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A close colleague of mine, Newell Starks, is working on a deal which has the potential for significant upside over the next 3-5 years, an increase of $6 to $12 billion in market cap of a publicly traded company that is currently trading at a fraction of its high which was over $3 billion. It has been hit like it is a dot.com but it is far right afield. The company is actually in an acquisition mode, successfully completing five acquisitions in the past couple of years, with operations in Europe, China and the U.S. Newell is getting ready to take this deal to Citicorp – [Newell is a retired officer of Citi Ventures, which is among the top 5 most successful LBO funds in history. He got there by making two mistakes -- the first one occurred in the early 1980s when he invented the notebook computer while an employee at Texas instruments with funds provided by Rod Canion and then failed to understand the full magnitude of what would come next, an offer by Bill Murto to join Rod Canion and him in starting up a new company that eventually become Compaq, which he turned down. Soon after, however, Newell joined Citi before retiring well short of the usual mid life crisis.] I have now managed to bring Newell to a screeching halt. The bottom line is that an institution like CALPERS or some other direct player can do a better deal than Citi.

All that is required is an acquisition facility of up to $100 million to supplement the company's existing $100 plus million in cash and a debt free balance sheet to continue buying out a bunch of distressed, deals that the VCs financed, which are now cash strapped and no where to go but to continue to be written off -- no exit strategy, no "seasoned" infrastructure, no distribution channels. The monies would only be drawn down for acquisitions. Newell has been discussing with me an intriguing equity inducement that could be used to reward the institution that provided this "bridge-acquisition" facility.

This company has a successful track record of making intelligent acquisitions of companies that have materially and positively contributed to revenues and operating income as well as bringing deeper and broader technologies to compliment the overall company's technology portfolio. Consequently, the company would continue to make selective acquisitions, which would continue in this tradition, i.e. adding depth and breath to its existing technology base, focusing on acquisitions that materially and positively contribute to its ongoing operating performance in a relatively short time frame. The company's belief is that it would be in a strong position both, post one or two or three of these acquisition and/or post the general current economic malaise [i.e. during 2003] to refinance any "bridge-acquisition" facility that it needed to use on highly attractive terms whether in the debt or the equity market.

At the moment, the company prefers to retain its cash reserves for operating purposes and as a hedge against any unexpected difficulties during the current market uncertainties and to permit it to do small, i.e. $5-$10 million acquisitions and, because of the general stock market downturn, this is not a good time to raise equity capital in any shape or form, hence the concept of "bridge-acquisition loan" with some equity kickers.

The idea in the structure of the equity would be to provide equity at the point of commitment, and additional equity at the first draw down of any commitment. In addition, if for any reason this “bridge acquisition” facility was not repaid within a time certain [say 18 months or so] there would be an additional equity kicker that would occur. In the meantime, the company would be paying a reasonable rate of current interest on any facility that had been drawn down. In this way, this company would be in an excellent position to take advantage of some unique “buying opportunities” in the technology world that compliment its marketing leading position, and whichever institution provides this “bridge acquisition facility” would end up with a long term nominal cost equity position that could potentially have very large returns.

In Summary:
Whoever puts up the facility could get equity [possibly as much as 5%] for just agreeing to the facility even if nothing was drawn down and then additional amounts should the facility be used. Again, interest could probably be kept current with a bullet that in the event the entire facility wasn’t repaid promptly more equity would kick in.

The bottom line is that within a relatively short period of time the entire facility could be paid off, and the equity could be worth significantly more than the actual funds drawn down with nominal equity cost and by the time all the acquisitions are in full swing the investing group's holdings could be worth certainly multiples of the original commitment whether or not any or all of it was ever drawn down.

Merely the fact that this company had such a “bridge-acquisition” facility in place could send strong positive messages to the half a dozen market analysts that follow this company, depending on the quality of the institutions that made this commitment i.e. the stock could even begin to rise just based on the announcement; and the institution that had these equity rights could even be in the money right from the start.

Due to the position of prominence that the company has in its market; it has a wide array of opportunities at the moment and needs to make a decision about whether to go in this direction fairly promptly. It has not retained any investment banker and to the best of my knowledge this is an original concept that is brewing as we speak and we could be in on the ground floor.

This is like a large private transaction that is going to happen in all probability without any investment bankers in the middle. These are sophisticated people – they know what they need and they just need it fast. So the question for us is can we move fast? Is this something we would want to pursue? If we want to have any opportunity to insert ourselves into this process we are going to need to act fairly promptly or do we just want to pass on it? If this is a go then we need to take immediate steps to reasonably assess how long it would take to get such a facility established. Again it stands to reason that if appropriately positioned we could probably arrange better pricing than what they would obtain from a buyout firm.

Please let me know.

Gary