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New generation of software-makers takes over a family firm

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Down the hall from where software developers update tax-compliance programs at Vertex Inc., the children of some of those workers play, nap and drink juice.

Vertex is a family-owned technology firm that recently opened a day-care center for its employees. VerTykes Learning Place is part of the Chester County company's new 60,000-square-foot office building and a sign that Vertex has entered a new generation.

That's because a new generation of the Westphal family is now running the 27-year-old technology firm. Ray Westphal recently turned over voting control of Vertex to his children, Jeffrey Westphal and his sisters, Stefanie Lucas and Amanda Radcliffe.

In some respects, Berwyn-based Vertex is a typical "new economy" outfit, with its relaxed dress code, free fruit and soft drinks. But in other ways, it is not. According to Jeffrey Westphal, employees are urged to head home by 5:30 p.m. No sleeping under desks or writing code at 3 a.m., he said.

It must be working, because Vertex now employs about 450 people in several states, and has quietly cornered the national market on software that automates state and local tax-administration processes.

Not the sexiest of businesses, to be sure. But the firm is approaching \$70 million in revenues for 2001. During the late 1990s, the company regularly posted annual revenue increases of more than 30 percent, Westphal said.

Vertex has about 10,000 customers, up from 4,000 in 1992. Significantly, more than 80 percent of the 2,000 largest companies in the United States use Vertex software to negotiate the quagmire of state and local taxes that they must deal with.

The firm has struck lucrative partnerships in recent years with technology heavyweights such as SAP America, PeopleSoft Inc., J. D. Edwards & Co., Oracle Corp., and all of the Big 5 accounting/consulting firms.

During the second half of the '90s, when other high-tech firms were expanding at a breakneck pace, Vertex was busy converting its operations from selling sales-tax directories to providing and updating software to large businesses with far-flung operations that must pay all sorts of taxes.

Vertex aggressively pursued Internet applications and Web-based software during the mid-to-late '90s. But it didn't take on too much debt to do so, Westphal said.

The result is that Vertex can now focus on signing up customers in the small-business and government markets. Those sectors are trying to eliminate headaches and save some money by outsourcing and automating the payment of taxes.

"We are now significantly growing," Westphal, 39, said. "We are investing in an architecture and product line that enables smaller businesses who will want to move into Web-based tax processing."

While there are always "early adopters" of new technology, Vertex executives do not foresee mainstream adoption of its Internet applications by small businesses and governments until 2004 at the earliest.

Vertex provides its strategic partners the ability to integrate its state and local tax-management software with their own systems. For example, SAP America Inc., of Newtown Square, makes business software that handles back-office financial functions for large corporations.

"The tax process touches many different aspects of the things that SAP does," Westphal said. "All those areas within the SAP system - sales, engineering, accounting, et cetera - are affected by what you need to do to have proper tax compliance."

For multinational corporations, tax compliance is enormously complex. Take the state of Virginia, Westphal said. Each county has a different sales tax rate. Other states are similar; some taxes may vary town by town. Every major U.S. city has myriad rates for payroll, telecommunications, property, franchise, license, occupation and school taxes.

Westphal said Pennsylvania was one of the easier states for managing sales taxes; the rate is 6 percent statewide, except for Philadelphia, where it is 7 percent. Of course, it's even easier in the five states, including Delaware, that have no sales tax.

Vertex is profitable, but Westphal declined to provide exact figures.

He and his sisters have no plans to take the company public. Lucas, 38, is Vertex's chairman. Radcliffe, 34, is a board member and owner of Antoinette, a day spa in Paoli named after her mother. Vertex has had "a classic family board," Westphal said. But over the next year, Westphal plans to add board members from outside the family.

But the three siblings will hold legal voting control, voting "in consensus," a practice Westphal said that many consider unique.

"What makes this credible is that we have practiced decision-making as a family consistently over the past five years," he said. "Sort of like the Quakers."

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