middle market? It is messy because a lot of these companies don't have a lot of infrastructure, but that's the value add of you, the vendor.

Carl Harkleroad: Back in the day, back in probably 2006, we had the idea to host our application. So, a lot of companies couldn't afford to buy the software and that's the traditional model in our industry, is to buy or license it and pay a maintenance fee. Well, I wanted to offer that to more companies. And so, we had this idea to create our own cloud before the cloud was the cloud and we had two data centers with over 200 servers in them. And we hosted Latitude, and they just paid a monthly fee for each user that used Latitude. As opposed to the competition, which charged by the seat and you had to buy the seat whether you're using it or not you're paying for it. And that added value to our company when we sold because that multiple of the reoccurring money for the hosted was the largest portion of what we received in the sale.

Michael Flock: Recurring revenue, that's a wonderful thing, recurring cash flow. So, your enterprise value was much greater than perhaps if you hadn't had that, rather than just the traditional software company. But what's preventing your competition from doing that?

Carl Harkleroad: Oh, they could do it today. They say they're in the cloud. They've just done what we call in the industry a lift and shift. They have taken their old technology and lifted it up to the cloud, it's no more than putting it in a data center. It's the same technology that was written decades ago just moved to the cloud.

14:45 Michael Flock: Well, this is a great segue now to talk about your new company you know, as a serial entrepreneur. I'm amazed that you came back because you had a nice exit.

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Carl Harkleroad: I'll tell you yes, I did but the thing was, I was getting so bored and my brain was turning to mush and really honestly, I had memory problems because I wasn't working. I wasn't using my technical brain that I used my whole life. My wife said go find something else to do.

Michael Flock: And she got tired of making lunch.

Carl Harkleroad: Yes, she had her own things that she was doing. She wasn't making a lot of lunches, but I had this idea that was festering in me for a while and I met Jonathan, one of our co-founders. And Jonathan's a unique individual, he's a very educated person, which is not me, I graduated from high school and was lucky enough to find my way through my career. But Jonathan is, I mean, he is an amazing technologist. He started explaining the different aspects of the cloud to me. I love technology and once I started understanding the real Cloud what the cloud is, I thought we could leverage that for our industry and change the landscape.

15:19 Michael Flock: So, elaborate on change the industry with the cloud because so often people think of the cloud as well, it's ubiquitous. Everybody has it, you know, what's so special about then Imagined.cloud that another software product couldn't have in the cloud.

Carl Harkleroad: Well, our software is written from the ground up for the cloud. It wasn't just lifted into the cloud. We're using all the tools that Microsoft provides, all the services that they provide and everything that they provide for software developers to create a new technology in the cloud. So, it's native cloud, so all these services they provide are all pay-as-you-go services. So you only pay for what you use, as for the rest of the world, they're going to software that's pay for what you use. So we use QuickBooks in the cloud, we use payroll system in the cloud. Everything we have as a startup company are cloud-based. I don't have to have it sitting on my computer. I can I can access it from anywhere in the world. It's secure and I pay for what I use, I don't spend money on something that I don't use.

Michael Flock: But can't your competition use the same native language?

Carl Harkleroad: We probably have two competitors. But I equate them to the Titanic, we're a bunch of guys on jet skis and we can move a lot quicker and nimbler than they can and the technology we're using lets us do that. They can do exactly what we're doing. But that's going to take them a while to get there and they have their old ways and their old infrastructures of people.

16:49 Michael Flock: Is the culture different?

Carl Harkleroad: Yes, so well, our culture is one of empowering the developers and the technicians that suggest ideas. We, in the last year and a half, actually written our application three times to figure out what the best way was to have the application. A lot of companies wouldn't forego that, they would say oh, this is too much you're taking too long. I think we're much more intelligent about how we do things because we're as nimble as we are.

Michael Flock: And you incent that kind of thinking at Imagined.cloud.

Carl Harkleroad: Yes, very much so. You know Steve Jobs had a comment that he said, "we don't hire really smart people to tell them what to do. We hire smart people so they can tell us what to do." That's sort of our thought about our company.

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17:34 Michael Flock: You have a team now?

Carl Harkleroad: Yes, we have six total people in our company. That's not a huge undertaking, but we're in a co-work space and we have our own offices, but we can use conference rooms and meeting rooms and all the break rooms that they have. It's interesting being around a lot of other companies as well. So it's a great place to be, I think, in an environment like that.

Michael Flock: I think what's different about Imagined.cloud versus Latitude is I think you now are really targeting the creditor market more than you did at Latitude?

Carl Harkleroad: Yes, when we started Latitude we started out focused on collection agencies. We had debt buyers that wanted product. So we built product for debt buyers. We found creditors that wanted to use the product. In the end, we had about 35% were creditors about 26% were debt buyers and the rest were agencies.

Michael Flock: Now, also Carl I think a major difference is the solution itself because Latitude was a more of a collection platform, this I understand is going to be an agency management.

Carl Harkleroad: Yes, it's used by creditors or debt buyers to manage their data that they outsource, so a creditor would take their delinquent accounts or charged-off accounts place them in our cloud and use the tools that we've developed to manage that process of outsourcing the collections. And they can be active pre-charged off collection, some people call curing or bucket collecting or charged off.

Michael Flock: And you said the importance is giving them their control over their data with these agencies. How deep does that go?

Carl Harkleroad: The cloud affords you the ability to do all kinds of things with data. You've heard the term "Big Data" with the Amazon Cloud and the Microsoft cloud that we use you get machine learning. You don't have to be an AI expert. You have all these tools that let you understand the data and use the data gain outcomes. You just have a plethora of tools that you'd have to go integrate.

Michael Flock: So these tools would help the creditors manage their performance better.

Carl Harkleroad: Yes, and monitor and gain the insights from the data of how the agencies and the attorneys are doing from a compliance standpoint, things like are they making too many calls too frequently? Not enough? Did they get consent on these phone numbers or to text or use a dialer or cell phone? So these insights can be based on the numerical performance of the portfolios or the compliance part of the process. So either one, the cool thing about this is our platform learns new insights.

Michael Flock: So, this is like artificial intelligence?

Carl Harkleroad: Yes, I'd say machine learning artificial intelligence is a word that's thrown around too much, but it learns from the data. And what's cool, we're out there promoting our product. Now when we learn something that a creditor wants to learn about their data, we can just simply add that to our solution very easily and now our product is learning that new insight. We know the day that the creditor made the data available for the agency, we know the day they picked it up, we know the day they made

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their first attempt and we know the day they made their first right party contact. All those things are learned from the data.

Michael Flock: Would it be able to use the same data to even change or modify their own credit policies?

Carl Harkleroad: They could. So we've talked a creditors about we call the fire hose, but some creditors have asked for that data stream to come back into their analytics. So we're able to turn on that fire hose back to the creditor and their data science people can use that data to gain all kinds of insight.

Michael Flock: I guess, you know, with the growth in fintech marketplace lending, this product has got to be hot I would think.

Carl Harkleroad: We're thinking so. We've talked to a lot of fintech startups and they're also about products that they can subscribe to and that's the kind of product we have, but they don't want to buy something. Not make a huge investment, just pay as they grow.

21:19 Michael Flock: Carl you've been in the industry for 30 years now. What's your outlook going forward for the industry? And how does that affect your thinking?

Carl Harkleroad: My outlook is that they're going to use subscription services, like ours, instead of their traditional install and maintenance.

Michael Flock: In terms of, for our debt by our listeners here today, how do you see the market for them specifically?

Carl Harkleroad: It's all about the data to be successful as a debt buyer or creditor or an agency. It's all about the data and making that data more available to them. That's where our product does best.

Michael Flock: I know you already started acquiring new customers. Can you comment a little more to about that strategy and how does that tie into your view of the market right now?

Carl Harkleroad: So, we're pretty lucky. I called our industry a community and we've been really lucky to have great relationships already in the industry. And so, a lot of times it's a matter of picking up a phone and talking to a colleague that I know at a bank or credit union or some other creditor and getting a meeting talking about our product. It's being taken very well from the people we've talked with.

Michael Flock: Exciting. So how do you see yourself, let's say, 20 years from now? What is the end game for Carl Harkleroad? Or maybe there isn't you're just going to keep the different companies...

Carl Harkleroad: With dirt nap, that'd be one, but no, you know, I love this industry. I've been around a long time I have a lot of friends in the industry. I have my youngest son in the business.

Michael Flock: Carl Jr.?

Carl Harkleroad: No, it's Zack and my other son works for another large software company. You know, there's some legacy there, Jonathan and all these guys are very young. They have a lot of exciting ideas of where to take the company in the future. I just want to stay healthy and provide all the insight that I can to where I think we should take the company in this space.

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Michael Flock: To create kind of Carl Jrs?

Carl Harkleroad: Yes, maybe yes, it's exciting. The data part of our business is the most exciting piece because that's what differentiates everyone, even the collection agencies, from each other. The debt buyers from each other the creditors from each other, the finance companies... everybody. It's what you learn from the data can give you severe advantage.

Michael Flock: Decades from now, if you could write your own obituary, what would you want it to say?

Carl Harkleroad: I guess, he always took care of his customers. He did what he said he'd do. He was there when they needed him and he's just a straight shooter. Those are some things that I learned that you need to live up to what you say.

Michael Flock: Straight shooter. Do what you say you're going to do, take care of your customers. Words of wisdom from Carl Harkleroad. Carl, thank you so much for your time this afternoon. We're really privileged here at Capital Club Radio Show to have you share your rich experience of decades as a technology leader, developer. Thanks for all the great stories about your partners and your clients, and we're really excited now to watch the next chapter unfold as you build your second career changing, but industry changing product and company Imagined.cloud. Thank you very much Carl Harkleroad.

Carl Harkleroad: Thanks Michael.

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