STANFORD
GRADUATE SCHOOL OF BUSINESS

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MODELS OF ENTREPRENEURIAL ACQUISITION

At the start of his last quarter as an MBA candidate at the Stanford Graduate School of Business (GSB), Pat Smith was uncertain about his career. After graduating from a prominent east coast college, Smith spent three years in a professional services firm. This exposed him to a wide range of industries but left him without a passion for any particular one.

What really excited Smith was the prospect of embarking on an entrepreneurial path. Having taken several entrepreneurship classes at the GSB and contributing to several classmates' business plans, he had concluded that being an entrepreneur at some point was a primary career goal. While he was not enthusiastic about any of the start-up ideas he had generated or encountered, he remained interested in startup opportunities generally.

Smith had avoided on-campus recruiting for a number of reasons. First, the most common and best-paying opportunities on the job board were more senior positions in the field he had left, and he did not want to return. Rather, Smith wanted to build his operating experience, and posted jobs tended to be business development opportunities, not general management roles. So Smith conducted an independent job search, which yielded a handful of promising leads, including several interesting operating roles. He was particularly drawn to a supervisory position at a manufacturing company, which he thought would give him valuable experience managing a blue-collar workforce in a demanding environment.

Smith was confident that he could find a good post-MBA job, but was less certain about when and how to pursue his entrepreneurial dream. At the GSB, he had learned about entrepreneurial acquisition (EA), the process of searching for and buying a company, which would provide an opportunity to run and have a material ownership stake in a business. Smith saw many benefits to this option, including not needing a start-up idea of his own, joining a business that was already up and running, receiving ample on-the-job training in general management, and pursuing an independent entrepreneurial career.

Lacey Wismer (GSB '04) prepared the original version of this case under the supervision of Lecturer Jim Ellis and Lisa Sweeney, Associate Director of the Center for Entrepreneurial Studies, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This revision was prepared by and Arar Han (GSB '09) under the supervision of Lecturer Peter Kelly and Lisa Sweeney.

During the winter of his second year, Smith had spoken with a number of entrepreneurs who had followed different paths to EA. Smith was particularly influenced by three of those interactions. The first was with Lucas Braun and Ryan Robinson, two 2007 GSB alumni who ran a traditional search fund. The second was with Michael Sanabria, a 1993 GSB alumnus who pursued a self-funded search model later in his career. The third conversation was with Sean Callahan, a 1998 Kellogg School of Management (Kellogg) graduate who, after nine years of professional experience, conducted a sponsored search with a private equity firm.

Smith also had two other important conversations that winter. One was with 1998 GSB alumnus David Kennedy (**see Exhibit 1** for a summary of the conversation), who had worked with a partner to raise a search fund and buy a company in 2002. The deal was quite successful, yet Kennedy was hesitant to advise MBAs to pursue EA straight out of business school. Smith also spoke to a Harvard Business School (HBS) alumnus who had raised a search fund and spent the ensuing two-plus years unsuccessfully searching for a company before closing the fund. The searcher shared with Smith a memo to his investors that explained the decision to end his search (**Exhibit 2**).

The meetings Smith had that winter left him asking several tough questions:

- Was he ready to pursue an entrepreneurial career or did he need more operating experience?
- Was he better off looking for a startup idea, or was EA a better entrepreneurial path for him?
- If EA was his choice, which model did he prefer: traditional, self-funded, or sponsored?

In addition, Smith struggled with the question of whether to work independently or with a partner. Many of his classmates, including some close friends, were facing similar questions, and Smith regarded several of them as ideal partners – if he pursued an EA.

As Smith contemplated these questions, he took some time to consider his conversations with the entrepreneurs he had met, and to examine the aspects of their stories that resonated most with him.

TRADITIONAL SEARCH FUND: LUCAS BRAUN & RYAN ROBINSON AND ONRAMP

Lucas Braun and Ryan Robinson (both GSB '07) had moved in similar social circles in San Francisco prior to business school, but it was not until they chose to be roommates at the Schwab Residential Center that they became close friends, and eventually partners in the search fund Brown Robin Capital. Braun worked at Mercer Management Consulting for five years after studying Government at Dartmouth and entered the GSB hoping to work for a large entertainment conglomerate. Robinson worked brief stints in internet consulting and startups following his B.S. in Entrepreneurial Management at Wharton, eventually landing at Farallon Capital Management for four-and-half years before matriculating at the GSB. While his long-term dream was to become governor of North Carolina, Robinson yearned for an operational role leading an organization that provided a tangible good or service (see **Exhibit 3** for their resumes[1]).

[1] Resumes are presented from the time EA was pursued.

Braun and Robinson tested their ambitions during the summer of 2006 by interning at Yahoo! and Aero Logistics, a search fund-backed company. By the middle of the summer, Braun had determined that neither a large conglomerate nor the entertainment industry was for him, and Robinson was becoming enamored of the idea of starting a search fund. One Saturday, while returning together from a surfing trip to Pacifica, Braun revealed to Robinson that rather than returning to consulting he wanted to start a search fund. At that moment, said Robinson, "It clicked that he might be a partner for me. I work better when I can talk things through with someone who challenges my assumptions and hypotheses. I knew I couldn't do it without one."[2]

When the two friends returned to the GSB, they worked to create a new partnership:

> We were fundamentally redefining our relationship. We had to ask each other difficult questions like, "Would we make an effective team? What would a downside scenario mean to our friendship? What concerns do we have about working together?" And as friends, we didn't have a sense of accountability in the way there tends to be with strangers who have a desire to impress each other. We had to learn how to police each other in a socially acceptable manner.

While Braun and Robinson had complementary business experiences, their working styles were disparate. "I am not the most organized person in the world, and Lucas is perhaps one of the most organized people I know," Robinson observed. Braun added, "I've yet to meet an industry that I couldn't over-research, whereas Ryan takes a grab-the-bull-by-the-horns approach to cold calling." To maximize their effectiveness as partners, the two friends would need to moderate their extremes and learn to work as complements.

Another important issue for the budding partners was eliminating alternate career paths. For Braun, who had been sponsored by Mercer to attend the GSB, the tradeoffs felt stark:

> I really had to remind myself why I didn't want to get swept into On-Campus Recruiting. That was hard for me. There was a weird, magnetic pull to firm up an alternative path, like at Google. It's not intellectually satisfying to say this, but I stuck to doing a search fund because I couldn't picture myself doing anything else. Besides, every additional year I would spend doing something else, building relationships, and putting down roots, the decision to take an entrepreneurial leap would be harder to make. If not now, when?

The partners felt that a search fund was less risky than a self-funded search or a startup. Unlike self-funded searchers, search funders drew a salary during their search. Search funds invested in going concerns with positive cash flows rather than starting from revenue dollar one, as new startups did. The search fund model would also allow them to work with and learn from successful operators and entrepreneurs who had previously walked their path. Moreover, each investor who agreed to fund their search would serve as a vote for the viability of their investment thesis. Indeed, when a casual conversation with a potential investor unexpectedly

[2] All quotes and content are based on interviews with Ryan Robinson and Lucas Braun.

yielded their first commitment, Braun and Robinson were elated: "We got off the call just overwhelmed. It was the first time we knew the train was on the tracks."

Shortly thereafter, the partners graduated and launched the search fund Brown Robin Capital – a derivative of their surnames. It took three months for Brown Robin to raise $525,000 in 15 units from 12 investors. Early commitments of $35,000 per unit came from both Robinson's and Braun's former bosses, as well as two of the partners' former GSB professors. The pair also approached a carefully-selected list of investors they had met at the GSB. These interactions yielded other contacts in the search fund community, which turned out to be small and highly interconnected. Braun and Robinson actively avoided soliciting friends and family. "We didn't want to put close relationships in jeopardy," explained Robinson. "Our hardest conversations were with our fathers, who really wanted to support us. We ultimately had to say no."

At the outset, the partners looked at as many deals as possible, both to refine their criteria and to hone their ability to assess an opportunity. They believed that focusing on growing industries, among other factors, would remove some of the risk in buying a company. Hence they researched and debated the effects of growing trends like an aging US populace and the exponential increase in the creation of data, and examined developing sectors like digital out-of-home advertising and mobile advertising services. Braun and Robinson pitched themselves as young hands-on entrepreneurs and distanced themselves from private equity investors. They hoped to find a founder who cared about passing on his baby to someone who would care as much about his business and team as he had. Beyond that, they said:

> We've always wanted people to look at our situation and say, "Those guys were just in the right place at the right time." Because in our minds, that would mean we had done all of the hard work to find an opportunity that had all the characteristics we thought would enable us to be successful. We built detailed lists of potential companies to target, and tried to deeply understand business models and industry dynamics for each. We set goals for the number of cold calls we had to make every day, and made more than 2,000 calls in all.

An arduous 15 months elapsed during which Brown Robin signed a handful of Letters of Intent (LOI) only to walk away disappointed each time. In one instance, the partners found during due diligence that a seller had misrepresented his information services company as having a proprietary method of collecting data when it did not. In another, a seller of a software-as-a-service company insisted on a nonstandard way of calculating the EBITDA multiple. Still, the pair took heart in the classic investor's adage, "The worst outcome is not failing to buy a business; it's buying a bad one," and pressed on:

> It's such a wild ride. The highs are much higher than we ever expected, and the lows so much lower. You're faced with a binary outcome that happens two years after you raise the fund. It's hard to measure whether anything you do day-to-day puts you materially closer to closing a deal. It was helpful to have a partner with whom to celebrate the small victories, or to say, "Hey, we'll get the next one."

By the time the partners found OnRamp Access, Inc., a data center services company based in Austin, Texas, Braun had cold called 100 targets in the same industry. The partners were well into the second year of their search and starting to feel anxious about their remaining runway. They were also concerned about the company's exposure to a technology development curve. When further research revealed that OnRamp was essentially a service business operating with stable technology and did not rely on constant innovation, the pair felt more comfortable.

Braun and Robinson worked hard to reach an agreement with the sellers: a 40-something former Marine and his father, both of whom had personal reasons for wanting liquidity. The sellers could see value in bringing on additional management to take the company to the next stage of growth, and were motivated to complete the transaction. There were no other bidders involved.

Over Memorial Day weekend 2009, Brown Robin sent an LOI to the owners of OnRamp, and Braun married Kate, a fellow Dartmouth graduate. As the newlyweds departed to Africa for their honeymoon, Braun called out to Robinson, "I hope you get the LOI signed while I'm gone!" He did. When Braun returned, Brown Robin pushed toward a final deal:

> Getting a search fund deal closed is a lot like herding cats. You're telling the seller not to worry because you have the means to close the deal, while making your best academic case to investors – who only have a right of first refusal, but no obligation to participate in the deal. They may or may not, or may at a lower level, leaving a gap to fill. It's a series of sales meetings where you put your professional reputation on the line and say, "Come with us. This will work." "

By August, Brown Robin was ready to finance the OnRamp acquisition with equity and debt provided entirely by the participants in the search round as well as other private investors. Then over Labor Day weekend 2009, Robinson got married to his GSB classmate Anna, a consultant at McKinsey. As the newlyweds left for Bora Bora, Robinson echoed back to Braun: "I hope we own a company when I come back!" They did.

Brown Robin Capital paid a purchase price of $10.4 million including transaction costs for OnRamp Access, Inc. Brown Robin's investors put up $5.2 million in equity and $5.2 million in subordinated debt, and agreed to set aside 35% of stock for current and future management. When the deal closed, Braun took the title of CEO, overseeing sales, marketing, business development, and strategy. Robinson took the title of Chairman and President, overseeing finance and operations, and presiding over the Board of Directors. The partners had agreed on their titles and division of responsibilities prior to the formation of Brown Robin, and based on their previous work experiences.

Being equal partners in their business was important to both. Each drew $150,000 in salary, and had the potential to earn up to 15% of the equity in OnRamp. In the partners' first year, OnRamp posted nearly 50% year-over-year growth in the bottom line.

Smith was both dazzled and daunted. The allure of working with a good friend to purchase and run a growing business was compelling. He took to heart Braun and Robinson's advice to engage in a period of introspection to make sure a search fund was really right for him, and if he decided it was, to have regular gut checks along the way to confirm he had chosen well. Smith was fairly certain he would enjoy the search, but if that was the only thing he enjoyed about doing a search fund then the partners were right: he was probably better off finding a job in private equity. He also asked himself whether it was being the CEO of a growing company that appealed to him, or if he truly wanted to be in the trenches, making tough decisions and working through people issues every day. If it was only the former, then maybe he was better suited taking another career path – like a strong management development program.

Smith was also a bit troubled by Robinson's joking aside: "Lucas is like my wife; Anna and Kate talk about being our mistresses," which he regarded as a testament to the all-consuming nature of the search fund path. Did he really want to, as Braun had put it, "burn the boats" to his otherwise promising career to do something that might never even get funded? Even if he did get funded, and had the good fortune of closing a deal, what if it took him to a less than desirable location? Would his girlfriend visit him there, much less move with him? Would he ever see his family? Maybe it would be better to defer his entrepreneurial plans, as Michael Sanabria had.

SELF-FUNDED SEARCH: MICHAEL SANABRIA AND IMPRESS NORTHWESTERN

After three years in management consulting, Michael Sanabria went to the GSB in 1991 to pursue a "general entrepreneurial education"[3] (**see Exhibit 3** for a copy of Sanabria's resume). His long-term goal was to run his own company. Sanabria did not believe he had enough experience to run a business immediately after the GSB, so he took a job with Apple Inc. in product management. After seven combined years at Apple and an enterprise software company called Edify, Sanabria agreed to start a company with a GSB classmate. When his partner backed out at the last minute, Sanabria took a job was vice president of marketing at an e-commerce start-up focused on printing solutions. When that company failed three years later, he became managing director of product marketing for QuantumShift, a company in Novato, California that developed communications management applications and services.

One year later, Sanabria left to pursue a self-funded EA. After nine years of management experience in operating companies, he felt ready to run a company. Having maintained a low personal burn rate during his post-MBA career, he had significant capital to commit towards the purchase. His wife, who had grown up in an entrepreneurial family, was prepared to support him.

Sanabria wanted to stay in the printing industry in the Bay Area, where he could best leverage his professional experience and local network. He endeavored to buy what he called a "lifestyle business": one that would provide a steady income for him and his investors, offer continual intellectual stimulation and meaningful work, and give him more time to spend with his family and pursue outside interests. Over time, a solid management team would handle all day-to-day operations, and Sanabria would step back and assume a high-level strategic role. Beyond that, retaining majority ownership and management control were of paramount value to Sanabria:

> In the traditional search fund model, investors can remove you from your post, regardless of your past contributions, if they believe you are not the right person to move the company forward. Having majority ownership would give me the

[3] Based on an interview with Michael Sanabria.

> ultimate authority to make decisions in the best interest of the investors [while] providing me security that no one could remove me from the company.

Sanabria combed his network for people who could be both investors in the deal and potential clients for the acquired company. A former colleague signed on as Sanabria's first investor. With that validation, Sanabria was able to attract others from the industry, including a well-regarded insider he had met as a guest speaker at conferences. Sanabria wanted neither mentorship from his investors, nor those who required a specific liquidity event or exit horizon.

Sanabria structured his acquisition so that he would own a portion of the business for sourcing the deal and running the company, with the remaining share split among investors by level of capital contribution. He provided investors protection and participation in the upside, but ensured he would retain majority ownership in the acquired company. The investors agreed to pay Sanabria a salary for running the business that was typical for companies of comparable size.

Sanabria began his search by cold-calling printing businesses in the Bay Area. As other searchers had warned, he found that business brokers were often not very talented, tended to handle deals that were too small for him, and could even get in his way. Talking to family, friends, and others in his network was the most fruitful use of his time. The company Sanabria ultimately acquired was sourced by his mother-in-law, who had seen it in a newspaper advertisement.

After a six-month search Sanabria acquired Impress Northwestern, a 40-year-old commercial printing company, in 2003. The seller, who had founded Impress and grown it steadily through equipment and company acquisitions, was weary of dealing with the company's challenges and preferred to spend his time handling his personal finances. Sanabria was impressed with the foundation of the company, but saw room for improvement in marketing and customer service. Furthermore, his investors were downstream customers of the products that Impress sold, validating Sanabria's "strategic rationale" for selecting them.

At the time of acquisition Impress Northwestern had $2 million in sales with a 16 percent EBITDA margin. Approximately 76 percent of the acquisition cost was financed with bank loans, with an additional 12.5 percent contributed by equity investors, and 8.5 percent by Sanabria himself. The company lost money in the first two years after the acquisition, but broke even in year three and became profitable in years four and five. By the fifth year, Sanabria had nearly doubled Impress's revenues. The recession that began in 2008 hit the business hard, but it remained profitable and did not require any additional debt or equity infusion.

Pat Smith was impressed with Sanabria's commitment to his entrepreneurial dream; he had achieved his goal of running a "lifestyle" business and was satisfied with his EA experience. Smith felt that nine years of operations experience would give him a similar sense of readiness to run a company. He wondered whether he had the discipline to save up his earnings for an EA search the way Sanabria had.

Sanabria shared a few candid thoughts with Smith on how his experience might have been improved along the way:

> Looking back, I think I should have acquired a larger company. The business was the right fit in terms of customers, market, and capabilities, and was a size that allowed me to be the majority owner. But it lacked middle management, which forced me to spend most of my time on tactical issues and very little on strategic ones. Most small business owners might make the same complaint, which is why it is so difficult to grow companies out of this stage. I just about doubled the company's revenue in the first five years, so I feel I met with some success. Still, had I been more flexible on my requirements for control, I might have doubled the revenues on a larger base and ultimately been better off.

As it turned out, the cash flow Impress produced had gone first to the lenders rather than the equity holders, diminishing the value of owning a majority equity stake. Moreover, only one investor had actually provided the anticipated incremental revenue. Sanabria also shared with Smith the importance of avoiding what he called the "capital trap": underestimating the capital requirements of growing a business. Having bought the "most house" he could afford, Sanabria did not have capital remaining to fund growth.

SPONSORED SEARCH: SEAN CALLAHAN AND YLIGHTING

Like Sanabria, Sean Callahan had worked before pursuing an EA. Rather than self-funding, however, Callahan had completed a sponsored search in partnership with a private equity firm.

Callahan enrolled in Kellogg's dual degree program in business and engineering in the fall of 1996. His background was in manufacturing and technology consulting, and his goal was to enter management consulting after Kellogg. Callahan hoped one day to run a manufacturing company (**see Exhibit 3** for Callahan's resume). Upon graduation, Callahan did not feel ready to run a business, and felt the financial pressure of his student loans, so he joined a management consulting firm for one year, then moved around for eight years in his own "ad hoc management development program."[4] Callahan's roles during that time included product director at NONSTOP Solutions, a venture-backed start-up co-founded by Hau Lee,[5] product marketing and channels/alliances at Oracle Corporation, and general manager of international operations at venture-backed Business Engine (BE), where he gained full profit and loss responsibility.

Callahan helped execute the sale of BE in February 2007, and spent the next six months as part of the executive transition team. He then began a job search that culminated in a general management offer from a technology company. The cash compensation was attractive, but Callahan wanted to lead an organization rather than be a member of the executive team. In September 2007, Callahan accepted an entrepreneur in residence (EIR) role with Alpine Investors, a private equity firm headquartered in San Francisco.

Callahan became attracted to the concept of the EIR role while working in a venture-backed environment. While he had led a company acquisition at BE and had been an integral part of

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[4] Based on an interview with Sean Callahan.

[5] Hau Lee is the Thoma Professor of Operations, Information, and Technology at the Stanford Graduate School of Business. He has won numerous awards and cofounded several supply chain and price optimization software companies.

BE's eventual sale, Callahan did not feel enough comfort with deal sourcing or mergers and acquisitions (M&A) execution to run an independent search. An EIR role at Alpine would allow him to tap into a full-scale business sourcing engine and a wealth of M&A experience, as well as greatly simplifying the capital raise process in both the search stage and the acquisition. Callahan anticipated a halo effect from being associated with a respected firm that could help him consummate an acquisition of an exciting business.

A sponsored search would pay an experienced manager like Callahan roughly twice what a traditional search fund would pay, both during the search and after the acquisition. This was valuable to Callahan, who had started a family and was not in a position to self-fund a search or even take a large pay cut. Although a sponsored search would mean a slight reduction in his equity stake, Callahan "believed the size of an acquisition with Alpine was likely to be on the larger end, so the absolute potential value of [his] equity stake would not be dissimilar."

During the interview process, Callahan developed a high degree of trust with the principals at Alpine and recognized a strong fit between his search criteria and their investment standards, including size of business, recurring revenue preference, and industry focus. Both parties were interested in more mature, growing companies versus start-ups, and focused on growth potential while avoiding turnaround situations.

Confident that their interests aligned, Callahan signed on with Alpine after carefully negotiating a working agreement. Alpine agreed to fund Callahan's search over two years, including both salary and deal expenses. This amounted to a compensation range of $150,000 to $200,000 during the search, and a considerably higher post-acquisition salary. Equity following a successful acquisition would be between 15 to 20 percent, including a portion based on performance.

Callahan spent 11 months searching. During this time, he researched every sub-industry he could think of in business services, software and online education. Callahan looked at deals he had sourced personally as well as through Alpine's sourcing team, which helped him locate and contact potential target companies, as well as gather and vet leads from a network of brokers. He estimated that he and the Alpine team contacted over 500 sellers, with approximately 15 percent of those calls leading to second and third conversations. In all, Callahan had roughly 150 management meetings and two companies under LOI.

In the fall of 2008, Callahan and Alpine acquired YLighting, a retailer of high-end, modern design furnishings. The deal was sourced by Alpine, and Callahan was brought in post-LOI to replace the company's senior management, who planned to leave when the deal closed. Alpine was excited about the deal, in large part because of their confidence in Callahan. Callahan was optimistic about YLighting's market positioning and opportunities for growth.

When the deal closed, Alpine became the majority owner of YLighting, filling three of the five board seats with active advisors. Alpine continued to play a strong supporting role to Callahan, by helping him secure debt financing from a lender, and by offering additional resources such as recruitment expertise as he built the management team.

Callahan advised Smith that even in a sponsored search, he must still run a good search process and not be overly reliant on the sponsoring firm's resources. He encouraged Smith to use a customer relationship management tool to track his interactions and manage his network, and to own the search process. Any deals sourced by the private equity sponsor should be considered upside. Callahan also advised Smith to resist stacking his board with principals from the private equity sponsor, and to push for external directors who could provide important competencies to the Board.

To Smith's question about when in his career would be the best time to pursue EA, Callahan replied, "There is no right or wrong on this." As for his own EA experience as a sponsored searcher, Callahan was quite satisfied: If the YLighting deal had a mediocre return on investment, he could always fall back on his nine years of demonstrated progressive management experience – as well as his experience as CEO of YLighting – to go do something else. The primary drawback, of course, would be relinquishing his equity stake.

WHICH PATH TO PURSUE?

The pressure was on. Smith had only eight weeks left at the GSB before reentering the "real world," with its student loan repayment schedules and career expectations for top MBAs. After much thought and discussion, he had narrowed his choices to three:

- Returning to professional services was a solid bet that would pay a generous wage and allow him to save a large sum toward a self-funded search in just three or four years. Then again, thought Smith: who knew where life would take him in that time? What if "golden handcuffs" ultimately prevented him from ever pursuing his entrepreneurial dreams?
- Working in line management at a well-run company with a highly respected leadership development track was another reliable option. It would allow him to build new skills and operating credibility that could translate into a shot at a top-notch EIR program. Smith also worried about getting stuck in an operating role. What if one of the few EIR opportunities never came?
- A funded search felt like the riskiest of the three paths in that it presented the most uncertainty. Would he be able to raise a fund? Would he be able to find and purchase a growing company? Would he really make a good CEO? Smith wished the answers were clearer.

The tradeoffs and uncertainties in each path led Smith to believe that the right answer was the one that fit him best. He decided to take a short break, then map out the benefits and drawbacks to each option to see if his decision would become clear. It was time to make a choice.

Exhibit 1
Notes From a Conversation with David Kennedy[6]

Prior to matriculating at the GSB in the fall of 1996, David Kennedy was a consultant with McKinsey & Company for three years and spent one year at H.J. Heinz and Company as the operations manager for Central and Eastern Asia. In that role, Kennedy had the opportunity to commission and manage the company's first greenfield factory along the Russian/Chechen border and, in another assignment, join the board of a manufacturing and distribution business controlled by Heinz in the Czech Republic. His role on that board was to focus on cost cutting and instilling Western best practices in the company.

Kennedy became interested in the idea of a search fund during his second year at the GSB while working with an alumnus from the class of 1993 on an acquisition for his company, which itself was founded through a search fund acquisition in 1995. When McKinsey offered to cover Kennedy's tuition and pay him a signing bonus to return after graduation from the GSB, Kennedy accepted; he felt the economic climate was excessively frothy at the time, and he did not want to take on the debt of his tuition and the risk of starting a search fund during a time when even small company valuations were skyrocketing.

After three years at McKinsey, the economic environment seemed more favorable for acquiring and running a company, and Kennedy decided to pursue a search fund. He chose to look for a partner for three primary reasons:

- having an involved, informed and motivated devil's advocate would lead to better decision making on the investment and sourcing,
- he felt strongly that a company would be better managed by two people, and
- he had a preference for working in teams rather than as a lone wolf.

One of Kennedy's GSB classmates introduced him to Mike Smerklo, a business development and partnership manager at his company. Kennedy's classmate knew both were interested in buying a business and, knowing both of them, commented that they would "either be a great team or kill each other." After spending a lot of time together, getting to know each other and discussing objectives, potential types of investment and roles, they felt a strong fit. As importantly, they had complementary personality types, which Kennedy believed would benefit them both; Smerklo was quick to make decisions and preferred to act fast, while Kennedy wanted to amass as much information as possible before making a decision.

Kennedy was interested in pursuing a traditional search fund for several reasons: he did not have the resources to self-fund a search; he liked the idea of distributed ownership and decision making—a structure he thought would best allow him to be "the master of his own destiny"; and having a partner made it harder to pursue a sponsored search as private equity firms preferred an individual EIR over a team. Together Kennedy and Smerklo began fundraising in October 2001, a process that only took three weeks. Kennedy attributed their rapid success in fundraising to

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[6] Based on a conversation with David Kennedy.

their ability to quickly secure five highly credible, deal-savvy investors from their network who had deep pockets and believed in the pair's management skills and potential. As Kennedy stated, "It is first important to look for big money, but it is as important to find smart money." Additionally, they secured several investors who were able to speak specifically to Kennedy's accomplishments because he had worked for them. Securing such a well-respected and loyal investor base early propelled them through the fundraising process, and they closed their fund with 15 investors, even turning down additional interested parties.

During the search process, Kennedy and Smerklo each researched five or six industries, including the independent yellow page business, post-secondary school education, business-to-business newsletters, and software, which amounted to many hundreds of vetted businesses. Their six-month search resulted in eight LOIs, but as each acquisition process progressed, deals fell apart for reasons ranging from regulatory issues to valuation disagreements.

In May of 2002, Kennedy and Smerklo came across ServiceSource through an introduction from a GSB classmate of Kennedy's. Kennedy had lamented to this classmate that he and Smerklo had been interested in call-center businesses with a significant amount of intellectual property, but were having a difficult time sourcing such opportunities. His friend happened to know about ServiceSource, a San Francisco-based company that provided outsourced service contract renewal services to technology companies, and got them in touch. The business was founded by three entrepreneurs in their twenties, who had built the company beyond their expectations and to the limit of management's interest and experience. The business had a number of attractive characteristics and benefited from both the tailwind of the outsourcing trend as well as a reputation for quality service. The purchase process hit a few snags along the way, but after signing an LOI in August 2002 and conducting three months of diligence, Kennedy and Smerklo closed the deal in January of 2003.

Upon the acquisition of ServiceSource, Kennedy and Smerklo divided management responsibilities, essentially acting as co-CEOs of the business. Kennedy took on operations, finance and customer service, and Smerklo led the charge on sales and marketing. In only four years, Kennedy and Smerklo grew ServiceSource's revenues, profits and employees organically by 10x and returned over 20x to its shareholders. After a successful sale of a minority of the company and a substantial portion of his equity to a leading private equity firm, Kennedy decided to try his hand at full-time investing in "similar companies."

Kennedy saw tremendous opportunity in "search fund-like companies": small to mid-sized businesses that were below the radar of the large private equity funds. As an investor, he liked the search fund model, or at least the market segment, but he noted that a portfolio approach was necessary to see strong average returns due to a high degree of variance in individual outcomes. He noted, "We were fortunate to be in the right tail of the distribution of search fund outcomes. The majority of search funds generate an IRR of zero or less, and most of those fail to return invested capital to shareholders."

Based on his experience, Kennedy believed there were opportunities to improve on the search fund model's success in several important ways. The first was the hiring of an experienced management team. Although he had participated in a successful search fund, he saw the risk to both entrepreneurs and investors of placing inexperienced talent at the helm too early; according to Kennedy, steep learning curves left little margin for error. He felt strongly that entrepreneurs, investors and the company would benefit from more seasoned leadership. As an investor he could hire experienced executives and attract talented and skilled people to run businesses they were actually qualified to operate.

The second area in which Kennedy saw an opportunity for improvement over the search fund model was through concentrating the company's investor pool and building an engaged and committed board of directors. In his opinion, some of the search funds he had seen over the years suffered from a lack of support and guidance from shareholders. While there was indeed a pool of talented and dedicated people who were willing and able to commit their time and energy to these types of ventures, they were in short supply. Based on his observations, most search fund investors were well intentioned and concerned for the entrepreneur's success, but many had other full-time professional demands and lacked the time or interest to dedicate significant energy toward helping the CEO and company not only solve problems, but avoid them before they happened. Kennedy believed that concentrated ownership and committed professional board members would go a long way towards improving these companies' batting averages.

Kennedy also felt that an approach to sourcing and deal execution through a firm would be more successful than the traditional search fund model. Having the power of a firm staffed by professionals whose careers focused solely on sourcing and execution, in addition to the many tools a firm has at its disposal, especially CRM, would lead to an increased knowledge base and productivity. A firm also had more credibility with various service providers, namely bankers and brokers, who were critical in sourcing deals and not as accessible to traditional search funds.

With those improvement opportunities in mind and the many valuable lessons from his search fund experience and his time running ServiceSource, Kennedy started his own private equity fund with a GSB classmate and McKinsey colleague, Kevin Frick. In the spring of 2008, Serent Capital began operations with $250 million in capital targeting control acquisitions in the small to mid-sized private equity market.

Despite his personal success with a search fund and affinity for the market segment, Kennedy was cautious to advise Smith and others to follow in his footsteps:

> Many MBAs look at the average return for search funds or the outlying success stories without recognizing the risks inherent in that process to the entrepreneur. Remember, an investor can get the mean, but the searcher only gets a single point, both financially and for their careers. I'd counsel that if this is interesting to you, go get some real operating experience first, build your personal brand and track record for a few years—think of your professional life over forty years not five—and maximize your risk-adjusted returns over that horizon. It may sound attractive to have your first role out of business school be CEO, but it's a gamble. You'll be happy if you end up in the top quartile, but there's a three in four chance that you won't.

Exhibit 2
Granite Creek Capital Memo

Dear Granite Creek Capital Investors:

In this final installment of the Granite Creek Capital Confidential Investor Newsletter, I update the status of active deals, analyze the macro-level attractiveness of the search fund environment, and provide summary data on my search. I think this note contains some interesting lessons learned that are generally applicable, and I would be happy to discuss any specifics in more detail. I will be calling investors next week: please let me know if there is a specific time that would be convenient.

The search commenced operations August 15, 2006 with a budget for 2 to 2.5 years. Funds will be exhausted December 31, 2008 after 2 years and 4.5 months. I will provide a detailed financial update after closing the books for 2008. After year-end accounting and final expenses, it is anticipated that very little funds will be left for distribution. I am working with counsel to make sure we file appropriately.

UPDATE

PARTY RENTAL COMPANY

In October, I wrote that I was expecting to reach a deal with an attractive party rental company. Unfortunately, by mid-November, it was clear that we could not come to an agreement. The seller is now seeking a price of 6.4x expected 2008 EBITDA. This high multiple is even less palatable because prospects for 2009 are rapidly deteriorating as companies slash discretionary spending across the board.

GROWTH CAPITAL OPPORTUNITIES

Over the past 2 months, as debt financing and deal flow dried up, I focused on two opportunities for a growth capital investment where I would join the management team. The first is a small integrator focused on dairy processing plants, and the second is an integrator that sells and installs solar panel systems. Ultimately, I passed on both deals because I did not feel that the prospects were properly aligned with the investment thesis upon which I raised Granite Creek Capital.

TWO THAT (FORTUNATELY) GOT AWAY

With the benefit of hindsight as the economy weakened throughout 2008, it has been interesting to review some of the "ones that got away". Two companies that tried to resurrect abandoned deals illustrate that walking away from heated transactions in early 2008 often was the right thing to do.

Enclosure Manufacturer

The chosen buyer for the specialized enclosure manufacturer walked away from the deal around May of this year. Although the year-to-date finances were flat compared to the prior year, some pointed questions revealed that a single one-time million dollar order was supporting the revenues. In fact their core business was experiencing rapid declines in both sales and margin due to 1) the housing slowdown, 2) state and local budget deficits, and 3) severe stress in the transportation industry. With a deep understanding of the business from the initial bidding process, I quickly chose to pass and did not accrue any legal or accounting fees in due diligence.

High end Linens

The manufacturer and marketer of high-end linens for the hospitality industry also came back for a deal two times. The first time occurred this summer when the seller wanted us to buy him out of his 30% position required by the private equity buyer. I declined because 1) I thought they had over-paid and didn't want to assume the purchase

price and 2) the economics were not compelling to add management to a deal where the seller had already captured the value in increased purchase price.
The seller came back a second time this fall when the senior bank lender asserted that the company had defaulted on its revenue growth covenant (15% sales growth). The bank demanded repayment of the $2M+ term loan (Libor + 100 or 200 bp) by December 31, 2008, three years early. Interestingly, I had made a special trip to visit the seller to try to convince him that the higher price came with a VERY risky capital structure. Now the seller faced severe dilution from a potential equity infusion or a loss of his equity capital from default if the bank actually required repayment in the hostile debt environment. This is a tough problem, one that I'm glad we don't have.

SEARCH FUND ENVIRONMENT

I founded Granite Creek Capital because I believe that I would be an effective general manager. The search fund was to be a vehicle to move into an important leadership role where I could build an operating company. In my view, part of my job is to maximize the chances for my investors to experience attractive investment returns. Looking forward, I see three significant challenges to achieving those two goals in the near term: prices remain unattractive, target company economics are deteriorating, and sellers are less likely to retire.

PRICES ARE NOT RETURNING TO ATTRACTIVE LEVELS FOR HEALTHY COMPANIES

The private equity industry currently has some unattractive structural components. Barriers to entry have (until very recently) been low with relatively easy fundraising. Exit barriers are quite high because funds typically have lives of around 5 years; and a premature exit results in the loss of management fees and the option value of a lucky success that repairs both fund economics and GP reputations. In this industry definition, companies for sale are the suppliers and have considerable power with a credible threat of substitution (continuing to run the business). For the foreseeable future, debt suppliers have considerable power, and the prices charged lead to considerable holdup that is likely to capture any value normally available to the equity participants.

The resulting industry rivalry has driven a steady increase in the valuations of healthy companies and a decline in forecast IRR's for equity sponsors. Counter intuitively, as economic conditions have reduced the supply of healthy companies, the intense rivalry between buyers has actually increased multiples for the remaining, fortunate businesses.

WHERE PRICES ARE DROPPING, THE INVESTMENT IS STILL UNATTRACTIVE

On the other hand, where multiples are dropping, revenue and profit are also falling. If you believe that 2009 will not be a "normal" business cycle slowdown, it becomes very difficult to evaluate if the lower multiples as applied to 2008 earnings will still be bargains when the price is viewed in relation to potential 2009 earnings. Furthermore, the nature of competition within the target company's industry is likely to intensify as each firm tries to survive with a shrinking pie.

SELLERS ARE LESS LIKELY TO RETIRE

One of the most important elements of the Granite Creek Capital thesis is that the market is inefficient when an owner/operator wants to retire. Because we can add management talent to a company that would otherwise have difficulty attracting capable leadership, we differentiate ourselves and significantly increase the odds of attractive return on investment.

The business owners with whom I've spoken recently have indicated that continuing to run their business is a more and more attractive alternative to retirement as they watch their other investments decline in value and see few places in which to invest their proceeds from the acquisition. Because seller qualification is already one of the hardest tasks for a search fund, this added twist reduces the odds of a successful closing. Furthermore, the income requirements of the potential seller now lead them to set an unrealistic price.

GRANITE CREEK CAPITAL

Although closing down my search fund will count as a 100% loss of stage I capital, I hope that you take a more favorable view. The investment was structured such that only 10% of the total anticipated investment has lost value. By staying disciplined to only pursue deals that are likely to meet our financial targets under realistic performance forecasts, I have avoided making bad decisions that may have resulted in significant future losses, considering the unprecedented conditions outlined above. The enclosure and linen deals are only two of several examples of probable losses that we avoided.

Along the way, I hope I have added value by providing insightful assessments of the attractiveness of entering potential new industries through specific acquisitions. Similarly, I hope that in relating my experiences in generating deal flow and negotiations, I have provided valuable data on the state of the lower middle market. Upon closing Granite Creek Capital, my next career move is yet to be determined. Although the economics of buying a business to run are tough right now, I continue to believe that I am highly qualified to lead an operating company as general manager or marketing manager. I have also demonstrated that I can effectively restructure cost centers and cut expenses – a track record that may be especially welcome at this time.

THE GRANITE CREEK CAPITAL SEARCH

ANALYSIS OF DEAL FLOW AND INVESTMENT APPROACH

While at the helm of Granite Creek Capital, I looked at over 200 business plans and engaged in significant negotiation with 34 businesses. Corresponding with the macro-dealmaking environment, my deal flow peaked in 2007 at a rate of 1.8 initial meetings per month.

Year	Count, First Meeting	Mo Active	Ave/Mo
2006	3	4	0.8
2007	21	12	1.8
2008	10	11	0.9
Total	**34**		

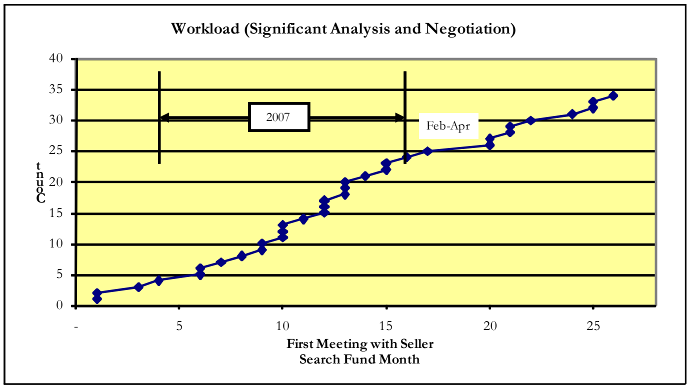
At the end of 2007, I became increasingly concerned about the quality of represented deals. Although many other search funds successfully acquired companies through bankers and brokers, I believed that the risk of information asymmetry was increasing. With so many other buyers entering the market, the companies I saw were likely to have hidden, diminished future prospects or a very efficient auction process. Therefore, in 2008 I switched my efforts to focus 70% of my time on proprietary deal flow.

As seen below, the percentage of *proprietary* deals to total deals in which I engaged in significant due diligence moved to 45% in 2008 from 25% in 2006 and 2007. Similarly, deals sourced through investor contacts where no intermediary was involved increased to 36%. Taken as a whole, over 80% of my 2008 deal flow can be considered proprietary.

Source	Count	Percentage	Post Dec 2007	
Proprietary	9	26%	5	45%
Investor	5	15%	4	36%
Broker [1]	20	59%	2	18%
Total	**34**		**11**	

[1] Includes instances where investor referred broker deal

Proprietary deal flow generates much fewer qualified leads than represented deal flow, and the number of companies with which I engaged in significant due diligence or negotiation dropped accordingly in 2008. By September, although there were plenty of business plans to review, the macro economic conditions had reduced my quality deal flow to a trickle.



INDUSTRY FOCUS

During my search, I remained true to my investment thesis of maintaining a manufacturing bias. Although I did explore several service industries, valuations were often a major obstacle and most business plans were eliminated on profit growth and multiples without further due diligence.

I still believe that approach was appropriate based on the business plan presented to investors and the attractiveness of alternatives in service industries. However, my view "from the trenches" suggests that the economics of domestic manufacturing continues to decline.

Strategy	Count	Percentage
Niche MFG	14	41%
Manufacturing	13	38%
Rental	2	6%
Service	2	6%
Educate/Train	1	3%
Insurance	1	3%
Logistics	1	3%
Total	**34**	

Note: Manufacturing/Niche MFG is a judgment call based on the amount of control over the product produced

DEAL HIGHLIGHTS AND SUMMARY

In virtually every deal, valuation was the reason I backed away. Valuation has two components: 1) price/structure and 2) prospects. One is willing to pay a "high" price if confident of the prospects. As confidence decreases, even low multiples look unattractive.

Based on the 2007 Search Fund Study produced by Stanford, I believe that my valuations were appropriate. Past search funds purchased businesses at an average multiple of 4.5x to 4.8x. The lower 4.5x multiple relates to the top 25% performing investments. My offers averaged a generous 5.3x, higher than the search funds upon which the 37% IRR statistic was based. Clearly, I was not the "bottom feeder" with unrealistic expectations that sellers liked to suggest.

Staying true to my investment thesis of targeting companies with good margins and less than $5M of EBTIDA, and ideally less than $3M, the average company had revenues of approximately $9.8M and EBITDA of $1.9M.
In total, there were 34 potential deals that I spent over two years trying to bring to fruition. Unfortunately, in passing on these deals, I did not achieve the goal of acquiring a business to run. However, as I indicate above, with today's hindsight lending credibility to yesterday's analysis, I believe we made the right decisions.

Exhibit 3
Protagonist Resumes

LUCAS RAYMOND BRAUN

(415) 555-8550 ● LucasB@BrownRobin.com

EXPERIENCE

MERCER MANAGEMENT CONSULTING, ***Senior Associate,*** San Francisco, CA 2000-05, 2007

- Consistently promoted ahead of peer group from Analyst to Consultant to Associate over 5-year period
- Founded Core Consulting Group Council, national forum providing input to senior management on key firm decisions

Strategy & Operations

- Led team of 5 consultants in the evaluation and reinvention of the core business unit strategy for multi-billion dollar software company
- Assessed market potential and developed strategy for applying semiconductor fabrication technology to over 20 non-traditional markets for semiconductor equipment manufacturer
- Re-designed the maintenance purchasing process for major airline, creating over $30M annualized savings
- Created process to link business strategy to organizational systems for leading provider of networking equipment
- Conducted in-depth customer analysis to determine strategic implications of potential acquisitions & divestitures for leading provider of Anti-Virus software, resulting in $250M of acquisitions
- Executed total cost of ownership (TCO) study of database storage for enterprise storage provider; Drafted all marketing materials, which formed bases of major publicity campaign
- Researched & designed family restaurant concept for upscale California restaurant chain as part of 4 person team
- Managed and mentored junior Consultants on several client engagements

Private Equity & M&A

- Developed "bottom-up" analysis of market size and brand strength in fishing equipment market to advise private equity fund in acquisition of freshwater fishing tackle vendor
- Built model to forecast operations headcount, union & financial implications for two Hawaii-based airlines' merger

YAHOO!, CORPORATE DEVELOPMENT, ***Summer Associate,*** Sunnyvale, CA 2006

- Analyzed competitor technology orgs to advise Founder on alignment of company's technology organization
- Collaborated to create Yahoo's mobile search and monetization strategy as part of cross functional team
- Built 5 year forecast of worldwide internet users and user engagement for CEO Strategy Workshop examining top-line assumptions of company's operating model

WASHINGTON WIZARDS, ***Marketing & PR,*** Washington D.C. 1999

- Devised and executed "Family Night" promotions program to rebuild NBA fan base in post-lockout season
- Assembled Media Guide including player statistics, interviews and corporate sponsorships

EDUCATION

STANFORD GRADUATE SCHOOL OF BUSINESS, Palo Alto, CA 2005–2007

Master of Business Administration

- Conference Chair, GSB's "Future of Entertainment 2007", Co-President, Arts, Media & Entertainment Club
- Entrepreneur Club; MBA Admissions Ambassador; Challenge for Charity
- Creative Director, GSB Show

DARTMOUTH COLLEGE, Hanover, NH 1996-2000

Bachelor of Arts in Government

- Dean's list 1998–99, 1999–2000
- Co-Captain, Dartmouth Volleyball Team
- Gryphon Senior Society; Alpha Delta Fraternity; Dartmouth Outing Club: 1 of 9 appointed to run freshmen trips

UNIVERSITY OF BARCELONA, Barcelona, Spain 1998

- Foreign Study Program: Spanish language, literature, art history & culture

ADDITIONAL

- Language: Proficient in Spanish
- Interests: Sketch comedy, Surfing, Mountain biking, Skiing, International travel

RYAN L. ROBINSON

(415) 555-6133 • RyanR@BrownRobin.com

EXPERIENCE

AERO LOGISTICS, South San Francisco, CA 2006
Summer Intern / VP of Marketing
A third-party logistics (3PL) provider focused on the domestic high-end shipping market. Acquired and operated by search fund Montebello Capital.

- Managed a wide variety of operational areas: oversaw accounts receivables collections, established metrics for the evaluation of the sales team, and created a template for customer reporting
- Developed company's first marketing strategy in order to coordinate redesign of company website and printed marketing materials

FARALLON CAPITAL MANAGEMENT, San Francisco, CA 2001-2005
Long-Short Equity Analyst
Multi-strategy investment fund managing $30 billion of equity capital for institutions and high net worth individuals. Focus on value equity, restructurings, distressed securities, merger arbitrage, and real estate.

- Managed a $250 million portfolio of investments in the energy sector with another analyst, assessing investment opportunities in public and private equity and debt with event-driven value focus
- Led the purchase process of a $35 million hydro-electric power plant from sourcing the deal, through the signing of a letter of intent and due diligence, to negotiating a purchase and sale agreement
- Performed in-depth quantitative analysis including detailed modeling and risk analysis on deals ranging from a $45 million private equity investment in a railroad to a short sale of a home services company
- Created the investment thesis including conducting fundamental research and building the core hypothesis for a $100 million investment in a major energy company's distressed debt
- Developed and maintained relationships with management teams, board members, and industry experts
- Led a team of research assistants: responsible for hiring, training, defining roles and motivating the team

SAPIENT CORPORATION, San Francisco, CA 2001
Associate Project Manager

- Managed an 8-person team of contractors in stress testing a new website for a financial services firm
- Developed processes to create accountability and visibility for this outsourced team of testing coordinators

EDUCATION

STANFORD GRADUATE SCHOOL OF BUSINESS, Palo Alto, CA 2007
Master of Business Administration

- Student Association Senator: Elected representative of the student body
- Entrepreneurial Club, Sports Management Club, Finance & Investment Club
- GSB Board Fellow: Served on executive board of Jewish Family Services in Silicon Valley

THE WHARTON SCHOOL, University of Pennsylvania, Philadelphia, PA 2000
B.S., Economics, Concentration in Entrepreneurial Management

- Vice Chair of Undergraduate Assembly: Elected by student body to lead student government
- PennQuest Leader: Led groups of incoming freshmen on five-day camping experience
- Friars Senior Society: Membership based on demonstrated campus leadership

UNIVERSITY OF JUDAISM, Jerusalem, Israel 1995-1996

- Foreign Study Program; Volunteer in the Israeli army, public schools, a kibbutz, and a cattle farm

INTERESTS

- Enjoy reading, traveling, golf, cycling, snowboarding, wakeboarding, tennis, and North Carolina Tar Heel basketball

Michael Sanabria michaels@impressnorthwestern.com
941 Hyland Drive, Santa Rosa, CA 95404 415-939-5650

Education
Stanford Graduate School of Business, MBA '93 Stanford, CA
California State University, Sacramento, BA Economics '88 Sacramento, CA

Professional Summary
Seasoned technology solutions marketing veteran with quantitatively supported success. Selected strengths include inbound marketing expertise: identifying new and significant market opportunities, defining functional requirements, and working with engineering to deliver customer focused products on time and budget. Outbound marketing strengths include enhancing the indirect and direct sales process through significant brand awareness, lead generation, and sales programs/tools. Organization strengths include growing and managing effective organizations and strategic planning.

Marketing Experience
QuantumShift Novato, CA
Managing Director, Product Marketing 2001-2002

Responsible for QuantumShift's product strategy, delivery, pricing and positioning. Reported to CEO with staff of nine professionals. QuantumShift (a Mayfield & Thomas Weisel Capital Partners funded company) develops communications management applications and services for mid size and enterprise companies.

Selected results:
- As part of rapid development project delivered
- 23 standardized communication products to market in three months
- Revised and implemented revised software and services pricing enabling more competitive pricing
- Launched multiple software releases increasing customer satisfaction with communication management software

Collabria, Inc. San Mateo, CA
Vice President, Product Marketing and Marketing 1999-2001

Responsible for Collabria's inbound and outbound marketing efforts. Hired as first marketing professional and built department of 10 professionals with a $6M budget. Collabria (a Lightspeed VP & Bessemer VP funded company) developed enterprise applications to manage, distribute and procure sales and marketing material.

Selected results:
- Business/Product Strategy
  - Delivered requirements & managed the overall release of four major & many minor product releases
  - Delivered e-content development tools resulting in 7 times increase in operational service performance
  - Lead target market analysis & selection enabling efficient sales & marketing efforts as evidenced, below
  - Gained consensus on a Collabria product development methodology, change management process and formalized product roadmap discussions which lead to more predictable development and launch cycles
  - Developed and launched new professional services pricing which resulted in significant incremental revenue
- Promotion & Advertising
  - Established Collabria brand one of the top three print e-commerce vendors (CAP Ventures study results)
  - Developed PR & analyst programs resulting in more coverage than all competitors including 50 distinct publications with over 300 articles and mentions resulting in exposure to over 10 million readers.
  - Developed direct marketing programs generating more than 12,000 responses.
  - Over 15 month period successfully orchestrated presence at 12 major shows, 9 midsize shows, and 53 small shows and speaking opportunities, resulting in exposure to over 270,000 people

- Delivered education, sales tools & incentive programs to help drive consistent month to month transaction growth
- Received numerous industry awards including: Forbes Best of the Web, GATF Intertech Technology Award, Electronic Publishing Hot Product, & Seybold HotPick

Edify Corporation Santa Clara, CA
Senior Manager, Enterprise Customer Management Group 1997-1999

Responsible for identifying new market opportunity to provide Edify with incremental growth opportunities. Also responsible for Electronic Workforce market and product requirements and outbound marketing. Electronic Workforce is an application platform for creating custom web and telephone customer self-service applications.

Edify Selected results:
- Wrote business plan, market requirements document, and secured funding for new, cross-channel (i.e., web, phone, call center) ECM solution
- Planned and managed a successful launch of Edify's core product Electronic Workforce 5.0 for Windows NT including: training direct sales force and channel partners for a smooth transition to the NT platform and managing all outbound marketing activities and PR efforts
- Targeted direct marketing efforts to achieve a tripling of response rates yielding significant qualified deal flow for Edify sales force
- Defined and successfully integrated international product requirements into the Electronic Workforce's existing product development cycle

Claris Corporation Santa Clara, CA
Product Marketing Manager II (promoted from Product Marketing Manager) 1993-1997

Responsible for product management and marketing functions for the following products: Emailer an Internet email client, OfficeMail a small business Internet email server and service, and ClarisDraw a drawing application.

Selected results:
- Managed the development and launch of four new products and numerous minor updates on budget and schedule
- Grew Claris Emailer sales over the last two quarters 45 and 55 percent per quarter
- Developed strategy to triple Claris Emailer's installed base in just three months with tremendous revenue upside at the end of the marketing program
- Developed business case, provided analysis and negotiation support for Emailer acquisition directly resulting in Claris being able to meet aggressive development schedules
- Managed the Emailer and OfficeMail development teams through the first successful Claris attempts at rapid development cycles for software
- Developed business model for OfficeMail that required a successful negotiation and management of a partnership with an Internet service provider
- Drove successful PR campaign resulting in a media presence that exceeded the product's relative market position
- Played major role in Apple adoption of Emailer resulting in significant good will and evangelism for Emailer
- Achieved worldwide P&L targets for ClarisDraw in declining drawing market
- Analyzed ClarisDraw's channel presence and consequently refocused the channel strategy to achieve significantly higher sell in and sell through than originally forecasted

United States General Accounting Office (GAO) Sacramento, CA
Evaluator 1989-1991

Selected results:
- Received fastest promotion to Evaluator in San Francisco Region history
- Determined that Congress should stop a U.S. Army depot renovation allowing Congress to save $63 million in funding

- Determined that FDA test methodology and results did not support the FDA's claim to Congress that the nation's bottled water supply is safe
- Determined that a naval oil petroleum reserve was not adversely affecting local endangered species, ground water, and potential historic artifacts

Ernst & Young Sacramento, CA
Management Consultant 1988-1989

Selected results:

- Restructured the delivery of shared support services for a group of medical licensing boards increasing efficiencies and reducing cost
- Based on staffing analysis, restructured the job classifications for a consumer complaint department reducing head count as needed

SEAN CALLAHAN
77 Estelle Avenue • Larkspur, CA, 94939 • +1 (415) 312 8644 • scallahan1998@kellogg.northwestern.edu

PROFILE

Seasoned executive with P&L. In addition to General Manager role, held senior positions in business development, sales management, product management, operations and marketing. Significant experience re-engineering business processes and improving supply chain management. Proven team leader. Combination of strategic planning and execution skills. Strong customer focus. Have the right mix of skills, experience and motivation to lead a business to the next level.

EXPERIENCE

BUSINESS ENGINE, INC. – acquired by PLANVIEW (London, UK and San Francisco, CA) 2004 – 8/2007
Senior Vice President and General Manager, EMEA (2/06 – 8/2007)

- Full P&L and direct report responsibility for EMEA operations across sales, professional services, resellers, customer support, marketing, and G&A.
- Executed turnaround plan including personnel changes and revamped marketing/sales strategy. Tripled license sales YOY. Increased services plan attainment from 28% in Q1 to 125% in Q3/4. Achieved 100% of maintenance plan.
- Led merger of Business Engine's European operations into Planview.

Vice President, Sales and Business Development (2004 – 2006)
Corporate officer; direct report to CEO.

- Led global business development and solutions consulting teams.
- Signed partnership agreements with Capgemini, Atos Origin and Deloitte Consulting.
- Recruited and enabled resellers in France, Australia and Germany.
- Negotiated third party OEM agreement - was company's leading selling product in 2006. Subsequently led due diligence to acquire this product.
- Developed OEM channel for Business Engine product – closed a multi-million dollar, guaranteed royalty deal.
- Defined and implemented a consultative selling methodology.

ORACLE CORPORATION (Redwood Shores, CA) 2001 -2004
Director, Channels and Alliances (2003 – 2004)

- Defined and drove adoption of global small and midsize business (SMB) applications market development program. Led North American applications SMB go-to-market strategy and rollout including reseller channel creation, direct sales force readiness and marketing program execution. Within 12 months the program closed 200 new customers and created a channel of 150 resellers globally. The budget for this program was ~$25M.
- Significant PR, analyst relations and public speaking responsibilities.

Director, Product Marketing (2002)

- Defined and implemented global marketing plans, led re-positioning, and managed PR/analyst relations for Order Fulfillment product line. Order Management product generated $20M+ in annual revenue. Warehouse Management product went from launch to 150+ customers globally in one year.

NONSTOP SOLUTIONS – acquired by MANHATTAN ASSOCIATES (San Francisco, CA) 1999 – 2001
Director, Product Management (1999 – 2001)

- Led a team of 5 product managers to develop business case, product strategy, positioning, functional requirements, and manage development. Delivered 4 releases of a planning, sourcing and purchasing marketplace as well as 3 releases of demand management software.
- Led software product integration of two acquisitions.

CSC INDEX (San Francisco, CA) **1998-1999**
Consultant, Strategy Formulation (1998 – 1999)

- Completed business design for an on-line procurement and sourcing marketplace including financial analysis, marketing messages, sales strategy, competitive analysis, market research, product partnership evaluation, requirements definition and implementation plan. Business plan secured $500K additional funding for phase 1 implementation.

DELOITTE CONSULTING (Atlanta, GA) **Summer 1997**
Summer Associate

- Helped Fortune 500 aerospace company to evaluate ERP software vendors and make final vendor selection.

EDS (Lordstown, OH and Wilmington, DE) **1993 – 1996**
Consultant, Operational Strategy

- Developed and ran program management system for the $100M+ Chevy Malibu new car program. Malibu launched on schedule.
- Designed and implemented a lean manufacturing planning, optimization and execution software. Reengineered material handling and inventory control system which reduced labor requirements by 20% and increased service levels by 10%. Software is now used across GM.
- Completed EDS software development program.

EDUCATION

Kellogg School of Management, Northwestern University (Evanston, IL)
Master of Business Administration degree, 1998

- GPA 3.8/4.0
- Majors in management & strategy, and organizational behavior
- Completed business plan for software system developed by Northwestern University scientist.

McCormick School of Engineering, Northwestern University (Evanston, IL)
Master of Engineering Management degree, 1998

- Entrepreneurship Program Co-Chair
- Winner of Product Design Competition

Pennsylvania State University (University Park, PA)
Bachelor of Science degree in Industrial and Manufacturing Systems Engineering, 1992

- Vice-president, ATO. Tau Beta Pi, Alpha Pi Mu, and Order of Omega Honor Societies.
- Completed IBM Engineering CO-OP.

DAVID P. KENNEDY
415-269-5522 (Cell)
david@greenlightcap.com

EXPERIENCE

MCKINSEY & COMPANY, INC.

1998-2001 **Engagement Manager** **San Francisco, CA and London, UK**

Leader of consulting teams serving clients on wide range of strategic and operating issues. Assessed as "distinctive" (top 5%) in all annual reviews. Promoted to Engagement Manager one year ahead of class.

1992-95 **Business Analyst** **Dublin, Ireland and London, UK**

First McKinsey UK analyst for five years to be offered direct promotion to associate.

Selected studies (over entire career at McKinsey) include:

Operations

- Led client teams renegotiating purchasing contracts for a contract manufacturer, resulting in annual cost reductions in excess of $50 million.
- Led client teams driving reductions in overhead costs at two food factories, leading to annual cost reductions of £8 million (30%+ of overhead budgets).
- Member of joint client/consultant team directing the post-merger management effort at an industrial company, resulting in $1 billion+ annual savings.

Corporate Finance & Strategy

- Identified a series of $100 million+ acquisition opportunities in software for a private equity firm.
- Designed new distribution strategy for a beverage company, leading to acquisitions and investments of $2-10m in several distributors. Assessed value of distributors and designed negotiation strategy.

1995-96 **H.J. HEINZ, INC.**

Acting Director General, Heinz APKG **Georgievsk, Russia**

Directed final 4 months of commissioning and first 5 months of production at green-field factory.

- Manager of 120-person factory, with responsibility for all elements of operation and personnel, including production, finance, HR, procurement and logistics.
- Led and trained management team of 8 Russians, none of whom had previously worked in a capitalist environment.
- Designed and implemented all major factory operating systems, including budgetary, inventory and quality control.

Member of Supervisory Board, Heinz PMV **Zabreh, Czech Republic**

Led cost reduction initiative at privatized Heinz factory in Czech Republic.

- Identified and eliminated loss-making products representing 30% of factory volume, leading to substantial restructuring of operations and return from loss-making to breakeven.
- Designed negotiation strategy with key suppliers, leading to raw material unit cost reductions of 10%.

EDUCATION

STANFORD UNIVERSITY **Stanford, CA**

Master of Business Administration, June 1998
Master of Arts (International Policy Studies), June 1998
Arjay Miller Scholar (top 10% of class). Awarded Fulbright Scholarship (declined). GMAT of 780 (out of 800). Co-founder of GSB Wine Circle, member of Academic Committee, CFO of *The Show*.
Summer Associate: Goldman Sachs, Investment Banking, London. (Full time offer extended.)

UNIVERSITY COLLEGE DUBLIN **Dublin, Ireland**

Master of Business Studies (International Marketing), Sept. 1992
First class honors degree. Awarded post-graduate scholarship.
Bachelor of Commerce (Finance), Sept. 1991
First class honors degree. First place in class of 300+. Received Gold Medal for Excellence, awarded to outstanding student over degree program. Treasurer of debating union. National Solo Debating Champion.