Moderator:
Professor Irv Grousbeck

Search Fund Panelists:
John Moran, HBS MBA, Classic Party Rentals
Rafael Somoza, GSB MBA 1996, Quest Management Corporation
John Fowler, GSB MBA 2000, Montebello Capital
Barry Reynolds, GSB MBA 1992, Housatonic Partners

Note: Questionable words and phrases [in brackets]; Minor edits have been made for greater clarity

Please contact the Center of Entrepreneurial Studies with any questions at 650.723.0887
IG: Welcome, everybody, I'm sorry it's so crowded. We thought the competing events would take more people, but such was not the case. We have a distinguished panel today. My name’s Irv Grousbeck and the panel represents many different sorts of experiences and connections with search funds. On your far right is John Fowler who with his partner raised a search fund about 14 months ago and is looking for a company to buy.

To his right is Rafael Somoza, who raised a search fund with a partner, looked for a company to buy and then decided to start a company out of the search fund, very interesting. To his right is Barry Reynolds, who is a partner - Housatonic Ventures, very experienced investor, both in search funds and in company's bought by search funders who can give us an investor's perspective and also his take on what he likes about CEOs that he has invested in and some things to think about and perhaps avoid and finally on my immediate left is John Moran, an experienced operator of several companies that he has bought over a period of time out of a search fund. Again we welcome you and let's start with John Fowler.

JF: There are a lot of you out there. Thanks for coming. I'm the true neophyte on the panel. My search fund is just over a year old, Montebello Capital, we're headquartered up in San Francisco and we're in the heat of the search so Irv has asked me to talk about the first steps on the path of the search fund, specifically to talk about the decision to take the plunge and start the search fund, whether or not to partner, take a partner on, raising the fund, how that goes, what the best techniques are for actually
getting people to give you their hard earned money and also some of the lessons we've learned from search for the past year.

was Stanford GSB class of 2000 and the genesis of the search fund in my mind came when was a first year and heard about it, kind of in whispered back room discussions about life after GSB from second years and didn't really know what a search fund was. learned more when took Inv's class during second year, one of his entrepreneurship classes and absolutely fell in love with the model; however, back at that time '99, 2000, the fruit was much lower hanging in the technology world, or at least so it appeared to everyone, so didn't start pursuing the search fund until after a brief six month foray into high tech entrepreneurship after which went back to Inv's office in April of 2001 and said, is it maybe a better time to do a search fund now and he felt that it was somewhat of a better time because of the slower economy, and encouraged me to talk to several former search funders about their decision and their experiences.

And that was invaluable, to talk to former search funders. probably called up a dozen or more Stanford and Harvard MBAs who'd all raised search funds and asked them about the good and the bad and there were almost equal parts of both. Not everyone had a peaches and cream experience raising a search fund, searching for companies, or running companies.

They were failures along the way, but for some strange reason, maybe it's my own personality, came away really invigorated by talking to all these people and decided to start raising a fund and everyone was really very accessible and this theme will echo in other parts of my talk about trying to leverage the experience to former search funders to help you.
It was pretty much after talking to former search funders and feeling that it was the right thing for me, a very personal decision, also felt it was the right thing for me to find a partner to do it with, to share the ups and the downs so that was the next step. My next point to talk about is partnerships. My partner, John Greenberg, who I think is here tonight, somewhere. [talkover]

So that's constructive criticism in a partnership. There's really no one right decision about choosing a partner, but it's probably the most important decision you'll make. I think there's some anecdotal data about [inaudible] search fund and it indicates slightly that partnerships are a little bit more successful than sole proprietorships but it's not a huge difference.

You have to consider if you go with a partner, you have a smaller percentage of equity to keep for yourself when you do the deal and eventually liquidate the deal. For me, and I think for Josh, too, the key thing to think about was whether or not you really like the person you're going to partner with because you're going to be spending a hell of a lot of time with them, day in, day out and a lot of like crappy times and tough times, a lot of rejection when you're raising the money, bidding on companies and not winning bids.

During that time, not just that you like them, but that you can communicate exceptionally well and that means even if it's one of your best buds and you think there's never really been a problem with your friendships, there will be tensions and miscommunications and little issues that come up and it's really, really important that you're not afraid to take risks and tell your partner when he's bugging you or doing something wrong or right or what have you.
think those are the most important things, more important than - there's not a real classic dovetail fit of the engineer and the marketing guy or the ops and the sales guy, it's more important for us to have that really dynamic line of communication and that's what our investors were looking for and we would pitch to them.

Our first test of that communication came when we were just about to finish writing our offering document and go out and start pitching people directly. We sat down and had this multiple hour session in Josh's apartment about - like a statement of principles and what our goals were from the whole operation and it was really valuable to go through that, almost quasi-ritual to just lay it down on paper what we believed in, what we wanted out of it and how we would treat each other in the process and how we would resolve disputes as well. So it's really important, I think, to go through those things.

Next was raising the fund. The raising of fund is not as easy or as hard as some people would say, that's kind of [inaudible] comment. It takes anywhere from two weeks to nine months to raise a search fund. I've heard some longer than nine months. actually. It took us in our case just under five months, although it felt like a hell of a lot longer, I'll tell you that. The best place to start, and where we started, I think, is to hit up former colleagues, former bosses and friends, that's an incredibly powerful signaling device, if you can get someone who's known you professionally or personally or whatever, who knows you well, to invest their money in you.

And after that, you can hit up people you know through the Stanford network, other alums. In our case, again leveraging our former search funders we had a small cadre of less than half a dozen former search funders who we talked to on a very
frequent basis and they were willing because they had already done their deals, they weren't relying on their investors for future money to actually give us the names of a couple of their investors and it's really, really powerful to have that introduction which plays into the broader point is to always try to have some sort of referral introduction while you can.

And you'll be surprised how much even people who turn you down will say talk to this guy or this guy - it might fit well for my friend Bob or whatever. And Lastly, never, ever really take no for an answer. Always follow up every two or three weeks, even after they say no. To a large extent, and Josh and I found that the potential investors are really measuring you on how well you can sell and how tenacious you are. If you can't sell them on a $25K or $30K investment, how are you going to convince company owners to sell his 30-year-old company, his life's work to you. On one occasion, Josh actually heard no five times, said to him over the phone until he got a yes, so that person is an investor in our fund today.

Lessons of searching techniques - just in terms of the outlines of Montebello, we told our investors that we would look for opportunities in the Western U.S., and we define that as Denver westward. We received some advice to not restrict our search geographically; we did that just for purely personal reasons. We're both westerners and want to stay out here. We're looking for business sources, companies and some light manufacturing companies, somewhat broad - that's broader end, narrower mandate and between $1-5 million [inaudible] pretty standard search fund parameters.

We're in the thick of this now, it's really - I don't think there's one silver bullet, you know, technique or piece of advice that will help everyone find a company to buy. No
Matter how methodical you are, there’s going to be an element of serendipity and luck involved in funding the right opportunity, the right company owner who likes you, who’s going to accept your terms, but the foundation of the search is really based is industry research funding, industries like - we started by picking a list of 100 plus industries doing one person day of research on each of them, just a really quick one or two calls, a little bit of quick hypothesis checking and narrowed it down to a dozen or so industries and have been drilling on each of those industries on a multitasking basis where you get to know the key company, the industry, get to personally know the owners of the company that will talk to you, get them to refer you to other companies.

Again, the referral game within deal sourcing is incredibly powerful and many would argue a pre-requisite to finding a company with an owner that’s really motivated to talk to you. We call them river guides - each industry will typically have the one seasoned veteran who perhaps owned a company and sold it and now is in the business of buying and selling companies in that industry.

It’s incredibly valuable and not that difficult to find that river guide pretty early on when you’re looking at an industry and get them to introduce you around once you’ve convinced them that you’re credible and you have the financial backing to close the transaction.

And all that said, you might spend months, a year or more looking at industries that you love and would love to get into, but you’re not going to find the company that’s ready to be bought in that industry. You can spend months and months of time with sellers who could convince you they’re ready to sell, but you put an offer on the table, they back away and they get cold feet and that’s maddening.
I'm sure as Rafael will tell you, there's other ways to kind of realize the search fund dream and he's not the only one who's started a company instead of buying a company, [fades out]

RS: That was a good lead off. I'm Rafael Somoza, I'm class of '96 and our story began a little bit like John's in that I came to Stanford, took Irv's class and realized I didn't have to wait until I was 45 or 50 to buy a company and do something on my own.

Out of that evolved a search fund concept, but we wanted to do it with a different twist. I'm from Puerto Rico and I wanted to take it back to Puerto Rico. I had done banking there and I had seen many of the companies that we had talked about in class that if you took smart, driven young people such as many of you here, put them together with smart capital that could add value, not only money, and found the right opportunity, you could make it a success.

So with that in mind, I took on a partner, someone I had known for a long, long time and shared a lot of the same passion for entrepreneurship and things in life as I did, went back to Puerto Rico, raised a search fund and looked at almost every possible industry you could think of, went down the aisle many, many times only to left standing at the altar, whether it was because the [inaudible] it was either because the strategic buyer came in at the last minute, it was because was too ugly or too short or something - always something happened, whether it was my fault or their fault, I'm not saying we didn't make mistakes.

And also, one of the main problems of that era was the prices were really, really high and as much as we wanted to do a deal, we were very disciplined and we were not
going to do a deal for the sake of doing a deal. Along the way, the question was how
do we decide to change course and do a start-up

We came across the [inaudible] advertising industry, started looking at it. Wi-
with the industry, it had a lot of the elements that a typical search funder looks
imple operations, very mundane industry, no technology risk, stable cash
with high margins and it was an underdeveloped and fast growing industry. So wi-
this is just perfect. So we tried to buy someone, once again, luck wi-
embers were [cocked] we couldn't reach a d

At that point we had been about 2 1/2 years out and we had to face a very tough
decision. Do we quit at this point or do we go forward with a different strategy. We
weren't ready to quit, that's one. For us, failure was never, ever an optio
the back of our minds. Sure, eventually we hit the ten year mark, we would quit. b-
that point we said look, if we really like this industry so much, and we feel thi
much growth, is there a space for another player or opportunity to do a start-up

The answer to that question was yes, we felt there was. This other company thi
we had tried to buy was fairly young and they had grown dramatically in a very sh
period of time. We felt that at worst we would do at least equally as well as he had
done. We could not foresee how we could do worse than he had. We didn't think
were smarter, but we didn't think we any dumber, either

that's how - I think it really became an issue of we really, really liked thi
industry and we decided at that point in time that there was an oppor-

So then the question began, okay, you told your initial investors you were going to
do an acquisition, there was no mention of a start-up along the way. They always
thought you were going to buy a stable company that had a cash flow, it was just going around the racetrack and now, you're changing the rules of the game and you want to do the noble project. What are you doing?

In reality, it wasn't that hard and the reason why it wasn't that hard, there were several. One, think throughout the whole process we had earned the credibility and respect of our investors and I think the reason for that was that we maintained a constant open channel with them, we were keep them apprased of everything that we were doing. we had lunch or dinner or met with many of them on a regular basis, and we had shown that we had the discipline and the patients not to jump at the first opportunity that we saw.

So when we said look, we have looked at all these industries, and we have looked at all these opportunities and this is the one that we have chosen and here's why. think that's one. The second, we had already sold them on the idea of the industry because we had already embarked on an acquisition. We had gone fairly well along down that path with that company. Thirdly, we had a solid business plan. We really, really did our homework.

We went out and talked to industry players from the states, suppliers, [inaudible] just about everybody we could talk to. We went to seminars, advertising agencies, we did a very extensive due diligence and we had a very well defined rollout plan as to how we thought we were going to achieve what we had set out to achieve.

Then think the other key issue was we tried to structure it so that we would limit most of the risk merely to execution on our part and that's just a way of how you devise a deal. For example, in outdoor advertising, it's key that you have real estate to put up
your billboard structure. So we went out and raised the money, we signed a whole bunch of leases and we got permits for it so we could at least go and say look, we already have proof of concept, we’ve got 25 sites, we don’t have the 200 that we need, but we have at least 25, that should be enough to show you that we can get this done.

And then we staged the capital with certain milestones, we weren’t going to ask for all the capital up front, but we tried to stage it so that we would need to have certain rollout metrics and operating milestones before we could collect more money.

think in the end, the only real risk, we tried to simply that the only real risk was whether my partner and could execute on an opportunity that we really liked in an industry where we saw a lot of potential. And have to stress that it was key that throughout the whole process you maintain your investors very well.

And actually, many of them said look, if we can’t buy the sky, can we start a company. If this industry is so good, can’t we start something there. So even some of the investors suggested that we take that route.

The other question that Irv wanted me to talk a little bit about, the other issue, was on how we assembled and [inaudible] a board of directors. In assembling a board, think that you have to think very strategically as to who it is you want and why. And think each director should contribute something different to the mix that is of great value to your industry.

In our case we wanted to have someone with media experience because we were an outdoor advertising company, we wanted to have someone with real estate experience because we’re largely in part a real estate development company with every
that we build and we wanted to try to have someone who was experienced
enture capital and creating value within a private equity context

So that's one thing. And hopefully, those people will round
which you have a lot of gaps, especially if you've never, like myself, had ever operated
business. You also want board members that will help you with contacts, the
help you with credibility, that will give you credibility when you talk to po
ditional investors or clients or potential companies that you want to acquire in y

Also, very importantly, you want to pick people that are going to take this very
ly and give you the required time. Every time you have a board meeting, you're
going to prepare a package that says - you feel that the person th
going to actually take the time, going to read it, going to analyze it, going to com
back with suggestions or sugge

management, how do you manage? So you've assembled a board
how do you manage them? We meet quarterly, four times a year, and I think the key
hing is always to keep them informed. There are no surprises, board members d
ke surprises, they don't like sugar coating, don't try to introduce new issues in a board
meeting that you had never mentioned before in your board package unless you literally
heard about it the day before and you take the time or take the opportunity to let them
know look, this just happened, this is hot off the press, we have th

So don't try to come up with things that you knew well in advance because thi
makes you look bad. Don't be afraid to say you don't know in a board meeting wh
meone asks, because they'll see right through you. Also, be prepared for every

Source: Fund Panel – November 18th 2002

page
meeting, have a very clear agenda as to what it is you want to get out of that meeting and go with very specific questions. We have this issue and we want your help in thinking of how to solve it and you go around the table.

And something that took me awhile to understand is, compensate them well. When we first started, I was like why should I pay board fees to them. They are an investor in this company, and I was really very reticent to pay any board feels at all, first because we were a start-up and I wanted to conserve as much cash as I possibly could.

And it wasn't until it got hammered into my head by other people and I understood and with time it became clear to me that you want to compensate your members because you want to make them feel that this is not a favor they're doing for you. They're actually getting compensated for it and they have to show up and then you can show up prepared.

Some of the other things that Irv asked me to talk about, what has been rewarding and frustrating about this whole start-up experience, let's start with the good first. On the good side, I think creating something from nothing is an incredible feeling, seeing it grow from when we had no boards to now we have 140 of them. To go from a little office space to a bigger office, from going to two employees, me and my partner, to 22, that is very, very satisfying and knowing that you've put your mark on everything that is being done.

It's the sort of thing that you take a lot of time to try to put all the elements together, and you wonder gosh, I don't even know how I'm going to hit my targets in month 24, month 36, that's just so far away. And all of a sudden, everything starts to
click and it starts building momentum. Everything that you’ve worked for all that time
starts building up and building up.

And that is a fantastic feeling. For me personally, also the other very rewarding
thing is the fact that we were creating jobs and think in an environment that people
truly cherish working for, not only are they well compensated but they have fun doing it
and to us that is very important.

Finally, just having the flexibility to balance my personal life with work as I see fit.
work very hard, probably as hard as when I was an investment banker, but I have the
flexibility and the control as to how I do that. If I want to pick up my daughter at twelve
o'clock every day, it's cool, that's what I do. I just go and pick her up and come back to
work and think for me that's very rewarding, to know that I have at least that measure
of control.

Frustrations - many, many, many. Day to day is not always fun. Rather than
CEO, your title should be CFF, chief firefighter. You're creating everything from
scratch, which is good because you do it your way, but it's also very painstaking. You
have many times no time to think about strategic issues because you're creating new
[prophecies] all the time.

Then there's the traditional growing pains of any new business, especially when
you don't have the systems or the processes in place, so every time you take two steps
forward, one step forward, all of a sudden something happens and you're back two
steps behind. Frustration is also just dealing with people issues, I think understanding
that not everyone has the same work ethics that you have is something that's very
frustrating, even at your same level.
You bring in people that you think are going to work as hard as you work and will put the same passion into the business. You compensate them well and you think that's enough, well, it's not. And other frustrating things - in general, we picked an industry that's not white collar. It's a little dirty in the sense that you've got a lot of cowboy players and just dealing with the rational players that don't have the same business ethics as you have is somewhat of a frustrating issue, especially when you have to deal with government regulations and all that implies with politicians and regulators.

That's pretty much my take. Actually, Barry Reynolds who is an [inaudible] investor with us, so with that lead, I'll turn it over.

BR: Actually, very happy investor as it turns out. Rafael's actually done one of the most difficult things which is to not only start a business, but you guys have actually operated that company ahead of the original plan that they had in place. So, it's really quite a story. As it turns out, we're actually investors in John's business as well - happy investors there, too. So it's great to be among such company.

We are quite active in the search fund world. think today if you look back over all of the investments that [Housatonic] has made and the firm is about eight years old now, search funds actually account for about 25% of everything that we've done. Now that includes not just search funds that we've been investors in, but also search funds that we were not investors in the original search fund but did invest in the transactions.

The one point that I want to make tonight is we're approached by many search funds, we invest in some, and we don't invest in others, and if you just happened to be
one of those that we’re not invested in at the search fund level, it doesn’t mean we wouldn’t invest in the ultimate transaction.

M: That’s us - there’s my commercial.

BR: Exactly, exactly. We tend to split our world into - the search fund world, into what we call first stage, or first time, guess is the jargon here at the GSB, and second stage, or second time or third time or those search fund entrepreneurs that have done this before. We have over time increased the percentage of second stage search funds that we’ve done and I’ll come back to that and talk about why that is.

The evaluation of a search fund entrepreneur for us is it’s actually a pretty difficult thing, it’s a pretty complex analysis, guess, and it’s very hard to be data driven in something like that, to be objective, there’s no cookie cutter. This is really - you’re not only trying to hire a CEO for a business, but you’re trying to hire a CEO for a business that you don’t know what the business is, yet.

It’s very hard to fit all of that together, and not only that, but the search fund entrepreneur, as John’s find out now and has Rafael and John have found out before, you’re not operating a business for the first year or two or three of the search fund. You’re actually behaving much differently and in a lot of ways you’re actually behaving like a general partner at a private equity fund.

It’s a set of skills that can be entirely different from what you employ once you actually take charge of a company. They can also be very similar if your business happens to be one that’s doing lots of acquisitions and that’s a skill that you continue to employ. It may be important, ongoing, so for us we spend a lot of time with the
entrepreneurs understanding the sort of companies that they’re targeting and really, think most importantly, what’s the business that they’re passionate about.

would encourage you don’t put your business plan together because what you think I want to hear, you’re going to regret that. Go into this because it’s something that you’re passionate about and if there is an industry that you’re passionate about and that’s what you want to the search fund to target, then do it and don’t try to overcraft your story. I think you absolutely have to be doing some selling because that’s just part of the game, guess fortunately or unfortunately, but I would encourage you not to overdo that.

So what makes a search fund entrepreneur successful ultimately? We’ve done our own retrospective view internally and this is certainly something that’s evolving year to year for us, but I would say that probably the most important factor is the quality of the business that you ultimately buy or that the industry that you ultimately participate in. That’s not to say that obviously the management team is not critical, but I think what it does is for us as we’re evaluating a team, much of what we’re evaluating is how you think about companies, how you think about businesses.

When you see a business that’s a quality business, do you know it? And what are the criteria that you are using to evaluate the companies that you’re going to be looking at? As we look back, it’s absolutely clear to us, and this is actually something that at business school the words were spoken but they sort of don’t always sink in, but a poor business is always going to overwhelm even the greatest manager. Just can’t say that strongly enough.
would encourage you to spend a lot of time understanding and defining that business that you're targeting. In terms of the entrepreneur themselves, have a personal bias toward teams rather than individuals and whatever say today, again, there's no cookie cutter, so you're not eliminated from our set just because you don't meet one of these criteria. I'm just giving you my personal bias here.

I have a bias toward teams, the main reason is, as complex as this evaluation is that we're trying to make of the search fund entrepreneur, there's more known if there's more than one person there. We know what the partnership looks like, we know gee, this entrepreneur has these skills, but doesn't have these skills. If you already have somebody else with a few of those skills in place, then it reduces our risk. It makes it an easier decision for us.

I think another quick point here is would encourage you to look within your own networks, your own backgrounds for those industries, those places in your network where you think you have some advantage to find a transaction, to close a transaction. We've even had that advantage extend to the ability to get low cost financing for a business ultimately. So would encourage you to think hard about that.

I think we've found that some entrepreneurs can have lots of success in not targeting the major economic centers in the country. You might take a look at secondary or even tertiary market places for opportunities as well. So guess in closing, just a couple of comments. I think this is absolutely a great time to be buying, fundamentally what we do is buy low sell high, this is a great time to buy low. Prices are down, and when I say prices, don't mean just absolute prices but multiples are down because strategic buyers are absolutely less of a factor right now.

Search Fund Panel – November 18th, 2002
Unfortunately prices are also down because debt financing is harder to come by right now. But all that has actually made for a pretty attractive marketplace overall if you’re a buyer right now. Would also encourage you as you move forward think about Rafael talked about the board and the board makeup, be thoughtful about potential mentors for you. They might be on your board, they might not be, they might be an investor in your search fund and the ultimate deal but maybe not sit on the board.

Somebody that you trust, whose judgment you trust, maybe somebody who’s been there and done it and can help you through the challenges that you’re going to face here because there are many of them. I’ll finish with my commercial again. We look at many, many search funds, whether or not we invest is not just a function of the quality of that search fund and the team, but we may at that moment just have other priorities that are consuming it, so even if we don’t have a chance to invest in their search fund, would encourage you to bring the ultimate transaction if you think it would be a good fit.

JM: I’m John Moran, my company is Classic Party Rentals. Think all three of these guys have given some great insights and where were you guys six years ago? Barry spoke to one point which is really to pursue a passion, particularly when pitching investors, and for me, think the guys at Housatonic Partners knew that loved to party and Classic Party Rentals is a full service event rental company.

We rent tents, tables, chairs, linens, china, the whole deal. We target repeat and recurring revenue customers, we do the Grammy Awards, the Emmy Awards, Buick Golf Invitational, a lot of the social events in San Francisco, the openings to the ballet...
and the symphony and the opera and that's the kind of business that we really target.
We have locations in Los Angeles, San Diego, Palm Desert and here in the Bay Area.

We should this year crack the $30 million mark, we have about 400 employees, which is a lot. It's a very labor-intensive business. I did my search in 1996. When I was pitching investors, pitched the party rental industry, the debt collection business and business records storage management and I'm glad I picked the one I picked.
think there's a good fit. I really studied the industry quite a bit and felt it was a good industry, as Barry said, and we found some good companies to buy.

We've done five acquisitions to date, we have a sixth one under letter of intent right now which hopefully will close January 1st and Irv asked me to speak about the sellers and some of our experiences and it's been a wild ride. It's an interesting experience, negotiating with sellers, putting a deal together from the initial phone call or meeting through to the actual signing of a deal and I have very vivid crystal memories of every signing, of every deal we've had because you never know - is it going to really happen, do we have it, is it a done deal?

And I would say that each and every seller that I've dealt with has been unique and has had different interests and think it's really important to get to know the seller, both on a personal basis but also really to ask a lot of questions, to understand what are their objectives, what are their goals in selling their company and trying to structure your deal so that it meets not only your needs but the seller's needs as well.

Lots of questions to ask. How important is the percentage of cash at close versus seller financing. Some sellers value cash and only cash. They don't value earn-outs, they don't value seller notes, they discount that. There are others who want to be
able to say hey, sold my business for $5 or $10 million to their friends - they don't understand the concept of present value, future cash flows and that's the kind of sellers we like.

And then what do they want to do after the sale? What do they really want to do after the sale and it takes many, many discussions to understand that and it depends on what your business model is. There are some that say hey, we're going to keep the sellers in place and they're going to continue to operate the business and I would say if you do that, make sure incentives are aligned.

I think our model has been to really in most cases have the seller out of the business within about six months or so and on a continuing consulting agreement where we give them different projects to do and keep them interested in our success over the next two or three years, but our model is to really hire from within and promote our own people into the general manager position and that seems to be working out okay.

Let's see - getting back to the seller financing, it's just a good idea to have a seller note out there or some sort of contingency payments. In most cases, sellers are honest and ethical and they're forthright in what they're selling you. In some cases they may not be and we've had one experience where we found that the seller had misrepresented the business and it was about a $5 million transaction. We were able to hold back a million and a half of that without going to the courts.

There was a lot of legal stuff going back and forth, but that made all the difference between whether it was a terrible deal and what's turned out to be a pretty good deal. And so, that's another reason for having some seller financing in place.
Earn-outs are good, they can really help bridge evaluation gap. If someone believes that their business is worth more than you think it is, if you can structure something that is based on future performance of the business, it could work for everybody and that's been essential to us in closing deals and has been pretty good for the sellers because in most cases they've earned that money at the end of the day.

... would say when dealing with deal structure and all the legal stuff, do your very best to keep it simple. You want to protect your rights, but it's really important that it's easy and understandable that you're able to bring a transaction to conclusion and if the time period from when you first meet the seller and start negotiating to when you actually are in the final rounds of negotiation, think the longer that time span, the less likelihood that you're actually going to close the deal.

There's something such as deal momentum that as things are going forward, you want good deal momentum. If it starts drawing out, you start getting [yield] fatigue and then no one wants to do a deal. You find all sorts of reasons not to do it. Think that deal momentum is key.

Coordinating bank financing and closing your first transaction with a seller and putting together investor monies to make the deal happen, that's a really tough bunch of things to juggle and in our first deal, we had difficulties - it was too small, it was about a $3 million transaction for about a $4 million revenue company with a $1 million [inaudible] and we couldn't get a bank loan without any personal guarantees.

And we weren't going to put personal guarantees on the deal and so we were able to go to our investors and both equity and sub that to finance the whole deal. Six
months later, we bought our second company and we were able to get a small loan, about half million-dollar loan with the middle market group at Union Bank of California.

From that point forward, we were able to lever up once we had that banking relationship in place we were able to lever up as we did each additional acquisition. But the first acquisition, I think it's really tough to put all of those things in motion. Probably having a partner and search fund helps you to be able to manage those processes. I did the search fund on my own and brought on a college friend, someone I had worked with after college, brought him on after we acquired the first company.

One other note on bank financing. We recently refinanced our bank loan and actually switched banks after four or five years, which was a tough thing to do because you build a partnership with your bank, but we found that when there is no competition, their interest rates and deal fees and desire to loan us more money, their appetite for that was pretty low.

When we got competition involved, they became very interested and we got just some super competitive rates and very little deal fees and it was amazing, the difference between having competition in the mix and not.

So that's it on the dealing with sellers and buying a company. Irv also asked me to speak about the changing environment that we've seen over the last few years and I would say you guys are all very smart to be in business school in today's economy. I guess I'll qualify that by saying the first year's - it smart to be in.

I could speak about how within our business context how we've responded and maybe I'll get to that if we have time, but a lot has happened in three years. And three years ago, I have a lot of friends who are venture capitalists and who are in the
technology industry and they were calling me an absolute knucklehead. I was the knucklehead who was running tables and chairs.

I'm feeling pretty good today. I poured a lot of my own money into this deal and in 1999, I was wondering, what am I doing? But I set a fourth a 5 or 7-year plan that this was what I was going to do. This was what I was going to commit to and stick by it and I think it's important - you guys have a lot of options and think it's really important to figure out what do you really want to do, what are you good at, what's your passion and what do you want to do for the next 5-10 years and to build some expertise and some knowledge, either within a specific skillset or an industry.

I went to my 10th year business school reunion and there were a bunch of people without jobs who had done a bunch of different things and very talented, smart people and I think they're finding it tough to figure out what they're going to do right now. I would encourage you to make a commitment and build expertise and have fun doing whatever you're doing.

If we have time, I can talk to you about how we dealt with some of the environmental change. We bought into a relatively immature industry, lots of change as the industry has been growing and evolving, highly fragmented industry, mom and pop industry and some of the change has been really good, some of it hasn't been good.

Two of our key financial metrics are asset utilization and labor cost. We want to maximize asset utilization, we want to turn our stock as frequently as possible and we want to keep our labor costs as low as possible.

I would say on both fronts, we've been challenged because our clients want a ton of variety. They want every different kind of linen, every different kind of china, they
want green tents, black tents, and so it’s really difficult - it’s become a more capital
intensive business, so making those decisions on what to buy and what not to buy.

We entered the industry when you had two choices of flatware, either the silver
or the stainless steel. And today, we probably have the Manhattan and London - it just
drives you nuts. [end of side a]

.. so that’s been one pressure on our business. The second is labor. Labor
costs have just gone up, certainly when the labor markets were real tight a couple of
years ago, just our cost of labor went up. There’s been a lot of laws, we have a lot of
minimum wage workers, or close to minimum wage, and the minimum wage in
California has gone up steeply over the last five years.

And I guess the way we dealt with this is we’ve picked apart our business, tried
to figure out how can we operate more efficiently and we’ve leveraged the heck out of
information systems where our asset utilization - we have a real good read on what
rents and what doesn’t rent and how to try and rent it some more.

We’re probably implementing tools in our business that our competitors are not.
don’t they’re super analytical in terms of really understanding some of these key levers
to the business and then on the labor cost, we’ve really pushed down a lot of the
decision making to our managers. We have a dishroom manager, a laundry manager,
dispatch manager, warehouse manager and we’ve educated these men and women on
how to understand the business and the cost of the business and how to schedule
differently and how to evaluate their employees to make sure we have the best
employees.
We’ve spent a lot of time with our managers to break out employees according to the top 20%, the middle 70% and the bottom 10%. We said we don’t want to lose anybody in the top 20% and anybody in the bottom 10%, they have either got to move up or move out. And that’s something that’s tough to do, particularly when you have a decent size company, or at least in terms of employees, having that kind of discipline has really helped us to make sure we have the best workers possible.

And that’s helped with our labor costs and, guess - when buying a business, understanding how can different economic conditions impact the business, and actually researched this industry pretty thoroughly between the 1990 and 1992 because intuitively you’d think, gosh, party rentals, when there’s a recession, people don’t party as much.

What I found between 1990 and 1992 is the business to be fairly resilient, that growth slowed certainly, but it was still a very stable business and that has proven true over the last few years that we’ve continued to grow organically even in this kind of tough economy and part of it is because the recurrent nature of these events. We’re talking about golf tournaments and award shows and move premiers, all that stuff is going to happen every year, hopefully.

What we didn’t count on was September 11th. And we got really hit very hard on 9/11 for a period of about six months. We were fortunate in that we have a lot of variable costs in our business, so we were able to scale back the number of hours, the number of laborers, but fortunately it bounced back since March of last year.

I think we’re optimistic about the industry’s future. I think the general trends are pretty good. I think people seek different experiences and people like to be in an event
think the viability of the industry and our business is good and things have been okay and hopefully we'll make lots of money for these guys. I knocked on Housatonic's door in 1996 when it was the door of a closet in Boston, I think, when they had about $2 million under management. It's been great to have an investor and board member, one of Barry's partners, Will Thorndike has sat on the board for the last five and a half years and I think we've definitely had our ups and downs in the relationship.

It's pretty solid and it's good to have board members and investors who have faith in you to let you do your thing and it's very rewarding to have those kinds of personal relationships and I think when you talk about building a company, it's awesome to see progress and to build relationships and watch a lot of your employees develop and grow and learn with the business and that's been one of the more satisfying aspects of my experience.

Q: I have one question, and then we'll take your questions. Suppose I'm an MBA student, I'm going to get my degree this June or a year from June, I'm committed to having my own company. I like the idea of the search fund, what are the pros and cons of doing it right out of school versus getting some experience?

IG: Personally, I think it depends on what you did before business school in part. I would take a hard look at the experiences that you have and again, I'll come back to my own bias, for having a team involved. If there's sort of a natural partnership that you've developed with someone and that might have been again, prior to business school

Search Fund Panel – November 18th 2002
that's something you can call on. To me, that matters a great deal. But that's one bias that I would have.

RS: think one bias that I have about not taking on a job and spending two or three years would be that if you choose that route, you might get sucked into the whole job thing and then you're working [inaudible] start making $200K this year and next year you're making $400K, then you're making $500K - and then all of a sudden, you start saying well, maybe I can just wait another year and it really takes a lot of commitment to say you know what, I'm just going to quit my job, and I'm going to take that route. I'm going to take the road less traveled, and I'm going to work for the next two years at a salary of $25K or $50K while you're looking for a company.

So think the negative side to it is that if you indeed take on a job it might derail you from pursing that. Although if you're truly committed to doing it, it shouldn't really matter in the long term.

M: When we were raising our search fund, we never had an investor say to us well, we wish you'd worked for a couple of years after business school. If you had done that, we would have invested in you, so I don't know - unless you work for a couple of years in the industry that you name specifically as your number one target industry in your prospectus, it probably doesn't make a huge difference.

think they will basically view you as the hopeless neophyte who is hawking a crazy idea anyway when you walk through the door.

IG: We welcome your question and we'll try to give you short answers so we can get reasonable coverage of subjects.

Search Fund Panel – November 18th 2002

page 28
Q: think Barry had mentioned demonstrating passion for the industry and [off mike] and I was curious - in that way, how do you demonstrate passion for one particular industry?

BR: didn’t come back to the second stage search fund idea, but one of the things that we’ve done quite a bit of in the recent years is we’ve had very targeted search funds, so entrepreneurs who have come out of some of our core industries, we do a lot of investing in small market cable television, other small market media, we’ve looked at a lot of broadcast TV and small market radio and some other niche media businesses, so one of the strategies that we’ve had is to find some of the best operators in those markets, people who want to stay in, but they don’t want to keep running 20K subscriber systems for one of the large MSOs.

They’d rather get out, buy something, they’ve always wanted to be an owner/operator, so my comment certainly relates more to second stage search fund entrepreneurs but I think also if there are people who have some extensive experience in an industry and they still want to be in that industry, and it’s one that there is some fragmentation in the industry and there is an opportunity to buy and operate, that’s on your radar and you’re passionate about it, that’s great. From our point of view, that’s a terrific thing.

M: think you can also be passionate about the process of building a great company. Some people know the industry they want to be in and they’re passionate about that industry, but I also think you can say I’m passionate about building a great company and I’m going to find the right industry, don’t know what it is right now, these are some of the ones that I’ve analyzed and appeal to me for the following reasons, but I’m not
coming to you as an investor in representing that, I'm going to end up in one of these industries, but I am going to try to build a great company and I'd love to have you be an investor.

And that's a credible thing to say as well. Other questions? Yes.

Q: So you've searched and searched and you've found a couple of targets or a target and you're going to do the deal and you don't know a lot about doing deals and it's a very scary time. Where do you look? Is this when your board starts to kick in? How do you find out what to do next?

A: I'm in that scary time right now. You learn just along the way I've found and you lean heavily on the board and the other investors who have the time and inclination to be active with you. And I think at the end of the day it's not rocket science. Structuring fancy warrants and earn-outs is a little more complex, but once you get down to the basics of cash at close, seller note and earn-out, those are the kinds of key knobs that you use minutes negotiating with the seller.

had zero private equity experience or deal experience and I don't think Josh or feel handicapped by that at this stage.

A: would add to that higher version. Try to get someone who's an experienced deal maker lawyer that can guide you through that process and it's going to cost you money, but generally you tend to value that resource.

A: think in terms of putting together - figuring out what you're going to pay and how are you going to put together an offer and what is a letter of intent, I think I had a couple of friends who had bought companies and so I got their letters that they sent to the sellers and I got their letter of intent and turn sheets and just collected a bunch of them
and tried to make up my own from there and I think having a good lawyer - that's after a deal has been accepted and I had a lawyer take a look of my letter of intent and I went [inaudible] with other people's templates.

Q: ... and what were your experiences?

A: We use them, but we don't use them exclusively. I think once you get to know a group of business brokers, they also get to know what you're looking for, what industries you're interested in, what size range you're interested in. At the end of the day a business broker can save you a lot of time or at least bring you a business that's actually for sale as opposed to one that's just trying to get a free valuation service.

A: I didn't find brokers to be helpful when I was doing my search fund and I just preferred the approach of targeting an industry and getting to know that industry and think even once in the industry, there are some brokers in our industry. I felt I didn't really need them because it's such a small industry that I could source deals on my own. That broker's fee is a chunk of business that can make the difference between whether you're able to close a deal or not.

IG: I had coffee the other day with a man named Chris Flanagan, he actually was the author of the search fund study that some of you have seen. He's been looking for a company based in Dallas, where he's based, he's been looking for about a year and said Chris, what is the single thing you would do differently in the past year if you had it to do over.

He said he would not search opportunistically, he would search only by industry. He said he had wasted a tremendous amount of time trying to analyze the companies that friends or bankers or broker brought in, and it took him a long time to realize he
could not just analyze the company, he had to analyze the industry and the competitive position and it's a very inefficient way to search that way.

That's a little bit counter intuitive in the sense that you think I want to buy a company, why don't I tell my friends want to buy this kind of company with these parameters and some of the things that have been mentioned, but not be specific about the industry. And I think the answer is that it's very hard to - and efficient to analyze the flow of companies that come in and time goes by, your scarcest resource is your time.

Other questions?

Q: It seems to me the track record for first time is actually not so good. Can you talk about why that is?

A: I would think the data is different than that. It's interesting because I think you would think that second stage search funders have a better track record than first stagers but at least our look at the data suggests that first time search funders are still a very good investment for somebody to make.

And I think part of that might be - one of the hypothesis that we have is actually on the second stage group that there's a sense that I'm more experienced and I can handle more, more complexity, a bigger company and they have tended to get themselves into trouble sometimes on that second go-round. So at least our look at the that first time search funds overall have been very successful and I think actually the GSB study would support that as well.

But they key if you look at what's been successful and what hasn't is the quality of the business and it's things like - one of the things we think - one of the insights into selecting the business is the complexity of a company, of the industry. For example, if
the CEO and his direct reports are spending all of their time thinking, here it is

November 18th, how am I going to make the November numbers, what do we have to
do, how are we going to scramble around and get that done versus if they have a
business that has characteristics such that the operation of the company is less
complex, it’s got some other characteristics, very strong recurring revenue, high
margins, etc., it allows the team to step back and be more strategic and be thinking
about how to add value in a much more strategic way.

Q: If you don’t know exactly what it is you’re buying, how do you know how large the
search fund should be?

RS: Think what you do in terms of search fund is you raise enough money to last for a
2-3 year period and try to do a budget of what you think your operating expenses are
going to be. So the size of the initial search fund really shouldn’t matter as to what deal
size you end up doing.

You certainly want to give some indication to your investors as to how big a deal
you want to do because you want to let them know that you might be calling upon them
for an X amount per investment. But you would tell you not to limit yourself to the amount
of capital to be raised shouldn’t be the limit to what you do. If you find a deal that’s
bigger than what you originally thought you would do and it requires more capital, take it
to your investors and see if you can get it done.

Q: I’d like to understand [off mike] what kind of investors are good investors, how do
you find them, and then are the number of investors, what are the numbers, [inaudible]

A: In terms of the amount of money, it can range anywhere from $15K to $35K an
investor typically. Maybe a dozen or so investors would be the right amount. More than
that for first time search fund, you may be herding cats, even with a dozen, you may be herding cats when it comes time to close a deal.

Q: How many people did you have to see to get 12 investors?
A: We made, in person or over the phone, pitches to probably around 75 people and I'd say that's probably middle of the road.

Q: [off mike] anybody who is linked to investors?
A: At a certain point in our fund raising, we felt that way. When you get about four months in and you've got less than half closed, you start getting a little twitchy. But you want to only accept a search fund investment from someone that you're quite confident can follow on with 10 to 15 times their initial investment if you bring them a deal.

Whatever that means - the personal net worth of $5 to $10 million, it's hard to say, because you can't just walk in and ask someone what their personal net worth is. There's really no easy way to determine it, you just get a general sense of how long the person's been in their career, if they've got family money, you wind up sometime accidentally pitching people who don't have money and the tell you - people pitch their family dentist and stuff - you can get right down there.

Occasionally, I know other search funds that have taken investment money from friends, just like associates who clearly won't be able to follow on with the full complement of capital, but they feel it's a nice incentive for them to really perform because they don't want to let their friends down. It's also a nice signal to other investors that you have one or two friends or family in that - you're going to do more than lose investor money, you'd lose personal money in a way.
RS: We took a similar approach to the way we assembled the board. We thought very strategically who we wanted and why. And I think our most effective closings, potential investors were those that we could say, Barry, we want you to be an investor and here's why. Because you bring X Y and Z to the table and that's exactly what we're looking for.

If possible, make a list of people that you would want and try to tailor it to very specific reasons why you want them in your group.

IG: One way that raising a search fund often goes, although there are variants is that you see 60-80 people, you call a lot more than that because some just blow you off on the phone, but you have meetings with 60 or 80 people and you get a few early adopters who say yes. You get a lot of people who say no and then you get some people who say, well, this is all new to me, don't know, keep me posted, maybe later, not now.

And when you raise - let's say you're trying to raise twelve units, when you've raised seven units, you then can go back to that last group of people and say, the train is leaving the station, would you like to be on board? And psychologically, that's a very different proposition from saying we're thinking about this train, would you have any interest in a train ride? By the way, we don't know where it's going.

Q: [off mike] what kind of [inaudible] did you find?

RS: think the biggest blow that you can have is start working on a deal and you actually get into an acquisition process, you sign a letter of intent and you're happy, you think you're going to get it through, you start spending money and accounting's doing
due diligence you start spending money and all of a sudden the deal blows in your face. You're out $40K $50K in fees. What do you do?

That think is the one thing that you have to be really careful as to when you start spending actual money in each deal. You try to mitigate all the risks associated with closing that deal before you actually open the faucet and start drafting documents and start doing due diligence on the accounting side.

I know some people where that has happened and it actually happened to us at one point in time and fortunately we had negotiated a breakup fee and luckily, we were able to collect it. But I think in our view that was the biggest potential unexpected that we had.

A: Let me comment to this. After raising a few hundred thousand dollars by selling someone an option to invest in you, you get pretty bold and so we went to lawyers and accountants and interviewed a bunch of them basically the deal was I'm trying to put together an acquisition and I'd like you to work for me pro-bona and I'll pay you when the deal gets done.

And if the first deal doesn't happen, I'm not going to be able to pay you, but we're going to get a deal done. And surprising enough, there were some lawyers who were willing to do it. I think I met with two lawyers who were willing to do it and then Coopers and Lybrand, an accounting firm were also willing to do it.

A: They've been willing to do a lot of things lately.

A: So you can be pretty resourceful in ways to conserve cash and paid rent for $318 per month, still remember that.

Q: [off mike] and how successful was that?
RS: Personal money? How about three years of foregone income? I think in most cases, you don’t actually put your own money, but what you do is during the search fund period, you take a very reduces salary what you would be making in the open market, so if you figure you’d be making $75K, $100K out of business school, you’re paying yourself $50K during the whole process. In effect, you’re contributing the difference of that money.

IG: don’t think you need to put your own money in. did, but I thought it was going to make a difference, don’t think investors really care.

A: We didn’t put any personal money into search fund, but we had a couple of cents to rub together, we may put it in the deal.

Q: [off mike]

A: Post-deal? So you’ve acquired a company? Pre-deal and post-deal. I’m from the era of $50K a year compensation, don’t know what it is these days. Post-deal current guess post-deal compensation we were at about $100K. This was 1997 and would say below market until maybe two years ago. And then there’s the equity component which obviously you’re sweating for.

think it probably depends on the size company you buy and whether you have a partner or not. There are lots of factors that impact your current compensation.

Q: [inaudible] and stuff like that.

IG: Plus in John’s comment is a carried interest that the search funder or search funders get. Some of it is at the closing, some of it may vest over time and some of it maybe performance-based. So that you’re really not expected to put money in as has been said and they expect to end up with 15-30% of the deal, it varies according to the
correct?

JF: Yeah, around $70K. I've heard of more, heard of less. What I've also heard is that no investor has ever pushed back to say take less salary. If you ask for it and you can justify it, you'll get what you ask for.

Q: [off mike] ... talk about how you can [inaudible] person selling the business and then starting up - having met you, if you're trustworthy and have the equity to back you up, but then at the same time you're trying to get bank finance, you're trying to get the investments in, trying to get [inaudible]

JF: It's a challenge because you have - you're going to close on a multi million dollar transaction and you don't have the money. And you're telling them you do, or at least you're saying he or my group of investors, brought them up to speed on the business, they've seen - you can walk them through it and even having your investors speak with the seller - if the seller is nervous about it, you can always them talk to some of the folks at Housatonic Partners or one of your other lead investors. think that helps.

But again, getting to know the seller and if they see you as credible and trustworthy and you stick by your commitments and you're following through with every conversation you have, they're not going to have such doubts.
Q: [off mike] investment, you've got great numbers, you've lined up Housatonic, how to you prevent the seller from going to market and auctioning your firm? If he thinks he can get 10% more and blows the economics [talkover] is that part of the risk of the chase?

JF: A couple of things. One, relationship building so they're not going to do that, really getting them to buy into you and two is in the letter of intent you can have, you can put something that's legally binding in there, which we do, the letter of intent is not legally binding except for one section - think where we say that they - it's an exclusivity clause where they're not going to shop it to anybody else within a decent timeframe, so that helps.

And also when people sign a letter of intent, hopefully they're not going to start looking elsewhere. Part of it is just good faith.

IG: There's a big psychic element, too in many of these transactions where you may often be dealing with a seller who is older and you strike a bond with them and they are thinking all the time can I entrust my baby to this person or these people. There are non-financial motivations that play and to the extent that you can build those bonds which John has eluded to, but I'm just underlining, it just strengthens your ability to carry forward the transaction.

Q: I was wondering, what's a typical relationship between the seller and the funder after the deal is done. Do you keep the seller as a function of the business, or do they just retire and go home?

A: I think it was you, John that shared a bias that I share as well that you don't - I think you're better off structuring something where there's a period of time where that seller is
timeframe, at least that's our point of view.

Q: [off mike] fund started last year and two the year before, Barry, how often do you see funds that you've invested in competing with other search funds?

BR: You mean the competition from other search funds out in the market?

Q: ... or maybe I'm not just [inaudible] [talkover] have you seen funds compete with each other out there?

BR: think there are a number of new search funds cropping up, but shockingly, somehow we have not been competing against them on deals. can't explain it - I think it's just a lot of deals out there even though it doesn't seem they're going to get done every other day, it's a big pretty big pool we swim in.

JF: think it has something to do with the size range that search fund entrepreneur are looking which is it's the reason Housatonic is so active with search funds is there's overlap there and we just - we count this up every year, but 95% of the investments we've made in our history were non-competitive, which is really a unique statement in the private equity world, but I think it has more to do with the size that we're all looking in and there's just a lot of opportunity there.

A: And we also keep in touch with a number of the other active search funds, at least in the Bay Area and we know generally often what industries they're looking at, so we
competitor in that marketplace. That holds for Housatonic in our non-search fund deals and again, I think it's just a function of your taking a company from $20 million of enterprise value to $50 million, maybe beyond, but you're in that sort of a realm, so you're not talking about IPO [inaudible] although there are some search fund deals that think really are candidates out there in the marketplace now, but strategic sales is going to be the most common, I think.

Q: [off mike] one is [inaudible] ability of the service industries, environment and two, the ability to conduct an effective geographic search, especially in a major metro.

RS: I can talk about the geographic search because that's exactly what we did. The pro is if you're from that geographic region, that might give you a head start in you know the people, you know many of the sellers, you know many of the companies and we have relationships in that area that hopefully will make it easier, or at least so we thought.

And that's some of the positives that we see. Some of the negatives are that when you start doing your industry analysis and you say okay, I'm going to pick these five industries that really like, and I'm going to start with the widget industry and then you say, the widget industry's great, and there are only five companies in the area and
you go and talk to all five of them and none of them want to sell, so you have to strike
that one out.

That's how I would balance it. There's a good in that you may have a head start
and you know people [inaudible] the downside is that it truly limits the amount of
potential candidates that you can look at.

A: think the first half of your question, certainly anything with - companies with assets
out there have been easier to get debt financing for most recently, we've certainly found
that. think John's point earlier about seller financing being a key part of your structure
that you want for other reasons, are becoming more important now that what's
happening out there to bring prices down is we're just saying, look, we just can't get
debt financing, so we need a lower price plus you're going to have to take some of that
debt financing so the seller notes are actually growing and becoming more important.

A: It's a fairly hard job, Rafael and his partner did it, but it's a fairly hard job to convince
investors that you find a company in, let's say the Bay Area. think you really have to
have a broader focus on that and say I'm willing to go to these five western states, I'm
willing to move anywhere at least for awhile. It's not for the rest of your life, necessarily,
it might be for the next 3-6 years and maybe you can morph the company that you buy
in Tulsa to move the headquarters here [inaudible] which is one of the great search
fund success stories.

They bought a company in Houston and moved it to the Bay Area, but I think it's
very hard to say we're going to buy a company in the Bay Area, or we're going to buy a
company in Chicago or Boston and that's the only area we're going to look in and
investors want more chance to win than that.
organizational structure, you get a pretty clear picture on what a good company is and what a not so good company is.

We tried to focus - for us it was do they have a quality client base, the repeat, recurring type client base, do they have a team of managers and salespeople who have been with the company for awhile and who perform and do a good job. Their quality, their assets for us, it was the quality - the rental assets are the white wood chairs white, those kinds of things.

You walk into a place, you get a general vibe of what it’s like. Is the owner someone who delegates or not? Is everything flowing up to the top and where they’re making every decision? don’t think you’d want to buy a company like that. But if you walk into a business, you spend an hour or two there, you get a real good feel for whether it’s a good business or not.

And in combination with the financials, think it helps you evaluate a business, and seeing a whole bunch of other businesses in that industry is very helpful. And it’s surprising how people will open up their doors to you.

Q: When you talk about the percentage of deals where you’ve done where the seller was interested in selling versus [inaudible] and you really have to turn yourself around?
RS: think one thing that you learn, and it’s the kind of thing they tell you before you go into it, but you [inaudible] actually out there. One of the toughest things is to ascertain whether you have a motivated seller or not or if it’s someone who’s just sitting there and one day you call and he says, don’t know if should sell my business or not, it sounds like a good idea. They just string you along, and they say I just wanted to know what my business was worth. So I think you have to spend a lot of time trying to ascertain what it is, why this person wants to sell, are they for real or not.

don’t know if can answer what the percentage is, but every time that we got strung along, we went back and said what happened here? Well, this person did not have a need to sell. think that’s very, very important and those reasons for selling him [inaudible] health, divorce, a number of reasons.

A: We’ve only found two or three sellers that didn’t think they wanted to sell who then claimed they wanted to sell, but it’s been our ongoing experience that they actually wanted to sell for seven times [inaudible] so they’re not really realistically looking to sell.

What we also look for with every seller is the true motivation behind selling. Is it retirement or they’re getting out when the getting’s good and something’s about to fall off the cliff. You always have to raise an eyebrow when it’s the 37 year old selling the business to spend more time with the kids at home because if he’s earning $1.5 in his pocket every year, there’s something going on.

Q: Can you talk about the [inaudible] early on and what you realistically expect.

RS: think if you are married, think the first thing you need to make sure that your wife’s on board. And I truly mean this because once you embark on doing this, it is an emotional roller coaster. You don’t know where you’re going to be living, if you do like
because all of a sudden the guy wasn't want to talk to you any more.

And then you add to that that some people get lucky or they work harder at it and get it done in a year, but others take 2-3 years. So that - balancing your worklife with personal life is make sure that your significant other is on board. The one thing that is true, you do have more control, or at least perceive control of your time as to how you allocate how you can do on a personal level. But you're still going to work very, very hard.

IG: We're out of time. Thank you panelists, and thank you all.