

# businessmonday

THE HERALD  
SEPTEMBER 8, 2003

Becker Consulting Services

September 8, 2003

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## Change of heart, change of ownership

Entrepreneurs  
buy back their  
own companies

**INTERNATIONAL:**  
Soaring Mexican crime rate  
spawns an industry of armored  
cars and bodyguards.

**NEWSMAKER:**  
Leigh Toney hopes to combine  
cutting-edge business  
development and  
community building.

PHOTO CHARLES TRAINOR, JR./HERALD STAFF



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## the buyback trend

Executives of some local companies that were acquisition targets in the '90s are purchasing their old companies.

Jeanne Becker,  
Becker Consulting Services  
She relaunched her  
firm after finding her  
goals didn't match  
those of her larger  
corporate parent.



'Make sure  
the buyer is a  
liquid concern.  
My business  
partner and I  
were left with  
nothing more  
than a shell.'

Brad Levine  
Blue Frog  
Solutions



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STORIES BY SHARON HARVEY ROSENBERG

PHOTOS BY CARLE JUSTE

After selling out to corporate giants, executives of small firms sometimes miss the freedom and flexibility of running their own show.

In a typical workday, mortgage banker Patricia Hayhurst spends 12 to 14 hours answering phone calls, cultivating clients and building her business.

It's far from the leisurely lifestyle Hayhurst (cover photo) imagined when she sold her small company — Hayhurst and Associates — in August of 1990.

"I was just so thrilled that I was made an offer by a public company," Hayhurst said. "I thought: 'Oh my gosh! I'm going to retire. I'm going to have stock. I'm going to have time to spend with my kids.'"

"Wrong. Now I am working more hours," says Hayhurst, whose early retirement plans were derailed by a bad merger. She ended up buying her company back.

The honeymoon is clearly over for Hayhurst and other small South Florida business owners who sold their private businesses during the boom of the 1990s. Either through initial public offerings or stock-for-stock corporate mergers, local entrepreneurs joined the ranks of publicly traded companies during the long bull run of the 1990s.

It was an era characterized by record levels of stock sales and corporate marriages of convenience. But after a three-year reversal in stock prices that began in early 2000, some of these South Florida companies became either disenchanted with their new fortunes or unhappy as a small division in a large

corporation.

What's more, some business owners who sold their companies for stock were left holding either valueless stock certificates or shares that had dramatically diminished in value. Others who sold public shares through once-hot IPOs were nipped by a frosty after-market reception.

Nationwide, many of these companies are now turning their backs on Wall Street or former merger partners. By buying back shares and assets from new corporate parents or public stock owners, entrepreneurs are reclaiming corporate ownership.

In Hayhurst's case, the acquiring company — Plantation-based Finantra Capital — was hard hit by cash flow problems, a lagging stock price and an aggressive merger plan, according to Hayhurst. What's more, she said, the new corporate owner failed to pay her vendors and employee tax obligations.

Citing client confidentiality rules, Maynard Halman, former counsel for Finantra, declined to comment on Hayhurst's allegations. The Herald was unable to reach company executives and the phone number listed for Finantra in Securities and Exchange Commission filings was answered by a fax machine. After The Herald faxed questions to the number, a woman who declined to iden-

▶ PLEASE SEE OWNERSHIP, 24

## WHEN PUBLIC BECOMES PRIVATE

Key shareholders take Florida public companies private at a faster rate after 9-11 and the bust of the dot-com boom.

### Going Private in 2003 (January through August)

Public Company	Ticker Symbol	Private Buyer	Deal Announced	Deal Size* (IN MILLIONS)
Coast Dental Services	CDEN	Management-led group	Feb. 21**	\$4.61
Breed Technologies	BDDTZ	Carlyle Group	Mar. 4	n/a
Hojo Holdings	HJOH	Private group	Apr. 24	n/a
BCT International	BCTI	Phoenix Group	May 29**	\$4.87
JLM Industries	JLMI	Private group	Jun. 24**	\$6.24
Janus Hotels & Resorts	JAGI	Janus Acquisition	Jul. 29**	\$1.07

### UP FROM 1999 (January through August)

American Media Inc.	ENQ	Evercore Capital Partners	Feb. 16	\$297.44
Sheridan Healthcare	SHCR	Management-led group	Mar. 25	\$73.72

\*Deal value based on equity price \*\*Transaction not yet closed  
SOURCE: FactSet Mergerstat

## More companies are walking away from public markets

A corporate divorce can take many forms. While some disenchanted sellers sever ties with new owners, other companies part ways with public stock owners.

The combination of low share prices and costly compliance with new federal regulations has reduced the lure of common stock ownership for many small to mid-size companies in South Florida and nationwide, heightening interest in private ownership.

"We're talking to a number of companies about going private," says James Casel, president of Capitalink, a South Florida-based investment banking firm. "Since the beginning of this year, far more companies have gone private than have gone public."

His firm is currently advising a special committee at Fort Lauderdale-based BCT International, a holding company for subsidiary Business Cards Tomorrow, about a proposed going-private deal. Announced on May 29, the transaction is valued at \$4.87 million and is led by the company's management team.

The deal is one of six similar transactions announced this year, up from only two such deals in 1999 during the height of the stock market rally, according to data from FactSet Mergerstat, a California company that tracks market data.

In a shift to private ownership, a company or a single investment group — typically senior management or the original founders of a business — buy back the outstanding shares traded or held by the investing public.

Companies that take the buyback route typically are the so-called orphan stocks of Wall Street with all of the burdens of a publicly traded company but few of the financial perks. Orphan stocks typically suffer from an ailing share price and low visibility on investment-research radar.

Meanwhile, the Sarbanes-Oxley Act, which was passed in response to the recent spate of corporate accounting scandals, places public companies under greater scrutiny, thereby increasing the cost and potential liability of public ownership.

"So many companies are considering going [private]. We think this is a trend because of Sarbanes-Oxley and the increased cost of being public," says Andrew Stull, a managing director in the Atlanta office of Houlihan Lokey Howard & Zukin, an investment banking firm.

Paul Berkowitz, a corporate securities attorney at Greenberg Traurig, recently helped Incam A.G., a publicly traded German company, pull out of the U.S. stock market. Incam, a financial services provider and securities trading company, went public with fanfare in November 1998.

"They are no longer a reporting company in the U.S.," says Berkowitz. "It just made no economic sense."

## Entrepreneurs sever partnerships, start over

### OWNERSHIP, FROM 22

tify herself responded, saying that the fax machine belonged to a different mortgage company in Plantation and that she had never heard of Finantra.

Above all, Hayhurst said, the merged company was draining the life and cash out of her once-healthy business.

She relaunched her private company in February 2001 after concluding that Finantra Capital, which has since been delisted from Nasdaq, lacked adequate financial and accounting controls.

"I had two choices," Hayhurst said. "I could go down the drain, look for a new job or I could start over again. And I knew I could start over again because I have been doing this for so many years."

### PARTING NOT PRETTY

Like most divorces, the separation was not pretty. Hayhurst battled her former merger partner over money, accountability and even over the ownership of her former corporate name, Hayhurst and Associates.

After a long battle, her new company operates under the name of Hayhurst Mortgage. She refinanced her own home to build the new company and to meet payroll.

Fortunately for Hayhurst, the low interest rate environment has been a boon for her mortgage business. And her company is now listed as one of the top-10 Fannie Mae-approved mortgage companies in South Florida. Based in Coconut Grove, Hayhurst has an additional office in Miami

Lakes and now employs 40 workers.

Her company is not the only one to experience difficulties with Finantra Capital. Jupiter-based America's Senior — a mortgage banking firm that was affiliated with Finantra — recently won a \$1 million judgment against Finantra over the parent company's alleged mishandling of funds owed to America's Senior.

### TWO CORPORATE LIVES

Like Hayhurst Mortgage, Blue Frog Solutions of Pompano Beach has had two lives as a corporate entity. The company, which develops software for the insurance industry, was first founded in 1996. But in a push for growth, Blue Frog's corporate founders sold their business to INSCI, a Westborough, Mass.-based technology company, in 1999. As a publicly traded corporation, the acquiring company used its stock and some cash to pay the price tag of more than \$5 million for Blue Frog.

"We consummated the deal and everyone went to work for the new company. But not all marriages come out like they are expected," said Brad Levine, chief executive officer and co-founder of Blue Frog.

The ink on the marriage contract was still fresh when Internet and technology stocks crashed. Because of market conditions, Blue Frog's new corporate parent, which sells software, changed its focus, according to Susan Worthy, director of public relations for INSCI.

"As the Internet [boom] waned, the company needed to

**'We consummated the deal and everyone went to work for the new company. But not all marriages come out like they are expected.'**

— BRAD LEVINE,  
co-founder of Blue Frog

shift back to its core competency," Worthy said.

Taking the initiative, Levine and his Blue Frog co-founder, Chris Pernicano approached the corporate parent with a separation proposal. The terms of the agreement called for INSCI to fire the Florida-based employees, with the understanding that Levine and Pernicano would rehire the staff and assume about \$400,000 in liabilities in order to sever the bonds between the two companies.

INSCI also paid the Blue Frog founders \$150,000 under a three-month contract in which Blue Frog continued to work for INSCI during that transition period.

### A SHELL COMPANY

But by then Blue Frog was just a shell company, with one client retained, said Levine. "We took that shell and we applied some basic management techniques and focused on the market," he said.

Now with a staff of more than 30 employees, Blue Frog expects to have about \$4.5 million in annual revenue this year. Levine hopes to build the company over the next four years and his dream is to sell it

to a larger "highly liquid" company, with a market value of over \$1 billion.

Blue Frog's buyback arrangement is classic example of a corporate repurchase in the technology and services industries, according to Andrew Stull, a managing director in the Atlanta office of Houlihan Lokey Howard & Zukin, an investment banking firm. When a merger goes sour and the corporate parent seeks to sell a division, a former chief executive or the founding partners of the unit are often the most logical buyers, relative to a third-party investor. Former insiders often retain key industry contacts and customer/account relationships that can make a stranded business viable again.

"They're in the best position to enhance value," Stull said.

# Learning tough lessons from a merger that fails

Likewise, Jeanne Becker, another well-known name in local PR circles, joined forces with Weber\|RBB in 1999. The deal was not a formal merger and did not involve equity. But Becker was hired as executive vice president of Weber\|RBB and folded her business into the firm.

After over ten years as an independent business owner, Becker experienced the growing pains faced by many entrepreneurs. Therefore, she sought the administrative support and larger marketplace offered by a bigger corporate parent. But Becker discovered that her goals did not match the goals of the parent.

After about 18 months, the arrangement between Becker and Weber was unwound. In early 2001, Becker relaunched her Coral Gables-based PR firm Becker Consulting Services, assumed its presidency and moved into a new office with her former clients in tow. Her company posted its best financial performance ever in 2002.

In assessing potential merger pitfalls, some entrepreneurs simply decline merger proposals. For instance, when a major New York accounting firm — Mahoney Cohen & Company — knocked on his door last fall, Monte Kane declined to take the bid. His accounting partners at Kane, Hoffman & Danner, however, agreed to the buyout offer.

Their decision forced Kane to relaunch the remaining firm as Kane & Company — which he did on July 1. With a total staff of 15 people, Kane & Company also opened an office this summer in Boca Raton.

“I had difficulty understanding the benefits of a New York culture in South Florida,” Kane said.

Meanwhile, after her foray into the world of corporate mergers and publicly traded companies, Hayhurst has a few ideas about enhancing educational programs for business owners. Hayhurst, who has a masters degree in business administration, said there is a need for seminars on how to sell a business and not get burned.

“There are a lot of things the lawyers don’t even think about because there are no real guidelines,” she said.



**‘I had difficulty understanding the benefits of a New York culture in South Florida.’**

— MONTE KANE,  
on opposing a buyout of his accounting firm

# How to cut the risk of a corporate partnership going sour

Unhappy corporate partnerships can be avoided if you take certain steps before tying the knot.

Merger specialists say risk analysis, due diligence and basic communications between the target company and the potential buyer can go a long way toward eliminating future problems.

“Make sure the buyer is a liquid concern,” advises Brad Levine, chief executive and co-founder of Blue Frog Solutions, a Pompano Beach software development company that was purchased for more than \$5 million in 1999 by INSCI, a publicly traded company based in

Westborough, Mass. A liquidity crunch by the new owner prompted Levine to buy back his old company shortly after the deal was consummated.

“My business partner and I were left with nothing more than a shell,” says Levine, who has since built his business back into a company with annual sales of \$4.5 million.

In 1999, INSCI paid a combination of stock and cash for Blue Frog. But in hindsight — after the buyer’s stock tanked — Levine wishes that he had accepted more cash and less stock for the deal.

Finding the right mix of stock and cash for corporate

assets is a decision based on several factors, including one major wild card: the performance of the stock market over the short and long term.

“It comes down to the risk tolerance of the seller,” says Nina Gordon, a partner in the Boca Raton office of Broad and Cassel. “Most sellers, I really believe, are ultimately much happier with getting more cash for their companies as opposed to all stock or mostly stock.”

In such scenarios, Gordon says, the seller is not “betting on the performance of the acquiring company.” But in all-cash transactions, sellers are typically paid less than they

would have received in an all-stock deal. What’s more, a hard cash deal lacks the lure of equity participation in the future appreciation of the parent company’s shares, Gordon says.

Once a deal is signed, sealed and delivered, good communications between the parent and the new affiliate can diminish potential problems, says Jeanne Becker, president of Becker Consulting Services, a public relations firm based in Coral Gables. After a merger, she recommends that a quarterly reality check be undertaken in order to ensure that both partners are on the same page in

terms of financial milestones and business strategies.

“Be in constant communications with corporate [owners] to make sure that your goals match,” Becker says.

And what about a prenuptial agreement in order to spell out the terms of a corporate divorce? Think twice, says Gordon from Broad and Cassel.

“You should not go into a deal believing that you are going to need a Plan B,” Gordon says. “If you do, I think there is something wrong with the underlying deal. You need to listen to that feeling and either re-negotiate the deal or go on to the next one.”