# YOUR BUSINESS, YOUR SALE

Nobody understands unless they've been in the chair. They don't know what it means to build something from nothing or to bear the responsibility of sustaining a business that's been in the family for two generations or more. They certainly don't know what it means to be responsible for a thousand people's livelihoods. Nobody sees the long years, where you just barely made it through. They don't see the nights you spent in the office or the strain you felt when it looked like the business would all fall apart.

The company didn't amount to much in the beginning—your bank statements made it look like less than nothing—but you invested countless hours of sweat equity. Emotional equity. Vision equity. The first decade felt like full-time overtime to keep the business above water until finally, in that last stretch, you made the right choices, and you started to pick up some real success. You finally broke through.

Where once there was nothing, now there is something—something big. As the company grew and your risk paid off, your equity started to be worth something to other people. Now there are investors who will pay a lot of money to have what you have, but it will never mean to them what it means to you. That very tail end of your journey is all anybody sees. But you remember.

Now you're thinking about selling your company or taking on a capital partner, and nearly everything is at stake. It is possible to get to the other side of a sale and land at a place where all your needs are met and there's a great outcome for everybody. It is also possible to get to the other side and feel as if twenty years of your life were wasted, even as everyone around you celebrates. Take it from me—I've been there.

You'll smile and nod and shake their hands and say, "Oh, thanks, man" as they congratulate you on your new ability to buy a jet. But if you've sold to the wrong people or for the wrong reasons, a voice inside will be saying, "I dismantled my life's work, and I didn't even know I was doing it."

It is possible to get rich and fail utterly in the same stroke.

I sold my business the wrong way, but then I bought it back and sold it again the right way. I can tell you there's a world of difference in the feeling it gives you. If I could share one thing with you, it's that feeling.

If you only care about how much money you make, I won't try to change your mind or argue with you about it. But this is not the book for you. There are many sources of advice on how to get the highest price for your business, and that's the way the game is set up anyway. Put this book down and go talk to an investment banker.

For the rest of us who *do* care about something besides money, this book will show you how to find a buyer who shares your sense of what matters.

Many people assume that business is different from the rest of life—that it's all about money and economics. They believe business is not, or shouldn't be, personal. Those people have never built anything before. They don't understand that you didn't build the business just to flip it. There are things you care about that have nothing to do with money, and in my view, it's okay to care about those things. When you sell your business, you'll want to sell it to someone who matches your values. That's the right way to go.

For that reason, it's important to bring all of the things you value to this decision. Lots of people are going to try to influence you or give you advice, and they may have some perspective that you can't see, but they have never been where you are right now.

The professional advisors will tell you they know what's best, and they know just how to get it. If you just follow this process, they say, you'll get a good outcome. They're sort of right, except they're often dead wrong. The process is set up to optimize *their* outcome. Often that outcome coincides with yours, but not always. For them, the transaction is the only thing that matters. If you let the process run you, it will focus on two things only: the most money with the highest probability of closing. But for you, closing is the beginning of the next phase, and only you know what's best for the years ahead. This book aims to help you run the process, so that the things that mattered in building your business can matter just as much in selling it.

In the pages that follow, you will encounter what I learned from my biggest failure—selling my business to the wrong people—and how I applied those hard-won lessons when I bought the company back and sold to the right guys. We will work through the reasons for selling as well as how to prepare yourself for a sale, even as you're preparing your company. There are many options for selling, which we will also examine: finding a strategic acquirer, going public, waiting, and more. Then there's the "conscious" seller's mindset: understanding how the sale will impact other stakeholders, from family to community, and what it takes to achieve a good outcome for them.

There is more than one kind of buyer, and we will surface the tactics for finding the right match. Every process encounters its share of puzzles, which we will also endeavor to crack: when starting a process, which team members should know about it? How can you use due diligence to build credibility? What does the buyer really look for in a seller? What's the difference between a "fair" deal and a good deal? In the final chapter, we think through the toughest challenge: how to ensure that you've arrived at a good place on the day after the transaction—the most important day of all.

Throughout this book, you will also hear from many CEOs who have been where you are. Some of them had sales that worked out really well, and some of them wish they had done things differently. You will also hear from some advisors—lawyers, investment bankers, and M&A consultants—in their own words. They will all say that the repercussions of the choices you make will hit you on the day after close. On that day, you will be alone with your thoughts, and the tone of those thoughts will depend on whether you were able to be honest with yourself about what's really important.

For some CEOs, the decision to sell their business or take on a capital partner starts with a general unease with the way things are going. You might live for five years with a nagging sense of uncertainty–that the status quo isn't quite working and something has to change. If that's where you are, or if you have finally decided to act, I can help you. What is important to me is that you arrive at a place where you can look back long after your transaction and feel at peace with the decisions you made.

Here's what I don't want for you. I don't want you to have to fake it after you sell your business. I don't want you to have to pretend that everything is awesome while you die inside a little because the people you sold it to tore down your life's work and turned it into the very thing you built your company to compete against. Whether they fired all your family members or dismantled your company—the largest employer in your town—you've heard the horror stories. I want to help you avoid that nightmare.

You had a vision for your company that got you out of bed every morning and made you willing to mortgage your house and spend 12 hours a day winning customers and changing your industry. I don't want you to watch your business become the very thing you promised it would never be. So pull up a chair, and let's have a chat.

This book focuses on the non-monetary aspects of selling your business, but it's not because money isn't important. I don't want you to take a low-ball offer from a buyer, and I don't expect you to be happy with one. What I've learned is that it's okay for money to be important, but that your happiness and satisfaction are likely to be driven by other things.

Everything in a traditional auction process is designed to get you a good price for your business and to feed all of the advisors out of the proceeds. But price is not something to maximize in this instance—it's a threshold.

For many CEOs, their threshold for cash at close is just enough money so they can maintain their current standard of living indefinitely and without worry while giving some away to causes that matter to them.

In other words, money only matters up to a point. If you are only going to make a couple of million dollars from a business that's worth fifty, you've got a money issue. But once you get enough, whatever enough is, the next marginal dollar doesn't add much value. You won't miss it, and it isn't what will make you sad when you look back. If you make the right decision for your company, your head, heart, and wallet will all be happy.

One sure way to put yourself on the path to selling out is to get overly focused on any one dimension of the transaction. Whether it's money in general, cash at close versus rollover, or any other sort of obsession over a single dimension, it's dangerous, because you'll miss the things that matter. Looking at the world through the lens of your banker's spreadsheet makes the world a math problem, not a novel. But if you think about all the defining moments of your life, chances are they weren't about metrics.

Imagine your children are about to leave home. You spent twenty years raising your kids in the way you thought was right, and now you're about to send them off in one direction or another. You'll pass them on to the world, hoping they hold on to that character you instilled and make the right choices for themselves. In your final words to them while they're under your roof, will you tell them to forget who they are and chase the money? Of course not.

When your daughter comes to you and asks how to choose a job, you don't tell her to take the highest-paying option available at any given time and to move to a higher-paying job whenever she can. Most agree that the best advice for her is to take the path that's most fulfilling. When your son asks your advice on whom to marry, you tell him to find someone he loves, enjoys, and feels compatible with, not to marry the first heiress he meets.

There's a lot of good advice out there about how to handle careers and marriage, and even how to advise your children, because most people have careers and marriages and children. But most people have never been a CEO or sold a company, and there isn't as much of a body of knowledge out there for us.

However, what is true for every business owner in this country also holds true for you: It's guaranteed that someday, someone else is going to run your business. Even if it's a family business and you transfer it to the next generation, you will want to ensure that the new owners build on the things that you value. If this sale is an exit for you, then your company is about to leave the safety of your guardianship, and the conversation is no different. You've set it up so that it runs in a way consistent with your values, and it will be disappointing if those values are violated as soon as you turn your back.

The same holds true when you plan to stay on at your company. Sellers often get overly focused on price, which can come back to bite them—even in the money department. There are buyers out there whose strategy is to agree on the asking price but then take back some of that money in details of the contract. So if you pick the highest bidder, be prepared for the letter of the deal, not the spirit of the deal.

There will be clues in the way an investment firm presents itself to the world. Does its name mean something? In many cases, it's meaningless. But sometimes it can tell you a lot about what matters to them. Ask the question.

The choices you make about how to sell your business or take on a partner don't disappear once you reach the finish line. They have very significant implications after the deal is done. But if you're like most CEOs, you won't give enough thought to the day after. You just want this thing to happen. It's your ticket, your gold medal, your crowning achievement. You're running to the day when the wire clears. It's closing day, and you're pressing "refresh" on your bank account. Nothing happens all morning, then suddenly the balance grows by a couple of digits. It just happened. The deal is done!

Now what?

# OVERVIEW

*This is a book about selling your business in a way you can stand behind long after the deal is done. It includes the stories of many entrepreneurs, but it comes from a place of personal experience. I've lived it myself, more than once, and this is the book I wish I had read before I started. There are things nobody talks about, things that matter just as much as, and sometimes more than, money. In this book, I'm going to talk about them. For those of you who think you don't have time to read a full book, I understand. What follows is a short overview of what the book covers. I hope that when you realize that selling your business or taking on an investor is one of the few irrevocable decisions in life, you will choose to read on.*

## Where I'm coming from

My way of looking at business is closely tied to "conscious capitalism." Growing up outside taught me that the world works as a network of ecosystems. Everything is connected to everything else. In just the same way, no business is an island. A company exists in an ecosystem of customers, employees, suppliers and the community. Focus on the needs of that ecosystem, and in the long term, it will take care of you.

A long-term view necessarily leads to a conscious strategy, and businesses that focus on short-term profits often burn bridges with their stakeholders. I believe that profit is a trailing measure of the value you create for all of your stakeholders—the people who help your company thrive.

Choosing the right buyer or investor means finding a fit that provides the best overall value for your entire ecosystem, including yourself and your family.

## Getting Ready

The process of getting your business ready for sale begins with taking a deep look at some big questions you may never have thought about. Why does your business exist? What are your priorities? What do you care about most, both personally and professionally? These are not trivial questions, and they deserve reflection.

There are lots of reasons you might be thinking of finding an investor or acquirer, but don't forget to take the long view. If you start with the end in mind—what you want the day after closing day to look like—you can keep short-term concerns in perspective.

Perhaps the day-to-day experience of running the business has changed, either because your fun-to-fear ratio has changed, the business has outgrown its systems, or you are simply burnt out from years of continuous stress.

Family businesses go through changes that can lead owners down the road to a sale. Whether the next generation is uninterested or not yet ready to lead, or someone needs to be bought out, an outside investor is sometimes the best solution.

In other cases, the search for an investor or a partner comes from a place of excitement. The business is ready to go to the next level and take on a huge challenge, if only you had the right resources and team.

It will be much easier to focus on what matters if the basics are already in place. Get yourself and your business organized ahead of time and be ready to speak honestly about what is important to you.

## Your Options

A clear picture of where you stand right now will also clarify your range of realistic options. Your first option is to do nothing—waiting can be as strategic as selling, if you know why you are doing it—but you will continue to shoulder all of the risk and own all of the downside as long as you retain ownership. Just be careful about falling into what I call the "one-more-year" trap.

You may want to pursue an insider sale or even take your company public, but most companies are looking at two broad categories of buyers or investors. You should know beforehand whether a strategic buyer is best for your business or whether a financial buyer would be a better fit. In a strategic acquisition, a larger company sees value in incorporating your business into its own, bringing your message and your product to many more customers. Just know that your company will change dramatically and so will your job.

A financial investor, such as a family office or private equity fund, values your business for what it is today and what it could be tomorrow. But, traditional financial investors tend to suffer from short-term-itis, collecting companies like baseball cards they can't wait to trade in for cash. I think this is a real problem. Fortunately, a new category, the entrepreneurial investor, is qualified to offer not only long-term capital but also advice and first-hand operating experience to help you take your business to the next level.

## Choosing wisely

Getting to know a buyer takes time—more than an investment banker will want you to spend with them in a traditional auction process. Insist on spending that time, so that you can ask the hard questions about what the buyer is planning to do with your company. Take a trip to their headquarters and see whether the face they show the world matches their real culture. Let any warning signs be a signal to slow down and demand clear answers.

You may want to consider running a limited process, where you select just a few candidates to get to know. Investment bankers and lawyers have their own set of interests, and you cannot rely on them to look out for your long-term happiness. You have hired them for their expertise, so use those strengths to guide you, but be clear about what matters to you. There will be moments when you have to speak up, or be swept away by a cookie-cutter process designed only to close the deal.

## Getting it closed

Hitting or beating the numbers in your projections will carry a lot of weight with an investor. On the other side, red flags pop up when a business relies too heavily on any one element, whether that is its CEO, a key customer, or a major supplier.

The trick is not to get distracted by emotions and irrelevant details in a sale process. A good deal is far more important than a "fair" deal. Before the process begins, write down what you imagine success will look like. Be specific about what you want financially, what you want for each stakeholder, and what you want the next stage of your company to look like. Consider drawing up a "spirit of the deal" document with your buyer to refer back to when things get heated.

## The Day After

Once diligence is completed and the wire goes through, life after close begins. The transaction may have been an exit plan for you, in which case your task is to use your newfound freedom to build an identity for yourself that doesn't revolve around your business. But if you stay, you will be dealing firsthand with the consequences of the decisions you made as you sold your business or took on a new investor.

My hope for you is that you will get clear on what is important and see an extraordinary outcome that reflects what matters to you.

# CHAPTER ONE

# SELLING, BUYING, AND RESELLING MY COMPANY

When I was 23, I started a company with colleagues from Microsoft. Four years in the United States Army Rangers had given me grit. Two years at Microsoft had given me a sense of where things were going in technology. I didn't have the backing of a venture capitalist, but I had a credit card. I was ready to be an entrepreneur.

It was 1996 and we understood that people were going to start using the internet much more intensely for every aspect of business. Large companies and fast-growing smaller companies wanted to sell products on the internet or make contracts and book appointments there, but they didn't have the expertise to keep it all working reliably. We knew we could help.

It was never about the money. It was almost as if once we had the idea for our company, Data Return, we just had to do it. I would wake up every day and see the opportunity in front of me to work on something that had never been done before. Both of my two prior stops—the Rangers and Microsoft—had extraordinary cultures, and it was really important to me that we make Data Return an awesome place to work.

Once we were established, our job was to solve compelling problems for engaging people while building a spot in the market and making a difference. Making a bunch of money was the score, not the game, and it never figured prominently in our thinking. Now, twenty years later, I still get notes from former teammates who tell me how special our workplace was for them and that they've never seen anything like it since.

Our company was in the business of building mission-critical web infrastructure. Whether it was insurance processing or surgical scheduling for every hospital on the island of Manhattan, our job was to keep it running. When people filed their taxes at H&R Block or built their profiles on Match.com and it didn't work, that was on us. Our customers had designed their online application, and they needed to ensure their customers could conduct whatever transaction they were attempting. We didn't write the software, but we kept everything running—the databases, the network, and all the servers.

We had some of the best technology folks in the world at Data Return, and having come from Microsoft, we had seen how a lot of these systems worked. Our business was right on the cutting edge of innovation that would shape our world in the century to come. (In 2005, for example, we built the first cloud computing that was ready for business.)

The thing about working on the cutting edge is you never really know how to do what you're trying to do because nobody else has done it before either. But we knew a little bit more than anybody else because that's where we focused all of our time and energy. We were just early enough in the market that the knowledge base we accumulated through experience, collecting best practices across thousands of environments, was enough to get us far ahead of the competition.

We grew at a crazy pace—40% every quarter. For the first couple of quarters, that's not a big deal, but in the 12th and 13th quarter, you're in sheer liftoff. This continued for more than three years. When I was 27 years old, we took the company public on the Nasdaq.

Then, just 90 days away from profitability, the March 2000 dot-com crash nearly brought down the economy, and everything ground to a halt. Half of our customer base vanished, growth stopped in its tracks, and the whole world seemed to be holding its breath. To keep up with our crazy rate of expansion, we had built our hiring engine around rapid growth. We had to hire at least a quarter ahead of our current size in order to anticipate our future needs. The problem with that necessity is that when growth finally stops—often suddenly—you've already hired at least 40% more staff than you need.

Everyone in our industry had too many people, and employees were well aware of what that meant for them. Over the course of the next year, we had to lay off hundreds of employees. I felt awful about it, and the trauma would stay with me for a long time.

## The Sale That Got Away

Once we got our bearings in this new world of scarcity, it was clear to us that we needed to be a bigger company. Our economic model required a minimum size in order to work. In particular, our biggest challenge was in finding customers. We had a very tight lens on who our best customers were, so to find one customer who was a really good fit for us, we had to identify ten potential ones. Once those customers signed on, they loved us, but we spent too much time and energy finding them. It was too hard, it wasn't in flow, and it wasn't working.

We needed either to be part of a larger company or to take on more capital. Taking on more capital would buy us more time to figure things out, but it wouldn't fundamentally change the situation. My concern was that it wasn't clear how long this unprecedented downturn was going to last. It was time to sell the business.

The only sustainable solution would be to sell the business into a strategic acquirer, and the best acquirer was right in front of our noses. Data Return had a close relationship with Compaq, which was a logical buyer in every way. Compaq was an early investor in the company, beginning in the late 1990s. We were also a Compaq customer. We even shared a board member. If we were inside Compaq, our customer-base problem would be solved, because all of Compaq's customers would become our potential customers, and thousands of salespeople would start offering our services.

Under CEO and Chairman Michael Capellas, Compaq was in a phase of strengthening its relationship with Microsoft. As a result of those efforts, it became the key strategic partner for the release of the Windows 2000 operating system, and Data Return had built a market position as the undisputed expert on the Compaq-Microsoft platform. From Compaq's perspective, it made sense to bring our managed hosting business into the company.

Over the years, we got to know Compaq very well, partly because its culture was so collaborative. Compaq's executives noticed that we were buying a lot of their servers and putting them to new uses. Twenty years ago, a big data center with a thousand servers in the same room was a new and crazy-sounding phenomenon, and it came with a host of issues and opportunities.

As a customer, we saw that Compaq's response to being pushed in new ways was to seek out our insights. The president of its server division would pull in all the engineers to meet with us and hear about what was working for us and what kinds of changes would be helpful. In those days, people weren't yet talking about how culture could be a critical competitive advantage. But even then, Compaq had a strong culture of continuous improvement, and it aligned well with ours.

Data Return was a much smaller company, which meant that we could move fast. In building culture as well as setting strategy, we put a premium on speed. We were also a learning organization that invested considerable amounts of time and resources into developing our team.

So when, in the year 2000, Compaq offered to buy Data Return, we knew it was the perfect fit. Not only were our cultures compatible, but all our stakeholders—our customers, our employees, and our suppliers—stood to benefit from the transaction.

A sale to Compaq would have been a real win for our customers, who were struggling to survive the dot-com crash. The aftershocks devastated some of our competitors—billion-dollar companies—so even size didn't ensure stability. Our customers, shaken by the tech sector's volatility, sometimes asked for our financials before they would make a purchase. That was understandable, if unusual. In signing up with us, they were betting that we had the financial wherewithal to endure the crash's fallout and run their most critical business applications.

It would be disastrous for them if we went under, but they had no choice but to take that risk. If they had approached one of the pillars of the industry—an IBM or EDS—those giants would fail at this type of work because they didn't really understand the internet. If they wanted a good result, our customers had to buy service from young, fast companies that had the internet in their DNA.

Under the Compaq umbrella, we would be an island of stability in the midst of utter chaos. We would have the resources to accomplish even more for our customers, and we would create a new spot in the market.

That new-found stability would also benefit Data Return's employees. As the tech industry continued to bleed jobs, those who hadn't been pink-slipped nevertheless lived with chronic worry that they might not survive the next round of layoffs. A sale to Compaq would allow our employees to take a big, deep breath and enjoy some well-earned stability.

Our employees would find themselves inside the hottest business unit in a very large company, with a lot of opportunities to work on well-funded, innovative projects. All of our leadership was planning on staying, and the acquisition was very important to Compaq's strategy, so the team would remain intact, and career paths would diverge from there according to each employee's interests.

Not only would customers and employees benefit from the transaction, but many of our suppliers would have the opportunity to sell their product to a much larger company, based on their relationship with us. Some of our suppliers, however, would not make the transition to the new business. Given that our acquirer specialized in computers, any of our existing suppliers that sold us computer equipment would lose our business, so the outcome was not uniformly good for all suppliers. Still, our supplier stakeholder group would see an improvement on balance.

I was looking forward to the day after the transaction because my own life was about to get a lot more fun. Ever since we had gone public, I had spent my days with Wall Street guys, dealing with issues related to capital and public company management tasks. I was really excited about going back to an environment where I could spend my day with my team and my customers, working on the fun stuff.

Sign-off day arrived. For almost a year, we had negotiated this deal, homing in on the terms and working out every detail. The final document was to be sent via fax from Compaq CEO Michael Capellas on Friday, August 31, 2001. We were one set of signatures away from a billion-dollar deal.

All day Friday, all I could think about was the closing. I couldn't even pretend to get anything done. Nobody else seemed worried, and everything was meant to be in order, but I was agitated. At 28 years old, I was supposed to be a grownup—with the gravitas that goes with it—but somehow I didn't feel like one. I didn't want to be that guy who calls, asking where the paperwork is, so I forced myself to hold off, but it wasn't easy. The morning passed, and nothing came through on the fax.

I started wondering whether something might be wrong with the fax machine itself. I checked for a paper jam, ran the test fax, worried the line might be tied up and jiggled the back of the machine. The business day came and went, and nothing appeared.

Over the long weekend, I tried to relax. Then on Labor Day Monday, Simon West, our director of marketing, called me at home, which was not his habit. He told me to turn to CNN. The chyron read: <<Hewlett-Packard and Compaq Agree to Merge>>.

Just like that, the deal was off. I didn't need to wait for the next day's somber phone call to know that the $25 billion deal with HP would have to be Compaq's only priority for the next couple of years. Even though we later pointed out to Compaq's executives that under the terms of the merger agreement, they could still go through with the Data Return acquisition, we knew they weren't about to risk introducing any further instability.

Through unforeseeable circumstances completely external to us, our dreams for a future with Compaq were over, and they were never coming back. Over the next six months, we had to pick up the pieces and return to the beginning of what had been a year-long process. The difference this time was that we were now at a much weaker starting point. We were not profitable because our primary objective had been growth and—with the Compaq deal looming—we hadn't been raising capital to lengthen our runway. It wasn't so dire that we only had weeks to work with, but certainly our runway did not extend beyond a year.

The markets in 2001 were still recovering from the burst bubble, our market cap was something like $400 million, and it was very difficult to raise capital. The bitter irony was that prior to the dot-com crash, there was more money available to us than we could spend, and we had turned down large offers of capital. We had also declined the option of making a secondary public offering, to sell 10% of the company for a quarter of a billion dollars in cash. Lacking a use for the proceeds, we determined it would be a bad trade for our shareholders.

I can only imagine what it would have been like to have had a quarter of a billion dollars of cash at our disposal after the dot-com implosion, when the whole world seemed to be enduring a fire sale. Companies that had a hundred million dollars in cash were trading with a market cap of less than a hundred million. Anyone with that much capital could have gone on a mergers and acquisitions spree and built a juggernaut of a business. But we had said no to it, and I chalked that up under lessons thoroughly learned. Some lessons have to be experienced to really sink in, and it's particularly difficult to learn the lesson that even though things feel like they will continue forever, the world can change dramatically in the blink of an eye.

## Selling to the Wrong Guys

We found ourselves returning to the same faces we had met the year before. "Oh, you're back." The only action that seemed to make sense was to sell the company as part of a strategic acquisition, but the other similarly-sized companies in our line of business were struggling, too. We began a formal process to try to reel in a much bigger fish.

Then one day I was speaking at a conference, and an investment banker approached me. He said he knew we were running a process, and he had an idea for me—would we consider Divine, a technology consulting and software company. This looked like a reasonable fit because Divine shared with Compaq the ability to solve our customer problem.

From Divine's perspective, with the bursting of the dot-com bubble it was safer to buy established companies than to invest in startups, and we had demonstrated an ability to help companies use the internet to communicate with customers and suppliers. Divine delivered a billion in revenue, so from our perspective, the business was big enough to provide lots of potential customers. Its strategy was to buy a number of tech companies and integrate all of our products into one "suite" to create an extended enterprise. The network of products would help corporations exploit the expanding promise of the internet. That story appealed to us. We accepted Divine's offer.

Despite the near-miss with Compaq, this would be the first time I actually sold my company. Just as parents talk about the outsized grief they feel when their first child goes off to college, I had a strong emotional reaction to the reality that I had poured my life into the business—and now it was time to let go. Despite all the good reasons for selling the company, it all comes crashing down when you realize you've actually done it. In fact, my response was physiological. When we announced the transaction, I had a 102-degree fever. As it turned out, my body already sensed what my head couldn't yet conceive: this deal wouldn't end well.

Within 90 days of the sale, it became clear that Divine's strategy and its execution were wholly disconnected. It was going to have the same problem Data Return had had: landing the right customers. But whereas we had done everything in our power to fix that problem, our acquirer wasn't as open to change.

I realized that we had been so impressed with the senior management team's track record and the overall story of how we might fit into an expanded enterprise, we had neglected to do the deeper reverse diligence and get to know this company from the bottom up. With Compaq, we hadn't had to do much reverse diligence because we had all the important information already.

Whereas in theory, the consulting team handed leads to the sales team, that wasn't really happening. We might have known that, and many other problems, if we had just called up a handful of CEOs out of the 40 companies they had acquired. Instead, we spent about half a day having Divine's executives talk through their plan on a surface level.

Even though they were rock stars, the management team was the product of another age. Divine was running old playbooks on new realities in a different business, and it wasn't working.

So I did what I was used to doing as an entrepreneur, and what I later discovered makes me a less than ideal employee in a corporate environment. I took ownership of the problem and acted. There were 17 business unit heads or functional heads in the company, and I got them all together in a room and laid out the situation as I saw it. I made a pretty convincing case for change.

Even though the cash situation was not dire yet, I tried to inject some urgency by asserting that we had 100 days to make the company profitable. If we couldn't make the deadline we set for ourselves, we weren't going to get it done in a year, either, and at the end of that year, we would be in a bad place. Then I went around the room, asking each unit head individually, "Are you in?" I wanted full, unequivocal, hands-down buy-in, and I got it from all but one person. That person also said yes, but with some equivocation.

I gathered my 16 ½ votes and took it to the CEO. I told him everything I had told the business unit heads, and I shared my projections about the short time frame for turning things around. The whole company is already on board, I said, and all you have to do is say yes. He said no.

Looking back, I can see how extraordinarily threatening it must have been for him. Nobody wants to hear that the strategy is flawed and the execution is a mess. Coming in with the team's consensus, it must have seemed as if I were just about staging a coup. But that's not how I saw it—in my way of thinking, I couldn't see the company failing and shrug it off as somebody else's problem.

In February of 2003, a year after that 'no' from the CEO, our acquirer filed for a Chapter 11 bankruptcy.

## Buying Back My Own Company

Divine had taken stakes in almost 80 technology companies before filing for bankruptcy. Some, like a library subscription service it had purchased in 2001, were in dire straits, but many of the companies were still in reasonable shape. In 2003, a 26-hour auction was held in Boston to sell off pieces of the business. My company was one of those pieces being sold, and I wanted it back.

The only problem was, I had been barred from directly bidding. I had to try to get it back indirectly, partnering with an existing bidder.

If a competitor bought it, I knew Data Return would be dismantled and I wouldn't have a job—basically my worst nightmare. I wanted us to have a fresh start, but I had to stand by and wait for the news that would determine my future. Guess how much sleep I got that night . . .

Fortunately, we ended up with a few low-ball competitor bids looking to salvage a few contracts, and we were able to buy our company back for less than a third of the price our buyer had paid us for it. We retained 100 members of Data Return's original team and hired 40 more in sales and marketing to re-establish our presence in the market.

Buying Data Return back gave us a chance to reset a number of things. For one, we no longer had the strain of running as a public company. We were private again, and I was much happier in that environment. It took about a year of intensive work to let people know we were back and to get the company running the way we wanted. Our company's next phase would look quite different, partly because the market had changed. With a better balance between profitability and growth, we emerged from our misadventures with a much better business than it was before.

## Selling to the Right Guys

Our eventual acquirer, Terremark, sold products that were not directly in competition with ours but offered a third option to solve the same web infrastructure problem. It was a do-it-yourself package that gave the customer a connection to the network and a space in the data center, but with no service to speak of.

By the time we sold Data Return a second time in 2007, I had learned enough to do it right.

Terremark was a company that caught my interest, but our investment bankers' resistance. Their advice was to skip it—they didn't believe Terremark was a real buyer and thought it was a waste of time to include them in the process. I remember every detail, down to where I was standing, when I insisted that we put them on the shortlist of prospects. The moment is anchored in my mind because it defined so many things that happened later, and it reinforced the notion that there are decisions only a CEO can make.

Terremark came in with the second-highest bid, but it was clear the company was a great match for us. Partnering with Terremark was the culmination of the new strategy we had adopted in the second incarnation of Data Return. It's hard to overstate the effect of combining those two companies—Terremark's stripped-down offerings and our medium-range and top-of-the-line products—which freed the sales team to sell exactly what customers wanted. Full service? Great idea! Co-location? No problem! The growth rate of the combined business skyrocketed.

The customers saw an immediate benefit, and most of our management team did, too. Though a couple of our leaders were not a fit and did not transition to the new company, many were promoted shortly after the deal. Our VP of Sales became the global VP of Sales for the combined business. Our CMO became the CMO for the whole business, and so on. Personally, I knew from recent experience at Divine that I had too much of an entrepreneurial mindset to fit comfortably in any position other than CEO. When we found Terremark, it was a great outcome for all of the stakeholders, but the corporate environment also meant that for the good of the team—and my own sanity—I had to step away.

When CEOs say they would like to sell 100% but are happy to stay around for a year or two, they really don't want to stay around for a year or two—they want to go right now. I know this because that's how I felt when we sold to Terremark. I would have been okay with helping out in the transition, but I much preferred to leave. In the end, they told me they were ready to take over long before my contractual transition period was up. Part of me was grateful, and part of me found it jarring to suddenly not be needed. But I knew it was time to go.

That last day in the office was surreal. I put everything I had into that business for a decade—I had started it, sweated over it, bled over it, and cried over it. And this was my last day. I believed it was going to be a great fit for everybody, so I wasn't sad but didn't quite know how to feel. I was just not equipped for that day, and nobody around me could help me. What do you say to people on your last day?

I had to have conversations with people, but I hadn't prepared anything to say, and it felt awkward. I could say simply thank you and goodbye, but that didn't feel like enough.

Overall, though, I was happy to be a casualty of that transaction. Stepping back, it was a great feeling to leave my team in good hands, and by that time I was excited about an idea I had been developing for a couple of years with one of our customers, Randy Eisenman. The concept we were building would become Satori Capital, a new kind of private equity firm that we run together to this day.

## TAKEAWAYS

**Nothing happens until money changes hands.** There is little doubt that Data Return would have made a seamless fit with Compaq. From every perspective—including Compaq's—the logic for the sale was unassailable. Then HP emerged, and our future quickly capsized. The lesson I took from the sale that sailed away is that money isn't everything, but it is the start of everything. A game-changing strategy, a high-potential idea, or in our case, a chance to get big fast—no matter how promising, none of that is real until the wire clears. Good leaders live by the well-worn maxim, "The buck stops here." For entrepreneurs and company builders, the buck is where things start.

**There's a price to pay when you sell the business: you're no longer in control.** We tend to think that making money, winning resources, and gaining throw-weight through a strategic sale is a good thing, which of course it is. However, there's an eye-opening reality for founders who take on investors or who remain with the company after the sale: they no longer have total ownership of their dream. Because Divine's CEO had more control over the company than I did, I worked for him, regardless of my deep connection to the enterprise that I had founded or my natural instinct to act quickly when a problem arose. True, the benefits of taking on an investor or selling to a strategic acquirer can outweigh the cost of potentially losing the ability to execute your vision on your terms. But the lesson remains: Before you take the money, understand that you're going to give up at least some control.

**If you've built a company that others want to buy, you have an instinct for what works. Trust it.** Because Terremark hadn't done much M&A, our bankers concluded it wasn't a credible buyer and resisted putting the company on our shortlist of potential acquirers. I disagreed. I thought Terremark would make a good strategic fit, so I drew a line in the sand and insisted on adding it to the list. Pushing back wasn't easy. I wasn't clairvoyant. I certainly didn't know that Terremark would turn out to be our buyer. What's more, the bankers are the experts, and it's always wise to listen and reflect on what they say. However, there are moments in the selling process when you've got to rely on your judgment and make the call that only a CEO can make. Bankers are advisors. It is you, the seller, who is ultimately the decider.