STUDY OF ISSUES AND FACTORS INFLUENCING
THE SMALL BUSINESS ENTREPRENEUR INVOLVEMENT IN
CORPORATE BUSINESS DIVESTITURES

FINAL REPORT

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EXECUTIVE SUMMARY

The small business entrepreneur incurs many difficulties while attempting to compete with large corporations in acquiring divested entities.

A small business entrepreneur is often frustrated in his efforts to uncover business divestment opportunities. This is largely due to the lack of viable information sources and corporations' desires to deal with other large corporations. Most corporations, after making the divestment decision, are usually interested in privacy and in completing the deal rapidly.

The entrepreneur also meets difficulty at this stage since he usually lacks the management and financial resources of a large corporation, has insufficient time to obtain bank or venture financing, and to work out the details of a leveraged buy-out. The net effect is to eliminate the small business entrepreneur from many potential acquisition opportunities.

This study addresses the issues and problems of the small business entrepreneur in acquiring divestments of large corporations. Recommendations are presented both for improving the entrepreneur's participation in the divestiture process, and also for enhancing the prospects for a successful transaction.

To supplement the background material and add a more pragmatic foundation for this study, interviews were conducted with three different segments of the economy.

1. Executives of large corporations who were responsible for divestitures.

2. Venture capitalists who have participated in financing the acquisition of divested entities including those that have specialized in leveraged buy-outs.

3. Small business entrepreneurs who have recently completed the purchase or acquisition of a divested entity.
Findings

A new phenomenon is enveloping the national business community. Corporations are divesting divisions and entities at a rapid rate. The high cost of money and the difficulty of managing diverse business are forcing a reassessment of priorities. Medium and large corporations are selling profitable operations to either increase their return on capital or to reduce their capital requirements.

In the past, small business has been able to acquire these divestitures through a procedure called a leveraged buy-out. The high cost of money and reduced cash flows currently have severely restricted this method of purchase/acquisition. The percentage of small business acquisitions in the divestment market has recently taken a strong turn downward.

The result is that large businesses are selling off peripheral businesses which are not related to the core operation. Other large businesses are acquiring these sell-offs, particularly if they relate to their core business operations. If this trend continues, there will be a redistribution and concentration of assets among large businesses along traditional core industry lines—with the attendant greater percentage market control and antitrust implications.

Large businesses usually have substantial problems in working with small business. The leveraged buy-out, which is the main vehicle used by small business to acquire divestitures, is not understood by many large corporations and often regarded with suspicion and concern.

Small business is usually highly productive. Case studies were examined of large corporate divisions losing money. When management or small business buy-outs occurred, turnarounds were successfully accomplished.

Since the national interest is best served by a strong small business community and a healthy diverse labor base, there is a need for a national program to facilitate and promote the divestment process on an equal basis to small business. This would ensure greater competition, and tend to slow down the
concentration of asset and resource buildup in large corporation core businesses.

The recommendations for this program are summarized below:

Small Business:

1. Develop a list of entrepreneurs or small businesses that are qualified and anxious to acquire corporate divestitures. Assign the job to the private sector, to interested finders on a regional area basis or small business oriented investment bankers.

2. Encourage the private sector to conduct educational services for both large and small business on the divestiture market.

3. Allow a three-year small business corporate tax moratorium for a purchase of a divestiture.

4. Establish an accelerated depreciation or faster write-off of both new and used equipment for divestment purchases.

5. Establish a two tier prime interest rate system, having lower rates for small business leveraged buy-out purchases. Allow special tax credits to participating banks.

6. Establish a system where small business could encourage a selling corporation to "take back paper". Notes could be guaranteed by the private sector or quasi-governmental special organization established for this purpose. Create a secondary market trading in these notes.

Venture Capital

1. Change tax code to allow the future gains to the venture capital group to be tax-free on small business leveraged buy-outs.

2. Allow leveraged buy-out participants with insufficient cash flow to defer interest payments (as well as principal) with only minor penalty.
Venture group would receive interest payment tax-free as compensation. A partial guarantee of the deferred interest by a private or quasi-governmental organization could be used to encourage acceptance of deferred payments.

3. Establish a private or quasi-governmental organization to provide guarantees on a portion (25% to 50%) of the venture investment.

4. Establish a two-tier size standard for SBICs and MESBICs. These could be specific to allow a larger limit for certain conditions such as high technology deals.

5. Establish a venture pool under private or quasi-governmental control to serve as a backup source for increasing equity participation in high technology oriented divestment purchases.

Corporations

1. Educate corporate executives on the advantage of small business buys and the details of a leveraged buy-out.

2. For selling above book value change the tax code so that there is deferred or zero capital gain if proceeds are reinvested within one year. This would apply to corporations divesting to a qualified small business.

3. For selling below book value change the tax code to give special tax credits or greater loss write-off. This would apply to selling corporation divestiture to qualified small business.
1.0 INTRODUCTION

This study addresses the issues and problems of the small business entrepreneur in acquiring divestments of large corporations. Recommendations are presented both for improving the entrepreneurs' participation in the divestiture process, and also for enhancing the prospects for a successful transaction.

To supplement the background material for this study, interviews were conducted with three different segments of the economy.

1. Executives of large corporations who were responsible for divestitures.
2. Venture capitalists who have participated in financing the acquisition of divested entities including those that have specialized in leveraged buy-outs.
3. Small business entrepreneurs who have recently completed the purchase or acquisition of a divested entity.

The comparison of viewpoints from these three sources proved to be highly informative, and provided the basis for defining the issues and formulating recommendations.

Other useful information, including lists of court ordered divestments, was also provided informally by the Department of Justice, Antitrust Division, and the Federal Trade Commission, Office of Economic Evidence.

1.1 Issues

The small business entrepreneur has difficulty competing on an equal basis with large corporations in acquiring divested entities. The large corporation, after the divestment decision has been made, is usually interested in privacy and in completing the deal rapidly. In this sense it is generally easier to sell to another large corporation. Assuming no antitrust problems a competitor can usually pay a higher purchase price while arranging for financing in less time. This is especially true for a large corporation with substantial financial resources. The net effect is to
eliminate the small business entrepreneur from many potential acquisition opportunities.

A small business owner is often frustrated in his efforts to uncover certain business divestment opportunities. If he happens to learn of a pending divestment, large corporations probably have already analyzed the business as an acquisition candidate, determined its relevance to their long-range strategic plans, and initiated several rounds of offers. It is customary for corporations to require that confidentiality agreements be signed with all potential buyers. Frequently "final negotiations are in process", or have just been completed. The entrepreneur meets difficulty in competing at this stage since he usually lacks the management and financial resources of the large corporation and has insufficient time to obtain bank or venture financing.

Another issue explored concerned a company's productivity before and after divestment. In particular there was interest to determine whether productivity would increase if the business entity under large business control was sold to a small business buyer. An example would be a management buy-out sale to an independent entrepreneur, or a sale to a small business. Another issue examined was the case of a large corporation selling a division losing money. Is there evidence to support the contention that a "turnaround" can be accomplished, and is this the usual case?
2.0 METHODOLOGY

The importance of the small business entrepreneur in an equitable competitive market has been recognized by the business community for many years. The acquisition of corporate divestments is but one way of creating and generating additional opportunities for small businesses. In order to assess the historical and current participation of the entrepreneur the following methodology was utilized during the performance of this study.

The Study Team first reviewed the literature, trade journals, and business oriented newspapers. Very little was written about the corporate divestiture and corresponding actions. There was little or no mention as to how prospective buyers were evaluated, or the preferred types of financing. Furthermore, the media and professional journals covered only acquisitions of corporate divestitures involving large companies. The lack of coverage of other acquisition opportunities more accessible to the small business entrepreneur is indeed one of the areas that will be addressed in this report. In summary, from the literature reviewed, there is very little evidence that small businesses are participating in any stage at the corporate divestiture process.

Since case histories/studies contain more detailed information on a specific divestment-acquisition occurrence, the Study Team reviewed over twenty of them. They provided a valuable insight into the reasons for divesting, how buyers were selected, and how transactions were consummated. A detailed analysis of nine case studies is provided in Appendix I. These cases were selected for their relevancy to the objectives of this paper.

The most comprehensive source available for assessing the soundness and practicality of recommendations to improve the participation of entrepreneurs in the divesting process were case histories and direct interviews. Both were used throughout this report as sounding boards in the development of new ideas and approaches to the problem.

Additional sources of statistical data on corporate divest-
ments and small business acquisitions were investigated. Though frustrating due to difficulties in finding relevant information, this effort resulted in the identification of a promising, large, and comprehensive data base on business establishments.\(^1\) This data base, the "Standard Statistical Establishment List" (SSEL), compiled and maintained by the Bureau of the Census, includes information on all types of economic units within the scope of the Standard Industrial Classification and Enterprise Standard Industrial Classification. It contains the following types of data for each enterprise (i.e. corporation, partnership, sole proprietor, non-profit, etc.) and its constituent establishments: name, physical location, tax identification number, parent company affiliation, standard industrial classification, employment and business receipts, size codes, and status (in operation, sold or leased, closed, idle or inactive, other). The U.S. Department of Commerce published through 1974 a report on mergers and acquisitions using the SSEL. For purposes of this study, this publication's limitation was that it did not classify establishments according to the current definitions of small businesses. Currently, it is therefore impossible to produce summary statistics using the SSEL without initiating changes in the Bureau of Census data base and tasking this agency to provide additional reports. An analysis of relevant statistical data provided in Mergers & Acquisitions 1972-1974, Bureau of the Census is given in Appendix II.

The Study Team investigated two other very specialized data bases on the subject. The first one corresponded to divestments ordered by the Federal Trade Commission (FTC). A detailed description and analysis of these data are presented in Appendix III.

\(^1\) An establishment is defined as a single physical location within the United States and its territories where business is conducted or where services or industrial operations are performed.
The second was a list of divestments ordered by the Department of Justice. This list is presented in Appendix IV. Making these two lists readily available to small business would benefit not only the entrepreneur but would also provide benefits to the divesting corporation. This could be accomplished by the Department of Justice and Federal Trade Commission each making a current list available to the SBA for distribution to small business.

In summary, at the time of this study there was insufficient and inadequate historical information with a direct bearing on this subject. As a result, this study focused on direct interviews with individuals experienced in the divestiture/acquisition process. This was the primary vehicle used to gather information.

2.1 A Methodology For Information Gathering And Organization

In the methodology utilized, a group of specialists with diverse backgrounds were asked to first identify the issues and factors influencing entrepreneurial participation in the acquisition of corporate divestments, and secondly, to identify and/or comment on specific incentives and proposed legislative proposals.

The experts in the divestment-acquisition field interviewed by the Study Team belonged to the following institutions:

- Government
  - Federal Trade Commission, Office of Economic Evidence
  - Department of Justice, Antitrust Division
- Large Corporations
  - Executives, Divestment/Acquisition Divisions
- Venture Capital
  - Executives
  - Partners
- Small Business Entrepreneurs
  - Who have successfully completed a divestiture buy-out
  - Who recently attempted the acquisition of a corporate divestiture.
Listed below are the corporations, venture capital groups and entrepreneurs contacted during this study.

Large Corporations Interviewed:
- IBM
- Union Carbide
- Xerox
-ITT
-RCA
-Gulf Western
-Systems Development Corporation (SDC)
-Planning Research Corporation (PRC)
-Core Industries
-Allied Products

Discussions were held with executives at the corporate vice presidential level, responsible for divestment policies and decisions. The interview was structured using the interview guide in Appendix V.

The following Small Business Investment Corporations (SCICs), (MESBICS), and Venture Capital Organizations were interviewed about their interest in financing an acquisition of a corporate divestiture by a small business entrepreneur.

Venture Groups Interviewed:
- Narragansett Capital Corporation
- Southeastern SBIC
- Xerox Development Corporation
- Tessler & Cloherty, Inc.
- Minority Equity Capital Company
- Metropolitan Capital Company
- Sprout Capital Corporation
- Time, Inc. (Venture Fund)
- Dearborn Capital Company
- CMNY Capital Corporation

An interview guide titled "Venture Capital" was used for each interview. A copy of this guide is attached in Appendix VI.
The following entrepreneurs were selected because of their recent involvement in either buying or attempting to buy a large corporation divestment.

Entrepreneurs Interviewed:
- Airborne Manufacturing Company
- Avis Industrial Company
- Broadcast Enterprise Network, Inc.
- Jones Steel and Lafayette Steel Company
- Mathematics
- Minona Wire Corporation
- PC Incorporated
- P.F. Flyers Company
- System Engineering Enterprises
- Tyler Refrigeration

The interview guide entitled "Small Business Entrepreneur" was used for each interview and is attached in Appendix VII. In all cases specific answers by organizations or individuals are not included in order to protect their confidentiality.

These three groups, amounting to over thirty individuals, provide the substantive information required for an examination of the primary issues and factors influencing an entrepreneur's timely and successful involvement in corporate business divestment. The heterogeneity and multidisciplinary composition of this group necessitated the design of four different interview formats. Each was tailored to capture and document specific input information. These data are organized and summarized for the purpose of supporting incentives and legislative proposals, in order to bring about a change in the present degree of competitiveness of entrepreneurs vis-à-vis large corporation, in the acquisition of divestments.

The interview process was organized in two phases. The objective of the first was to collect information from the above sources through personal contact. Each session examined the subject openly and in-depth, with a set of preselected questions serving as an overall guide. At the completion of the two or three hour session the corresponding interview guide was updated.
and new comments or opinions added to the record.

In most cases the interview consisted of an on-site meeting and discussion of several hours. In a few cases the interview was by phone when either distance or scheduling precluded a face to face interview.
3.0 CORPORATION INTERVIEWS

Of the ten corporations contacted during the study, seven had consummated two or more divestments during the past year. Four had completed ten or more divestments. The entire group as a whole had divested over one hundred business entities or product lines during the past five year period.

3.1 Corporate Findings

Most agree that a key factor driving corporate sell-offs is sluggish profits or losses. This study determined that another major contributing cause was the amount of additional capital investment required to stay competitive. A corporation faced with a decision of how to invest limited corporate funds would pick the products or divisions that could bring the highest Return on Investment (ROI), Earnings Per Share (EPS), or that would meet other specific corporate objectives.

Other areas being considered are the high cost of money to expand operations, the stock markets continued undervaluation of corporate assets, and an increased awareness of the hurdle rate (the return necessary to surmount the cost of capital invested and the inflation rate).

Other factors contributing to a divestment decision were: the need for greater liquidity, basic changes in business strategy, and/or lack of management depth and expertise to continue managing diverse businesses. Antitrust or expropriation considerations, while obviously factors, were not acknowledged as basic considerations in arriving at a divestment decision.

Once the divestment decision is made the corporation initiates a search for a potential buyer. At this early stage practically all interviewees stressed the need for privacy until the deal was completed. This strong need for secrecy is enhanced by fears or concerns of the following types:

- loss of customers
- loss of key employees
- cancellation of orders
loss of posture within the industry and with competitors
- weakened posture with potential buyers

Many of these factors dictate the need for a fast completion of negotiations. During later stages, as more corporations and key company employees become aware of the potential divestment, secrecy is not as important. In fact, it may be desirable at this point to let word "leak out" possibly increasing the number of prospective buyers.

In practically all cases potential corporate buyers are required to sign a confidentiality agreement. In order to protect themselves on privacy and secrecy issues, divesting corporations use a number of approaches to contact potential buyers. Many use a direct "corporation to corporation" approach. Others use a middleman such as an investment banker or a "finder"/business broker in corporate acquisition. The direct "corporation to corporation" approach often is practiced by those corporations with separate divestment divisions and that are implementing an active sell-off program. Even under the direct approach secrecy is usually compromised if selling discussions take longer than three to four months. Those corporations using the direct approach also use a third party finder/broker in a portion of their deals. The success ratio with this arrangement is quite high, assuming that an experienced third party is used.

Large corporations tend to sell to other large corporations. This occurs because large corporations have the necessary capital to complete the purchase. Their financial situation is usually well known, and the selling corporation would not be forced to resort to alternative financing arrangements, such as taking back a note. Often a direct approach is made to one of the principal competitors, since they usually know the business climate, the customers, and the potential of the business being divested. As a result, only a small percentage of divestments are sold to small businesses. The typical small business entrepreneur is overlooked and has little if any access to the potential transaction until after it becomes public knowledge.
The small business buyer most frequently buys a divestment by means of a leveraged buy-out structure. This type of financing clearly is not understood by many corporate executives. Of the corporate executives interviewed only about 40% had experience with, or detailed knowledge of this type of financial arrangement. Those who did understand a leveraged buy-out had concerns about the time it took to plan, structure, and negotiate this type of sale.

Most corporation executives were therefore apprehensive about selling to small business entrepreneurs. About two-thirds expressed strong concern about "taking back paper". Taking notes tends to keep the corporation involved with the divested entity and in the event of a default, may force a "take back" of the sold company.

A few corporations stated that a liquidation was far easier than a divestiture. This was especially true for unproven new technologies of those businesses and divisions operating for an insufficient time to show profits. However, examples were discussed in which business operations had been underway for seven to ten years and the corporation still sought liquidation. Reasons given for this approach were to lessen demands on operating, corporation management, and fewer liability problems. One high technology corporation that has made a number of divestments indicated that they preferred liquidations so that they would not have to be concerned about:

1. the success of the sold entity;
2. the technical competence of the potential purchaser;
3. problems with technology transfer and expertise.

Most of the corporations interviewed had had little experience with management buy-outs. There were two exceptions. One corporation was in the professional services area and the other was in manufacturing; they stated that management buy-outs were encouraged and that some of their most successful divestments went to their own employees.

About 75% of the corporations acknowledged that for the most part their divestments usually were not sold to small business
entrepreneurs. They thought that if incentives were established to sell to "qualified" small businesses that this would improve the situation. They also indicated that if incentives were given to small business buyers for the purchase of divestments that this would allow them to compete with large corporations on a more equal basis.

It was difficult to generalize about productivity increasing after sell-offs to small business. The reason being that in most cases divestitures were not sold to small business. In those cases in which small business purchased the divestment, the results were very favorable. Management buy-outs were the most successful even when the original business entity was losing money.

The decision makers at the corporation level were usually the corporate executives, not the division general managers. A typical decision making group would consist of the Vice President, Acquisitions and Divestitures; the Controller or Vice President, Finance; and the Executive Vice President. The marketing Vice President practically always was consulted, as was the Corporation Counsel, but these executives were usually not included in the key decision making role.

3.2 Incentives

The interviewees suggested the following incentives for large corporations divesting to a "qualified" small business buyer:

- If sold above book value:
  
  Revise the tax code so that there is a deferral or zero capital gains if proceeds are reinvested within one year. Reinvestment should be within selling corporation's business and only for capital expenditures. This encourages reinvestment in assets that could increase productivity.

- If sold below book value:
  
  Change the tax code to give a special tax credit or a greater loss write-off (25% to 50% greater) if selling corporation divests to qualified small business.
A "qualified" small business buyer would be a small business that has been checked or certified to meet maximum specified size standards. Since size standards and definitions are the subject of considerable effort within the SBA and related governmental organizations, no further emphasis will be placed on this subject.

In addition, about 50% of the corporations interviewed felt that a list of qualified small business buyers would be very helpful. To be useful this list must be up-to-date and categorize all potential buyers by areas of interest, such as SIC codes, size category, and other pertinent descriptive information.

A more complete discussion follows on incentives for corporations to sell to qualified small business buyers.

3.2.1 Incentives for Corporations to Divest to Qualified Small Businesses

A. Selling Corporation's Deferral of Capital Gains Tax if Sold to Qualified Small Business Buyer.

This concept would enable a selling corporation to defer capital gains tax where the divestment is sold to a qualified small business buyer. Under this concept capital gains taxes could be avoided entirely if these funds were fully invested in related business assets within a one or two year period. A plausible scenario illustrating this concept would be as follows:

A selling corporation is thinking of divesting a division and anticipates a capital gains situation. By being able to preserve their gain through reinvestment in the business, a company would probably be incentivized to search for, and sell to a small business buyer. The selling company then benefits from either new fixed asset acquisition, or else through replacement of existing fixed assets. For example, a railroad corporation must decide whether to purchase new signals for its core business in order to make the railroad more productive. The corporation also owns a boat division worth considerably more than book value.
By selling the boat division to a small business buyer, the extra dollars released through the deferral or avoidance of capital gains tax can be reinvested in other assets, viz. railroad signals. This would increase the corporation's ability to offset earnings lost from the asset sold while improving the earnings per share. This further increases the incentive to sell to a small business buyer.

This incentive produces revitalization by concentrating on the basic business and improving the efficiency of all businesses by encouraging a redistribution of assets to those who can best use them.

This concept becomes a way to encourage people to sell assets, resources, and skills that are not directly related to their long-term corporate strategy. At the same time, as the velocity of asset turnover is increased, there is added a greater incentive to deal with small business parties. More activity will result in more opportunities for small business.

B. Higher Write-Off or Selling Below Book Value

The concept of a possible higher write-off on selling below book value is another incentive for large business to sell to qualified small business buyer. The net effect would be that you would have more net retention of funds.

For example: A corporation selling to a qualified small business could receive a write-off of 1.25 or 1.5 times the loss. This would encourage the corporation to sell rather than liquidate and thereby create a favorable purchase environment.

Some of the corporations interviewed stated that liquidation was usually easier and made more "business sense" than divesting and having to interface continually with the buying corporation, transferring know-how, and being concerned with the success of the divested entity. This incentive would encourage corporations to attempt to sell rather than liquidate. The loss multiplying factor could be adjusted for industry type, asset base, and other factors. Of course this approach is meaningful only to
those large corporations that are operating at a profit and therefore able to take advantage of the increased write-off.

This incentive could also be structured to give tax credits to the divesting corporation (rather than increased write-off). In this regard a program could be modeled after the T.V. Station, FCC Minority Purchase Program.
4.0 VENTURE CAPITAL GROUPS, SBIC & MESBIC INTERVIEWS

Six of the ten venture groups interviewed have participated in one or more leveraged buy-outs during the last year for an annual total of twenty. Most groups acknowledged that the prevailing high interest rates substantially reduced the number of leveraged buy-outs attempted or completed. The group as a whole has completed between 110 and 130 leveraged buy-outs during the last five years.

4.1 Study Emphasis

The emphasis in this study has been placed on the leveraged buy-out approach as this is the principal way in which a small business entrepreneur with limited funds can buy a divested corporate entity. Other ways exist depending upon the financial strength of the buyer. Alternatively, large corporations, with greater financial resources and higher net worth, seldom utilize a leveraged buy-out structure to acquire a divested entity. The main reason for not using this approach is the high cost of debt service and less equity ownership.

4.1.1 Leveraged Buy-Outs

A leveraged buy-out is the purchase of assets or stock of a privately-owned company, or a subsidiary or division of a publicly held company, with a large amount of debt financing and very little equity capital. This is accomplished by utilizing the seller's assets for collateral and the seller's earnings stream to amortize the debt. The purchase price is usually near book value and should not be larger than ten times the after-tax earnings.

Companies purchased using this structure are usually in manufacturing, preferably with a proprietary product with a five year record of uninterrupted sales and profit growth. The reasons for the divestment from the parent company may be: the high cost of money to expand operations, undervaluation of corporate assets, limited management resources to manage diverse
businesses, and desire to concentrate on core businesses. Since distribution retail and service companies usually do not have a large fixed asset base, there is less to borrow against. As such, they are seldom purchased through the use of a leveraged buy-out. Unfortunately, high technology deals also are not amenable to leveraged buy-outs. There was general concurrence that fewer small business leveraged buy-outs were taking place during 1980. No one was certain about the total number of divestments during the same period, but from reading the trade journals and talking to people in the business the number of corporate divestments appears to be growing at a fast rate. This indicated that the small business participation as a percentage of divestments is dropping off.

To give small businesses equal opportunity in competing with large corporations on divestitures buys, there was strong support for incentives for corporations to divest to small business as well as to give the small business entrepreneur certain advantages so that he could compete on a more equal basis.

4.2 Incentives

The interviewees suggested the following incentives for Venture Groups to support more financing of leveraged buy-outs to small businesses.

1. A back-up venture pool under SBA or by a private or quasi-governmental organization that could be used to reduce the risk to the venture groups by equity pool participation. Since this approach could increase the total equity investment, the effect would be to also reduce the debt service.

2. Change the tax code to allow the gains to the venture capital group to be tax-free on leveraged buy-out high technology deals. This has the effect of increasing the reward for a given risk.

3. Guarantees by a private or quasi-governmental organization could also be provided to encourage the venture investment or specific deals.

such as high technology. This would tend to reduce
the risk to the venture group. Since attempting to
meet the debt service can destroy a small business
during times of high interest and also discourage a
venture group from investing, special attention
should be given to this problem. One approach would
be to allow those companies with insufficient cash
flow to defer interest payments for three to five
years with only a minor penalty and to pay the
amount out of future profits. For agreeing to this,
the venture group would then receive the future interest
payments tax-free. A guarantee by a private organization
or quasi-governmental organization of a portion of the
defered interest would help convince the lender that the
risk for waiting is not too great. A secondary market
could also be established on those payments backed by
such guarantees.

4. Some SBICs and MESBICs felt that the current size
standards on small business prevented them from
accomplishing deals. Although business size stan-
dards are constantly being reviewed, a two-tier
concept could be the solution. For example, under
specific conditions such as a high technology deal,
a larger size standard could be applied. The SBIC
could syndicate in the usual manner if the new limit
is above its 20% capital investment limit.

5. Another approach on SBIC size limitations is a more
liberal interpretation of the $6 Million net worth
and $2 Million after tax income.

A number of incentives were suggested for the large corpo-
ations as well as for the entrepreneur. In order not to be
repetitive these recommendations are included in the other
sections.
5.0 FINANCIAL STRUCTURE OF LEVERAGED BUY-OUTS

There are almost an infinite variety of financing approaches used in the leveraged buy-out. The structure of these deals is so important that buyers usually line up their financing before they negotiate the final terms and conditions with the sellers. If there is more than one buyer or participant in the equity split, parties must agree before the legal documentation is initiated.

There are three kinds of levels of financing in the leveraged buy-out. (1) The senior or secured debt is usually 50% of the purchase price; the subordinated debt is usually 25-40%, and the equity is about 2-25%.

A bank or commercial finance company may participate as a secured lender in providing the senior or secured debt.

At the next level of financing is the subordinate debt. A subordinated debenture has claims on assets after unsubordinated debt in the event of liquidation. Debentures may be subordinated to bank loans, or to any or all debt. Subordinated debt is usually combined with common stock sold for a small amount of cash at the time of closing. Other approaches are to use warrants (options to purchase cheap stock after the deal is closed) or convertible debentures (in which all or part of the debenture converts into common stock at a predetermined price).

The equity level of financing ranges from 2 to 25% with the average around 15% of purchase price. Usually common stock is used for equity, but preferred is also used. Preferred stock provides a vehicle for paying dividends (sometimes up to 15%) although it is subordinated to interest payments on both senior and subordinated debt.

The equity is divided in many different ways between the entrepreneur buyer, the company management (for an employee or management buyout) the equity investors venture capitalists, and the consultants or venture capitalists who may package the

deal. Many times the buyer equity is subject to increase through vesting or by meeting performance goals.
CASE STUDIES

Two composite case studies are presented which show various kinds of leveraged buy-outs. Unfortunately, there appears to be no limit to the various ways these deals are structured.

Composite Case 1

Leveraged Buy Out Financial Structure

Type of Company - Manufacturing Company - Electronic Hardware

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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<tbody>
<tr>
<td>Sales</td>
<td>$8,000,000</td>
</tr>
<tr>
<td>Net Profit After Taxes</td>
<td>320,000</td>
</tr>
<tr>
<td>Net Worth</td>
<td>1,600,000</td>
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<tr>
<td>Current Assets</td>
<td>2,100,000</td>
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<tr>
<td>Fixed Assets</td>
<td>800,000</td>
</tr>
<tr>
<td>Purchase Price</td>
<td>1,920,000</td>
</tr>
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</table>

Senior Debt: $960,000

- $500,000 - 2% over prime secured by fixed assets and by accounts receivable up to 90%
- $460,000 revolving line of credit secured against receivables up to 90% and inventory to 75%

Subordinated Debt: $690,000

- 13% subordinated debentures with detachable warrants-interest only for first five years-repayment on escalating scale in year 6 to 10.

Equity - Entrepreneur: $90,000

- 20% with increase through vesting and performance

Venture Group: $80,000

- 40% with growth thru detachable warrant

Entrepreneur purchases 20% of company with option for additional ownership for about 9% of purchase price.
Composite Case 2
Leveraged Buy-Out Financial Structure
Type of Company - Manufacturing Company - Industrial Equipment

Sales $12,000,000
Net Profit After Taxes 420,000
Net Worth 2,000,000
Current Assets 1,400,000
Fixed Assets 1,000,000
Purchase Price $1,400,000 down
$ 700,000 note to seller, subordinated

Senior Debt: $700,000 3% over prime, secured by fixed assets.
Subordinated Debt: $650,000 14% subordinated debenture secured by inventory and account receivable convertible into additional stock.

Equity - Entrepreneur: $ 75,000 for 35% of common stock
SBIC: $ 80,000 for 35% of common stock

Entrepreneur purchases 35% of company for 3.5% of purchase price. The percentage of common stock owned by entrepreneur can increase based on meeting payment objectives on subordinated debentures and upon meeting specified earnings projections.
6.0 SMALL BUSINESS ENTREPRENEUR INTERVIEWS

Participation of Entrepreneurs in Divestitures-

All of the ten entrepreneurs interviewed had participated in the acquisition of one or more divestitures within the past five years. Four out of the ten had purchased three or more divestments. All of the original acquisitions by these companies were structured using the leveraged buy-out approach. The number of divestitures purchased by this group totaled 21. Of this number two were initiated as direct result of antitrust action. Three companies have grown out of the small business category and are now able to buy acquisitions without using a leveraged buy-out.

6.1 Findings

As was expected with the viewpoint of the entrepreneur was considerably different from that of the corporate executive or venture capitalist. All were of the opinion that governmental controls must be minimized. The smaller businesses or those attempting to buy a divestiture for the first or second time expressed a greater need for governmental assistance and tax code relief. This opinion apparently correlates with the companies need to acquire divestments by means of leveraged buy-outs. As the companies grow in stature, net worth, and financial resources, more options are available for the purchase or acquisition of divestments. All interviewees agreed that the cost of debt service was one of the most difficult problems. This difficulty is made worse in our current economic period of high double digit interest rates. Most entrepreneurs would rather initiate deals through debt financing rather than selling equity ownership in order to protect the opportunity of greater reward for their risk undertaken.

There was a strong feeling among the entrepreneurs interviewed that participation in small business after working for a large corporation can be revitalizing. There is a desire
to escape the rigid structures and limited promotional opportunities of large corporations. (1) Job satisfaction is a key reason for moving to a small firm. Productivity appears to be a companion benefit. Ninety percent of those interviewed had strong opinions that productivity increased with small business. The track record of all those interviewed tended to support the argument of high productivity potential of small business.

There was strong agreement that the first few years of a leveraged buy-out deal were very critical in meeting the cash flow requirements for the high debt service. All parties favored a change in the tax code to provide relief in this very critical area.

In general there was a firm belief that there was a greater possibility of turning around a poor performing large business division or separate entity if it is under a good small business ownership. In the sample interviewed most of the poorly performing divisions were turned into profitable activities once they were divested and sold either to management or other small business. Forty percent of the divestitures studied were an employee or management buy-out. In all cases marked improvement in profitability occurred after the entity was under small business ownership and management.

Several entrepreneurs expressed a need to find people to talk to for advice during the first few deals they put together. They had real difficulty in establishing credibility either with venture, financing groups, or large corporation management. This was especially the situation for two employee groups that were each attempting a leveraged buy-out from separate large corporations.

A number of the interviewees expressed the point that "large business just doesn't understand small business". Their point was not that large business was hostile to small business but more that the problems are so different that many times it is hard to communicate or "work out a problem" with such a different

(1) "Many Big Company Executives Leaving for More Responsibility in Smaller Firms," Wall Street Journal 3/13/81
approach or emphasis. In this regard usually the large corporations have extensive financial resources and other options and sources such as public stock offerings, selling commercial paper, large insurance companies, or public offerings of convertible debentures. It is often hard for them to understand "meeting the payroll" and other routine problems of survival facing the small business entrepreneur.

Another common problem was that large corporations just "didn't understand leveraged buy-outs". The entrepreneurs spent many hours attempting to educate the corporations on the different aspects of a leveraged buy-out. After accomplishing this, the next hurdle was to convince the corporation that the leveraged buy-out structure would work. This is especially the case with high debt service caused by the current high double digit interest rates. The convincing process was difficult and involved having venture groups or "deal makers" review successful ventures using similar financing structures.

6.2 Incentives

As expected the entrepreneurs had strong opinions expressed in a wide range of ideas and approaches in order to give the small businessman a more even chance to compete in the buying of divestments.

1. There was universal concurrence that a corporate tax moratorium for entrepreneurs during the first three years after a divestment purchase would be a very desirable and worthwhile approach to aid in alleviating the cash flow problem. This would tend to increase the cash flow, and, for a given ratio of debt service to cash flow, would allow an increased debt service to be carried. This would especially help acquisition utilizing the leveraged buy-out.

2. Accelerated depreciation or faster write-off of both new and used equipment was also universally supported. This could be an excellent way to provide support for a larger debt service while improving cash flow.

3. Suggestions were also made for a two tier prime interest rate system in which banks would give a lower rate to
"qualified" small businesses for special purposes such as leveraged buy-outs in critical industry areas. This has the problem of how to encourage banks to support this program. One approach is to authorize special tax credits to banks that would participate in this program. Another approach would be to decrease a portion of the amount of funds which the bank is required to have on deposit with the Federal Reserve System.

4. As previously pointed out, large corporations are reluctant to take back paper on a divestiture sale to a small corporation due to the risks involved. If such a note could be 80% to 90% guaranteed, by a private, or quasi-government, or government oriented non-profit corporation this risk to the selling corporation could be greatly minimized. The real beneficiaries in this case would be small business as there would be a greater use of "taking back paper" and hence less outside financing required. This in turn would permit a wider range of leveraged buy-outs and business opportunities for small business. An interesting possibility is the creation of a secondary market in these notes once the viability of the concept has been established.

5. There was mixed feelings on the advisability of more and larger government guaranteed loans. It was felt that the current limitation of $550,000 on 90% SBA guaranteed loans was a limiting factor in some cases. Although other governmental agencies can go larger amounts, the time required for approval is excessive. Some entrepreneurs felt that allowing the SBA ceiling to be increased in special cases (such as high technology deals) would be a very worthwhile incentive. Other interviewees were philosophically opposed to this approach because it could cause greater governmental interference in business and the private sector.
6. Many divestiture deals have fallen apart because of an unfunded pension fund liability. Many entrepreneurs were critical of the Pension Guarantee Review Board (PGRB) and their lack of understanding of small business problems. Forty percent of corporations as well as fifty percent of entrepreneurs interviewed asked for overhauling of this situation and that a simplified system be established. It was recommended that the SBA work with the PGRB to simplify procedures. Another approach would be to establish a completely different Board either private, quasi-governmental, or possibly under SBA statutory control.

7. There were mixed feelings about the use of tax-free Industrial Development Bonds or Industrial Revenue Bonds to finance acquisitions. Many felt the usefulness was limited while others felt the approach was philosophically wrong. Some thought that the concept was good but that entrepreneurs did not know how to profitably utilize the technique.

8. Most people interviewed acknowledged the need for more information about the divestiture process. Large corporations need to be educated on how to divest to a small business. This includes the definition of a leveraged buy-out, the success and failure rate of such transactions, various financing techniques, aid in initially structuring the transaction, etc. Small businesses need information on what can be done and how to do it. Most people recognized the need for a list of potential small business buyers that were qualified, as well as their areas of interests and capabilities. To keep such a list current appears to be an awesome task. One solution is to encourage brokers or high quality finders to provide this service. Seminars could be used to acquaint both large and small businesses about the methods used in successful divestitures as well as what to avoid. This would certainly minimize the cost to government while providing a useful service to the private sector.
7.0 CONCLUSIONS & RECOMMENDATIONS

7.1 Industry Divestitures

There is currently a very high rate of divestitures both from medium sized and large corporations. In the past most divestitures were divisions of corporations losing money. The new phenomenon in American industry is the selling of money-making units which in most cases are peripheral entities, not directly related to the core business.

The reasons for this extremely active divestiture market may be attributed to the amount of additional capital investment required to stay competitive. A corporation faced with a decision on how to invest limited corporate funds will usually pick the products or divisions that will bring the highest Return on Investment, Earnings Per Share, and protect their market percentage. Current emphasis is being given to exceeding both the cost of capital employed and the rate of inflation. The high cost of money exerts great pressure on all available resources. This forces re-evaluation of priorities and usually a determination of which profitable operations must be sold.

Some companies sell a profitable operation to increase the rate of return on their capital. Others divest to reduce their capital requirements.

7.2 Less Small Business Participation

Every indication points to less small business participation in the divestiture market rather than more. In other words, as the total number of divestitures is rapidly increasing, the percentage of small business acquisitions of these divestitures is rapidly decreasing. It appears that this phenomenon is not in the national interest as large corporations are growing at the expense of small business, and small business is capable of high productivity and the creation of many jobs through a substantial employment base.

(2) "Productivity, Innovation & Entrepreneurship," SBA, March, April, May 1980
The reason for less small business acquisitions may be attributed to the financing structure necessary for such purchases. Small business must usually employ a leveraged buy-out as the vehicle to purchase a divestiture. This structure involves high debt service with the accompanying high interest rate payments. In today's high cost of money environment few businesses have the required cash flow to support the excessive debt service.

Unfortunately, high technology divestments compound this problem; not only is the cash flow too small, but the asset base is usually insufficient to support a leveraged buy-out. This is particularly unfortunate as this makes it doubly difficult for small business to participate in this area and to bring to bear the demonstrated, highly innovative skills of small business entrepreneurship.

There appears to be a growing supply of potential entrepreneurs. Many large company executives are leaving for more responsibility and satisfaction in small firms. This is partly to escape rigid structures and limited promotion opportunities, but also to obtain greater job satisfaction. Although there is greater risk, there is a feeling of greater accomplishment through greater productivity and responsibility.

7.3 Recommendations

The current environment has created a difficult high hurdle for small business to overcome before they can compete on a more equal basis with large business on acquiring divestitures. The following recommendations, discussed previously, will aid in this regard. All recommendations are oriented to assist small business. They have been summarized below in these categories: small business, venture capital and large business.

Small Business:

1. Develop a list of entrepreneurs or small businesses that are qualified and anxious to acquire corporate divestitures. Assign the job to the private sector, to interested regional area finders or small business oriented investment bankers, probably without

(3) "Many Large Company Executives Leaving for Small Firms," The Wall Street Journal, 3/13/81
brokerage affiliations. The Small Business Administration can assist in the implementation of this activity.

2. Encourage the private sector to conduct educational services for both large and small business on the divestiture market.

3. Allow a three year small business corporate tax moratorium for a purchase of a divestiture.

4. Establish an accelerated depreciation or faster write-off of both new and used equipment for divestment purchases.

5. Establish a two tier prime interest rate system, having lower rates for small business leveraged buy-out purchases. Allow special tax credits to participating banks.

6. Establish a system where small business could encourage a selling corporation to "take back paper". Notes could be guaranteed by the private sector or quasi-governmental special organization established for this purpose. Create a secondary market trading in these notes.

**Venture Capital**

1. Change tax code to allow the future gains to the venture capital group to be tax-free on small business leveraged buy-outs. Give special emphasis to high technology deals.

2. Allow leveraged buy-out participants with insufficient cash flow to defer interest payments (as well as principal) with only minor penalty. Venture group would receive interest payment tax-free as compensation. A partial guarantee of the deferred interest by a private or quasi-governmental organization could be used to encourage acceptance of deferred payments. Participation of the private sector in guarantees would assist in establishing a strong secondary market.
3. Establish a private or quasi-governmental organization to provide guarantees on a portion (25% to 50%) of the venture investment. This would tend to reduce risk to the venture group and thereby substantially increase the reward to risk ratio.

4. Establish a two-tier size standard for SBICs and MESBICs. These could be specific to allow a larger limit for certain conditions such as high technology deals.

5. Establish a venture pool under private or quasi-governmental control to serve as a backup source for increasing equity participation in high technology oriented divestment purchases.

Corporations

1. Educate corporate executives on the advantage of small business buys and the details of a leveraged buy-out. The time is very appropriate in view of the current rapid increase in divestitures. Emphasis must also be given to the advantages of management buy-outs.

2. For selling above book value change the tax code so that there is deferred or zero capital gain if proceeds are reinvested within one year. This would apply to corporations divesting to a qualified small business.

3. For selling below book value change the tax code to give special tax credits or greater loss write-off. This would apply to selling corporation divestiture to qualified small business.
Case Studies

This section summarizes the study team's review of nine divestment studies obtained from venture capital sources and the Harvard Business School. They were selected, among a total of twenty-five case studies, because they clearly represented small business opportunities. Of the initial twenty-five case studies reviewed, approximately two thirds were divestments acquired by large business. The abovementioned case studies were secured after a lengthy search of computerized data bases, numerous periodicals, and various professional journals.

These nine cases were classified as follows:
1. Cases No. 1, 2, and 3 cover the entire divestment-acquisition process.
2. Cases No. 4 and 5 are fully documented divestment-acquisitions brought about by antitrust actions.
3. Cases No. 6, 7, 8 and 9 only document the initial phase of the divestment process.

An overall analysis of the case studies demonstrated that the main reason for divesting is loss of money (6 out of 9). Two antitrust allegations/actions and one corporate reorganization were cited as the reason for divestment in the other three cases. The breakdown of purchasers was as follows: Four were small businesses, one was a large corporation and in four cases no description of the purchaser was given. The selling prices of the divestments ranged from $2M to $38M.

Contrary to these findings the current study and interviews show that other factors are now starting to have a greater influence on divestiture policy. These factors are the high cost of money to expand operations, the difficult job of managing diverse businesses with limited management and financial resources, and maximizing ROI between peripheral and core business interests. The differences between the study findings and the case histories are probably due to the current economic climate. Most of the case studies were five years old. It is only within the last year or so that divestment activity has taken a sharp increase.
There is also currently a greater awareness of the hurdle rate—the return necessary to surmount the cost of capital invested and the inflation rate.

One of the issues examined in the case studies was "what happens to the divestment after it is acquired by an entrepreneur or a management buy out". Of the 9 case histories, "before and after" data were available for Cases No. 3 & 5. In each case sales, number of employees, and net worth had substantially increased after the leveraged buy outs.

The facts for Carpenter Paper Company of Nebraska, Omaha, Nebraska are shown below.

<table>
<thead>
<tr>
<th>Before Divestiture</th>
<th>After Divestiture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>1980</td>
</tr>
<tr>
<td>Sales</td>
<td>$23M</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>6</td>
</tr>
</tbody>
</table>
Divestment of: Helena Rubenstein Cosmetics Unit

Reasons for Divesting:

(1) **Unit lost money** in 1978 and 1979

(2) It represents Colgate's continuing policy of divesting those operational units that do not complement the company's longer-term strategic plan.

(3) It amounts to two-thirds of the $73.5M in write-offs in Colgate's fourth quarter of 1979.

Divestment Process:

Colgate announced that it would sell the cosmetics unit to buyers with relatively little experience in the high-fashion, high-priced end of the business.

The selected buyer was Albi, a new company founded by the former president of Lander Co. His specialty is in inexpensive cosmetics and toiletries marketed through mass retailers like K-Mart - a decidedly different world from the glamorous image Rubenstein stalked out in fashionable stores. The sale came as a surprise to the entire industry.

The sale was consumated as follows: Of the $20M purchase price, $1.5M was paid in cash; $3.5M will be paid in two equal installments and the remainder in equal installments of $1.125M. Moreover, Colgate will guarantee up to $43M in various bank loans to Rubenstein through January 1988. Working capital would come from the gradual liquidation of inventory, which could amount to $10M.
Case No. 2
Fleetwood Enterprises, Inc.

Divestment of: Modular housing business

Reasons for divesting:


(2) Environment of increasing pessimism about the future of the mobile home and recreational vehicle industries.

Background:

Fleetwood entered the modular housing business by purchasing DeLuxe Homes, a profitable modular builder making single-family homes from plants in Pennsylvania and Michigan. Although sales did increase for three consecutive years after tax losses amounted to almost a $1.0 million at the end of the third year.

Divestment process:

DeLuxe's founder, Donald Meske, had a long-term contract and had stayed on as the modular division manager after Fleetwood's purchase. In 1973, he proposed buying back the remaining modular plant in Pennsylvania in return for 100,000 shares of Fleetwood stock. The estimated purchase price, assuming a price of $20 per stock was $2M.

Management Buy Out
Case No. 3
Consolidated Foods, Corp.

Divestment of: Cosco, producer of printing and labeling devices

Reasons for divesting:

(1) Management reorganization resulted in Consolidated Food's new strategic plan which advocated divestitures of those division's that did not fit core business concept.

Background:

Cosco, which is headquartered in Spring Valley, New York, consists of ten separate, though related, businesses that produce printing and labeling devices - e.g., rubber stamps, labeling guns, pressure-sensitive labels, and customized printing plates. The Company was started in 1867 and was operated as a family business until 1967, when it was sold to Consolidated Foods Corporation.

Divestment Process:

Cosco's previous owner and chief executive officer, negotiated and financed the buyout of the Company from Consolidated Foods. The total price of this transaction was $37.9M. Much of the purchase price was obtained by negotiating a line of credit from a large commercial bank and seller's financing from Consolidated Foods. This financial structure can be classified as a Leverage Buy Out (LBO). The purchase and start up of the new company was aided by a Venture Capital Group.

Management Buy Out
Divestment of: Collinsville Plant

Reasons for Divesting:

(1) Negotiated divestment in order to avoid anti-trust allegations in the event of the acquisition of Universal Paper Corporation.

Background:

The Collinsville plant had been consistently profitable during the period 1974 - 1979. The major cost of production was electric power. Capital expenditures at the Collinsville plant had ranged from $200,000 to $500,000 per year between 1973 and 1979 and were primarily for maintenance and pollution control. In late 1979 the plant was basically in compliance with all environmental regulations.

Divestment process:

American Chemical Corp. began looking for a buyer for the Collinsville plant in 1979. A number of potential buyers were approached, including the Dixon Corp., a specialty chemicals company. After lengthy negotiations, Dixon agreed to purchase the net assets of the Collinsville plant from American for $12M, subject to approval by its board of directors. The acquisition of the plant fit well with Dixon's strategy of supplying chemicals to the paper and pulp industry. Dixon already did business with some of the Collinsville plant's major customers. Sodium chlorate therefore could be marketed largely through Dixon's existing sales group. In evaluating the plant's purchase Dixon prepared a proforma financial statement. These figures analyzed the future profitability.

The $12M purchase price was to be financed entirely by debt capital. It was to be financed in part by privately placing $8M in 15-year mortgage bonds with two insurance companies. These bonds would carry an 11.25% interest rate. The sinking fund provision on these bonds would retire $800,000 of bonds each
year beginning the sixth year. The remainder of the $12M purchase price was to be financed by having Dixon issue American a $4M note to be paid off in equal amounts over five years. The note would carry a below-market interest rate of 6%. This financing package would temporarily increase Dixon's debt to total capital ratio to approximately 47%. Though the firm had almost no debt immediately prior to the proposed acquisition, Dixon had relied more heavily on debt capital in the past. However, use of this much debt would initially raise the debt ratio above the firm's target debt ratio of about 35%.

As part of the sale agreement, American agreed to provide ongoing technical support to the Collinsville plant. American would keep Dixon informed concerning development of the laminated electrodes, and make this technology available to Dixon. However, Dixon would have to pay for all costs associated with installation of the laminated electrodes.
Case No. 5

Champion Papers, Inc.

Divestment of: Wholesale paper distribution units

Reasons for Divesting:

(1) **Anti-trust** action against Champion Papers, Inc., by the United States Government for divesting of the wholesale distribution units.

Divestment Process:

Six members of Champion Papers, Inc. began to seriously consider purchasing nine of the wholesale distribution units. They raised approximately $355,000 among them and had commitments from other employees for about $40,000 for a total of $395,000. The rest of the funds would be obtained through outside sources. The divestment included land, buildings and equipment worth $600,000 and an inventory on hand at book value of close to $2M.

The new company called The Carpenter Paper Company of Nebraska would be primarily a wholesale distributor of paper, paper products and other products. It is expected that certain employees of Nationwide Papers, a division of U.S. Plywood - Champion Papers, Inc. would become employees of the company. The company would assume the obligations of Nationwide Papers under the retirement income plans.

The purchase agreement contained a clause whereby the purchaser of the nine distribution units would attempt to collect accounts receivable of the U.S. Plywood - Champion Papers, Inc. for ninety days from date of sale. The new company would have no interest in the accounts receivable, nor would they assume any liabilities except those specifically mentioned by contract.

Selling price was $2.7M.

Management Buy-Out
Case No. 6

McCord Corporation

Divestment of: Replacement radiator business

Reasons for Divesting:

(1) Release of approximately $5M of cash when assets disposal completed.

(2) Automobile industry started to manufacture their own radiators. Integration by car industry reduced the market.

(3) Forecasted loss of about $480,000 for 1967. Operations had been unprofitable for three years.

General:

(1) In 1966 McCord Corporation announced a reorganization plan which included the divestiture of the replacement radiator business.

(2) McCord's selling prices are generally high and no significant improvement was expected.

Divestment Process:

McCord Company representatives contacted some of their customer's, Chrysler and American Motors, to keep them appraised of the situation.
Case No. 7

EG & G, Inc.

Divestment of: Electro-Mechanical Division (EMD)

Reason for Divesting:

(1) Not enough demand to cover costs of the operation.
(2) RF connectors were to be phased out, since the product had no real profit potential.
(3) Slippage from 7% to 3% of the market
(4) Loss of $98K in 1973
(5) EMD was not performing up to the level of EG&G's goal.

Background:

(1) EG&G acquired Strode in 1969, and it became the Electro-Mechanical Division with all operations continuing in existing facilities.
(2) EMD was planning to capitalized in Cable Television (CT) systems.
(3) In 1972 five year plan, EMD expressed its strategy as one of reducing dependance on government contracts, in favor of the commercial sector.
Case No. 8

Teague Corporation

Divestment of: Toolroom of the Traile Division of Teague Corporation

Reason for divesting:

(1) A reasonable offer had been obtained.

(2) Traile had purchased the toolroom as part of a package deal.

(3) Profitability in the last year was declining.

Background:

In 1972 the Traile Division acquired a group of companies in the United Kingdom. These included a fresh produce distributor, a transportation company, a horticultural supplies operation and a plastic mold manufacturing company (i.e. a toolroom). Traile was not interested in purchasing the toolroom, however, it was part of the package. After three years of operating the toolroom the Traile Division general manager received approval to search for a buyer.

Divestment Process:

In early 1978, Traile received an offer which it wanted to accept immediately. A member of the Capital Investment Analysis Department evaluated the proposal. One of the main findings was that from a profits projection point of view, profits should be significantly less than the average pre-tax contribution for the previous four years.

The purchaser was in a hurry to complete the deal because of the end of the year closing, November 23, 1978. The purchaser was interested in acquiring the toolroom principally because of the expertise of the eighteen employees.

The purchasing agreement stipulated that the purchaser will collect receivables and discharge payables releasing working capital resulting in no book loss. Purchaser will, in addition, take over lease commitment on workshop.
Case No. 9

Fuqua Industries

Divestment of: Scorpion snowmobile subsidiary (division)

Reasons for divesting:

(1) Division was losing money (13.5 M year-end after tax loss).
(2) Division was causing a reduction in Fuqua's earnings per share by about 30 cents.
(3) Previous divestiture resulted in a gain of over $15 M.
(4) Snowmobile industry was going through a slump.
(5) Reported as a discontinued business in a particular year 1973.

General

* Scorpion's strength was based on its management.
* Scorpion's fixed assets were $2.5 M, fourth largest producer of snowmobiles with a 7% share of the market.

Divestment process:

Fuqua contacted several larger companies about buying Scorpion. Most of the prospective buyers being sought after were outside the industry since the competitors were even in a worse financial condition than Scorpion.
The Economics Survey Division (Bureau of the Census) published, until 1974, Mergers & Acquisitions. Providing basic statistical information on the amount and type of merger activity in the economy and on the economic characteristics of both acquiring firms and their acquisitions. The 1972-1974 Mergers & Acquisitions report presents data on the number and employment of establishments acquired and divested by domestic multi-establishment companies during the years 1972-1974. The report provides data for establishments and companies by the six major industries: mining, construction, manufacturing, wholesale trade, retail trade, and selected services. Two tables containing statistical data pertinent to the study were selected from this publication for close analysis. As seen from Table 1.0 the total number of acquiring companies, with 500 to 2,499 employees, declined by 21 percent from 1973 to 1974. Manufacturing companies accounted for a 31 percent decline, followed by construction with 17.5 percent. While the number of acquiring companies declined, the number of acquisitions made in all six major industries, with the exception of construction, increased. The largest jump was among manufacturing establishments. Thus, although the number of acquiring companies declined the number of acquisitions increased, signifying an intensified acquisition activity by fewer companies.

Analysis of the data given in Table 2.0 shows an increase for all industries of 6.6 percent in the number of divesting companies and 15 percent in the number of divestitures. Selected Services accounted for the largest increase (27%) in the number of divesting companies, while on the other had divestitures in the retail trade business more than doubled in this same period. The mineral industry experienced a 65 percent decrease in the number of divestitures, while all the others had increases ranging from 1 to 27 percent. Thus, the year 1974, compared to 1973 shows an increase in both the number of divesting companies and the number of divestitures.
APPENDIX III

Court Ordered Divestitures
by the
Federal Trade Commission

Attached are the Federal Trade Commission (FTC) ordered divestitures from 1975 to 1980 totaling 34 or about five per year. Of this group there are twenty one divestitures with a publicly disclosed sales price. Two thirds (2/3) of these (fourteen in all) have a sales price of $10M and under and are therefore of possible interest to small businesses. It should be noted, however, that the total number of court order divestitures is a small number compared to the total divestiture occurring each year. Any governmental policies aimed at assisting small businesses to compete on a more equal basis with large business should be aimed at the entire divestiture activity and should not be based on court or commission ordered divestitures.
### Historical Data on Divestitures Required by FTC Commission Order

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Number With Approximate Sale Price $10M And Under</th>
<th>Number With Approximate Sale Price of Over $10M</th>
<th>Confidential</th>
</tr>
</thead>
<tbody>
<tr>
<td>75</td>
<td>8</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>76</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>77</td>
<td>4</td>
<td>-</td>
<td>3</td>
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<td>78</td>
<td>4</td>
<td>3</td>
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<td>1</td>
</tr>
<tr>
<td>79</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>80</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td>34</td>
<td>14</td>
<td>7</td>
<td>13</td>
<td></td>
</tr>
</tbody>
</table>
### TABLE 1.0

**ACQUISITIONS BY COMPANIES WITH 500 TO 2499 EMPLOYEES**

*BY SIC FOR 1973 AND 1974*

<table>
<thead>
<tr>
<th>SIC</th>
<th>1973</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mineral Industries</td>
<td>16/(62)</td>
<td>17/(204)</td>
</tr>
<tr>
<td>2. Construction</td>
<td>40/(115)</td>
<td>33/(104)</td>
</tr>
<tr>
<td>3. Manufacturing</td>
<td>602/(2371)</td>
<td>414/(3278)</td>
</tr>
<tr>
<td>4. Wholesale Trade</td>
<td>59/(206)</td>
<td>50/(290)</td>
</tr>
<tr>
<td>5. Retail Trade</td>
<td>147/(1011)</td>
<td>141/(1234)</td>
</tr>
<tr>
<td>6. Selected Services</td>
<td>92/(351)</td>
<td>98/(539)</td>
</tr>
<tr>
<td>All Industries</td>
<td>956/(4116)</td>
<td>753/(5649)</td>
</tr>
</tbody>
</table>

* Mergers & Acquisitions 1972 - 1974, Bureau of the Census
### TABLE 2.0

**DIVESTING COMPANIES, BY SIC, AND THEIR DIVESTITURES FOR 1973 AND 1974***

<table>
<thead>
<tr>
<th>SIC</th>
<th>Number of divesting companies/ (Number of divestitures)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1973</td>
</tr>
<tr>
<td>1. Mineral Industries</td>
<td>18/(140)</td>
</tr>
<tr>
<td>2. Construction</td>
<td>25/(42)</td>
</tr>
<tr>
<td>3. Manufacturing</td>
<td>534/(3858)</td>
</tr>
<tr>
<td>4. Wholesale Trade</td>
<td>38/(96)</td>
</tr>
<tr>
<td>5. Retail Trade</td>
<td>176/(1131)</td>
</tr>
<tr>
<td>6. Selected Services</td>
<td>68/(326)</td>
</tr>
<tr>
<td>All Industries</td>
<td>859/(5593)</td>
</tr>
</tbody>
</table>

* Mergers & Acquisitions 1972 - 1974, Bureau of the Census
<table>
<thead>
<tr>
<th>Date of Commission Approval</th>
<th>Name of Case Number</th>
<th>Description of Divestiture</th>
<th>Purchaser</th>
<th>Approximate Sale Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/3/75</td>
<td>Golden Grain Macaroni, Co. D-0737</td>
<td>51% Stock Interest in Major Italian Foods</td>
<td>Major Italian Foods</td>
<td>$245,000</td>
</tr>
<tr>
<td>1/6/75</td>
<td>ARA Services, Inc. C-2400</td>
<td>Vending Sales Volume in Fort Wayne, Indiana Market</td>
<td>Joseph S. Sharp</td>
<td>A portion of the $2,000,000 sales volume to be divested.</td>
</tr>
<tr>
<td>2/11/75</td>
<td>Amerada Hess Corp. C-2456</td>
<td>Interest in Clarco Pipeline Company</td>
<td>Ergon, Inc.</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>5/1/75</td>
<td>ARA Services Inc. C-2400</td>
<td>Vending Sales Volume in St. Clair County, Michigan</td>
<td>River District Vending Co.</td>
<td>Confidential</td>
</tr>
<tr>
<td>5/1/75</td>
<td>Maremont Corporation D-R763</td>
<td>All outstanding stock of Chanslor &amp; Lyon Co. Inc., a subsidiary - 7 automotive parts warehouse distributors</td>
<td>Chanlyon, Inc.</td>
<td>$5.15 million</td>
</tr>
<tr>
<td>6/11/75</td>
<td>ARA Services Inc. C-2400</td>
<td>Vending Sales Volume in Omaha/Lincoln, Nebraska Sales Market</td>
<td>Canteen Company of Grand Island</td>
<td>Estimated Sales volume 1,500,000</td>
</tr>
<tr>
<td>Date</td>
<td>Company 1</td>
<td>Company 2</td>
<td>Description</td>
<td>Purchase Price</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------</td>
<td>-----------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>6/19/75</td>
<td>Stanley Works</td>
<td>Amerock Corp., line of cabinet and general household hardware products</td>
<td>Anchor Hocking Corp.</td>
<td>$32,000,000</td>
</tr>
<tr>
<td>10/21/75</td>
<td>PepsiCo, Inc.</td>
<td>Flavette Corp. (soft drink concentrate)</td>
<td>PepsiCo St. Louis Bottler</td>
<td>$2.5 million plus $6.5 million plus profit (not more than $500,000.)</td>
</tr>
<tr>
<td>2/3/76</td>
<td>Papercraft Corp.</td>
<td>CPS Industries, Inc. - gift wrap manufacturing</td>
<td>Arcata National Corp.</td>
<td>$10 million Aggregate purchase price plus other consideration.</td>
</tr>
<tr>
<td>5/25/76</td>
<td>OKC Corporation</td>
<td>Shell dredging business of former Jahncke service-now known as OKC Dredging, Inc.</td>
<td>Pontchartrain Dredging Corp., Pontchartrain Materials Corp., and 5 Individuals.</td>
<td>$3,375,000 plus cash for shell inventory</td>
</tr>
<tr>
<td>6/1/76</td>
<td>Bird and Son, Inc.</td>
<td>Logan Long Corp. - asphalt roofing products</td>
<td>Elecor Chemical Corp.</td>
<td>Confidential</td>
</tr>
<tr>
<td>6/29/76</td>
<td>Pasco, Inc.</td>
<td>Certain specified refining, marketing and pipeline operations</td>
<td>Sinclair Oil Corp.</td>
<td>$72 million (subject to adjustments)</td>
</tr>
<tr>
<td>10/29/76</td>
<td>Borg-Warner Corp.</td>
<td>Assets of its Unit Parts Division</td>
<td>Units Parts Co.</td>
<td>$10 million</td>
</tr>
<tr>
<td>Date</td>
<td>Company Name</td>
<td>Transaction Description</td>
<td>Value</td>
<td></td>
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<td>----------</td>
<td>-------------------------------------</td>
<td>-----------------------------------------------------------------------------------------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>11/12/76</td>
<td>Associated Dry Goods Corp. D-8905</td>
<td>Ayr-Way Stores (28 discount stores in 4 midwest states)</td>
<td>$19,754,666</td>
<td></td>
</tr>
<tr>
<td>11/10/76</td>
<td>Eaton Corp. and Eaton Yale &amp; Towne, Inc. D-8826</td>
<td>Certain of assets formerly owned by McQuay-Norris Manufacturing Co. (automotive engine parts)</td>
<td>$33 million</td>
<td></td>
</tr>
<tr>
<td>1/8/76</td>
<td>Anaconda Company D-8994</td>
<td>Assets and business of Systems Wire and Cable, Inc. (Delaware). (Semiflexible coaxial cable for CATV systems)</td>
<td>$1,203,160</td>
<td></td>
</tr>
<tr>
<td>1/28/76</td>
<td>Gifford-Hill, Co., Inc. D-8989</td>
<td>Assets of Becker Sand and Gravel Division (construction aggregates)</td>
<td>Confidential</td>
<td></td>
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<tr>
<td>2/4/77</td>
<td>Avnet, Inc. D-8775</td>
<td>Assets formerly owned by Guarantee Generator and Armature Co. d/b/a International Products and Manufacturing Co. (IPM) (parts for rebuilders field)</td>
<td>$22 million</td>
<td></td>
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<tr>
<td>2/17/77</td>
<td>Kennecott Copper Corp. D-8765</td>
<td>Subsidiary Peabody Coal Co.'s mines and reserves in Deer Creek and Wilberg, Utah</td>
<td>$25,370,000</td>
<td></td>
</tr>
<tr>
<td>6/7/77</td>
<td>Kennecott Copper Corp. D-8765</td>
<td>Peabody Coal Company Peabody's Australian Assets</td>
<td>$1.1 billion</td>
<td></td>
</tr>
<tr>
<td>7/12/77</td>
<td>Warner-Lambert Co. D-8850</td>
<td>Assets of Smith Bros. Cough Drops</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Company 1</td>
<td>Company 2</td>
<td>Industry/Description</td>
<td>Industry/Description</td>
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<tr>
<td>------------</td>
<td>---------------------------------</td>
<td>----------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2/15/78</td>
<td>Walter Kidde and Co.</td>
<td>Subsidiary Arrow Lock Corp.</td>
<td>Mortise lock product line</td>
<td>Mortise lock product line</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Inc. D-8957</td>
<td></td>
<td></td>
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<tr>
<td>1/27/78</td>
<td>Beatrice Foods Co.</td>
<td>Essex Graham Co.</td>
<td>(paint rollers and brushes)</td>
<td>E.G. Industries</td>
</tr>
<tr>
<td></td>
<td>D-8864</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>D-8850</td>
<td>Cosanyl and Nilcol cough products.</td>
<td>- Thyroid Products, Throat Discs and Ambenyl.</td>
<td>Marion Laboratories</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Normal Serum Albumin and Tetanus Immune Globulin.</td>
<td>Connaught Laboratories</td>
</tr>
<tr>
<td>5/12/78</td>
<td>Gifford-Hill Co.,</td>
<td>49% stock interest in the</td>
<td>Concrete Supply Co (&quot;CSC&quot;) ready-mixed concrete</td>
<td>Employee stock ownership trust</td>
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<td></td>
<td>D-8989</td>
<td>Co &quot;CSC&quot;) ready-mixed concrete</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/1/79</td>
<td>Walter Kidde &amp; Co.</td>
<td>Tubular lockset product line</td>
<td>manufactured by Sargent &amp; Co.</td>
<td>Howard Berger Co., Inc.</td>
</tr>
<tr>
<td></td>
<td>D-8957</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>D-9330</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2/29/80</td>
<td>Cooper Industries</td>
<td>Gas Compressor business including</td>
<td>Gardner-Denver product line</td>
<td>Creole International Trade Corp.</td>
</tr>
<tr>
<td></td>
<td>C-2970</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3/10/80</td>
<td>Crane Co.</td>
<td>Cement - manufacturing facility</td>
<td>operated by Medusa Corp.</td>
<td>Lone Star Industries</td>
</tr>
<tr>
<td></td>
<td>C-2959</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td>Company/Description</td>
<td>Parties</td>
<td>Confidentiality</td>
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<td>--------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td>1/31/80</td>
<td>Nestle Alimentana, S.A. D-9003 Libby McNeill and Libby, Inc. processing facility and equipment in Darien, Wisconsin</td>
<td>Larsen Co.</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>6/4/80</td>
<td>Liquid Air Corp. of North America C-2990 Seven industrial gas plants, eight retail stores and related assets.</td>
<td>M G Burdett Gas Products Co.</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>6/19/80</td>
<td>W.R. Grace &amp; Co. C-3002 4 home improvement stores in San Jose, Calif.</td>
<td>Burns Philip</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>6/26/80</td>
<td>Ash Grove Cement D-8785 Forryce Concrete Inc. - a subsidiary</td>
<td>B-F Concrete, Inc.</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>8/25/80</td>
<td>Schering-Plough C-2906 Solvex Athlete's foot products</td>
<td>Chase Products Co.</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td>9/25/80</td>
<td>National Tea Co. D-9126 Six supermarkets in the Metropolitan Minneapolis/St Paul Area.</td>
<td>3 - Country Club Market Inc. 1 - Knowlan's Supermarket, Inc. 1 - Tyra's Super Valu, Inc. 1 - Aaron and Joan Raskin</td>
<td>Confidential</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pending Reichhold Chemicals Inc. D-9076 Assets of Corrulux Corp. (manufacturer of fiberglass - reinforced plastic panels).</td>
<td>International Fibers, Inc.</td>
<td>Confidential</td>
<td></td>
</tr>
</tbody>
</table>
### DIVESTITURE LIST

**July 25, 1980**

<table>
<thead>
<tr>
<th>Defendant</th>
<th>Date Final Judgment Entered</th>
<th>Property to be Divested</th>
<th>Final Date for Divestiture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthco, Inc.&lt;br&gt;25 Stuart Street&lt;br&gt;Boston, Mass. 02116</td>
<td>3/29/76</td>
<td>3 dental supply stores, one in Syosset, N.Y., one in Hackensack, N.J., and one in Elmsford, N.Y.</td>
<td>9/30/80</td>
</tr>
<tr>
<td>United Artists Theatre Circuit, Inc.&lt;br&gt;115 Middleneck Road&lt;br&gt;Great Neck, N.Y. 11021</td>
<td>12/27/76</td>
<td>Twenty-three motion picture theatres</td>
<td>12/27/81</td>
</tr>
<tr>
<td>Carrols Development Corp.&lt;br&gt;968 James Street&lt;br&gt;Syracuse, N.Y. 13203</td>
<td>7/5/78</td>
<td>To divest 12 designated theatres located in Greater Syracuse and Greater Utica areas.</td>
<td>July 5, 1980 and then, if not sold, trustee to be appointed to handle sale.</td>
</tr>
<tr>
<td>Leggett &amp; Platt, Inc.&lt;br&gt;P. O. Box 137&lt;br&gt;Mason, Ohio 45040</td>
<td>6/7/78</td>
<td>Assets and facilities of J. R. Greeno in Cincinnati, Ohio. Maker of box springs and inner-springs.</td>
<td>December 7, 1980. Trustee has been appointed to handle sale.</td>
</tr>
<tr>
<td>Leggett &amp; Platt, Inc.&lt;br&gt;P. O. Box 137&lt;br&gt;Mason, Ohio 45040</td>
<td>6/7/78</td>
<td>To sell plant at Hominy, Okla. Maker of metal bed frames and bed rails.</td>
<td>December 7, 1980. Trustee has been appointed to handle sale.</td>
</tr>
<tr>
<td>Defendant</td>
<td>Date Final Judgment Entered</td>
<td>Property to be Divested</td>
<td>Final Date for Divestiture</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>ARA Services, Inc.</td>
<td>8/14/79</td>
<td>Molasky assets and $5.2 million in sales volume. Assets include warehouses in Bridgeton, Missouri, trucks, and miscellaneous equipment in the warehouses.</td>
<td>Feb. 28, 1981</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Martin Marietta Corp.</td>
<td>12/14/79</td>
<td>Plants handling high silica industrial sand in Oregon and Troy Grove, Illinois</td>
<td>June 14, 1981 and, if not sold by then, trustee to be appointed to handle sale.</td>
</tr>
</tbody>
</table>
1. Name and address of company

2. What are the key decision factors initiating a corporate divestiture?

3. Who does the corporation, considering a potential divestiture, first contact?

4. How do you find potential entrepreneur buyers?

5. What factors are a key to a successful divestiture?

6. Approximate number and sizes of divestitures completed in the last five years?

7. What factors cause the most difficulties in completing a divestiture?

8. What tax factors influence the corporate decision for divestiture?

9. What change in the tax code would significantly change the corporate divestiture decision?

10. What can the corporate community do to enhance the small business entrepreneur's opportunity in divestitures?
11. What legislation would enhance the small business entrepreneur's role in divestitures?
APPENDIX VI

INTERVIEW GUIDE
VENTURE OR FINANCE SOURCE

1. Name & address of company.

2. Type of Financial Fund (example Venture Pool, SBIC, Investment Banker Banking).

3. Size of fund.

4. Years in business.

5. How long have you been doing Leveraged Buy Outs?

6. Approximate number of deals completed?

7. Deals completed by year (est)
   1976
   1977
   1978
   1979
   1980

8. Size (avg. max. min.) of Leveraged Buy Outs completed last year.
   Assets
   Gross Sales
   No. of employees
   Net Worth
   Profit
9. What type of industries or business do you prefer for a LBO?

10. How do you learn of potential divestitures?

11. How do you find potential entrepreneur buyers?

12. How do you structure the financing for a typical LBO? How will the new ESOP guaranteed loans affect LBO?

13. What factors are a key to a successful LBO?
   - Financial
   - Legal
   - Management
   - Other

14. What factors cause the most difficulties in completing a LBO?

15. Are any case histories available in summary form?

16. What can be done to increase the number of high technology LBO's?

17. Who does the corporation, considering a potential divestiture, first contact?

18. What can the venture capital community do to enhance the small businessman's opportunity in divestitures?
19. What can the corporate community do to enhance the small business entrepreneur's opportunity in divestitures?

20. What tax factors influence the corporate decision for divestiture?

21. What change in the tax code would significantly change the corporate divestiture decision?

22. What legislation would enhance the small business entrepreneur's role in divestitures?

23. To what degree are the current high interest rates decreasing the number of LBO's?
1. Name and address of company.

2. Type of financing utilized.

3. Was Leveraged Buy Out approach used. Explain.

4. Structure of Leveraged Buy Outs financing.

5. Approximate number of divestitures acquired.

6. Size of acquired divestiture.
   - Assets
   - Gross Sales
   - No. of Employees
   - Net Worth
   - Profit

7. What type of industries or business did you acquire?

8. How did you learn of the potential divestiture?

9. Did you consider the new ESOP guaranteed loan?
10. What factors are key to a successful LBO or divestiture acquisition?

   Financial
   Legal
   Management
   Other

11. What factors cause the most difficulties in completing a LBO or divestiture acquisition?

12. Describe your recent divestiture acquisition.

13. What can be done to increase the number of high technology LBO's?

14. Who does the corporation, considering a potential divestiture, first contact?

15. What can the venture capital community do to enhance the small businessman's opportunity in divestitures?

16. What can the corporate community do to enhance the small business entrepreneur's opportunity in divestitures?

17. What tax factors influence the corporate decision for divestiture?

18. What change in the tax code would significantly change the corporate divestiture decision?
19. What legislation would enhance the small business entrepreneur's role in divestitures?

20. To what degree are the current high interest rates decreasing the number of LBO's?
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I. Journals


II. Magazines


III. Newspapers


IV. Government Publications


U.S. Department of Justice, Antitrust Division, Listings of Court Ordered Divestments.
