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Members' Benefits

The Northeastern University Center for Family Business offers a select group of family-owned businesses these membership benefits:

- Participation in Executive Breakfast Case Conferences.
- Constituent Forum Participation.
- Subscription to Family Business Quarterly.
- Invitations to College of Business CEO Breakfast Forums.
- Access to student interns.
- Networking opportunities.
- A family business bibliography and access to NU's libraries.
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You're Never Too Big For a Successful Culture Change

Emerging Issues

The Northeastern University College of Business Administration CEO Forum and the Center for Family Business were honored to have Carol Lavin Bernick as the featured speaker at a recent joint meeting. She and her husband, Howard, run Alberto-Culver Company, the \$2.9 billion public company that Carol's parents founded in 1955 and turned over to the new generation of management in 1994.

In her presentation titled "When Your Culture Needs a Makeover" Carol described the process of changing their corporate culture and its positive impact on the business. While many family business authors and researchers speak of the importance of sustaining culture in the face of transition, Carol's experience was very different.

She transformed the value system and took a high profile, successful, publicly-held enterprise with family roots to a whole new level. Since 1994, the start of the cultural shake up, the Company's sales have more than doubled, pre-tax has tripled and employee turnover has been cut in half.



Carol Lavin Bernick

Family business members were invited to stay after Carol's formal presentation for a more intimate discussion about business families.

In her presentation she mentioned the four ideas that she used to transform the culture:

1. Make culture a core driver of the company's success, make it important, identify and build off the positive culture aspects already in place and change what is necessary.
2. Create the position of Growth Development Leader (GDL), to mentor a small group of people. GDLs help communicate the change through the organization.
3. Survey employees on a regular basis to identify areas for improvement and provide constant feedback to management.
4. Celebrate successes constantly through a reward system.

The success of the Alberto-Culver culture change has been recognized in a recap of the experience for an article "When Your Culture Needs a Makeover" that Carol wrote for the June 2001 Harvard Business Review. Carol has been featured in Business Week, Forbes and Savvy magazines. She has twice been selected as one of America's 50 Most Successful Women.

Raising Capital in the Private Equity Market

Richard Vinci
Managing Partner
Newbury, Piret & Co.

For the owners of family businesses, access to fairly priced capital from dependable sources can be a crucial component to the successful operation, management and growth of the business.

More often than not, outside capital is provided by the respective company's commercial banker. In favorable times, this relationship may be all that management needs to secure the capital required to fuel the implementation of its business plan. However, what does the family business owner do when the commercial bank is "tapped out" or when credit policies and regulatory pressures make borrowing difficult, restrictive or unavailable? When the credit markets are challenging, it is frequently valuable to explore the strategic financial alternatives available in the Private Equity market.

What are the signs that the capital markets are pulling back? Aside from the often dire statistics and information provided by business and news publications and the leading indicators, the following are some key signals:

1. Commercial debt markets are very restrictive, with deals done under stricter terms and conditions
2. Venture Capital is less plentiful and more difficult to access
3. Larger corporations are pursuing a "back to core" business strategy, rather than a policy of making investments and acquisitions, hence strategic investors are harder to identify and interest to invest.
4. Public equity is severely limited and IPOs are effectively non-existent for middle market companies

As an owner, you may have a great idea for expanding your business, but you cannot convince your banker to finance your needs because a financial ratio has not been met, you have

(continued on page 4)

U.S. Trust Company Acquires State Street Corporation's Private Asset Management Division

U.S. Trust Company is proud to enter the New England market through the acquisition of State Street Corporation's Private Asset Management division on October 31, 2003.

U.S. Trust has retained all Private Asset Management employees and welcomes its new wealth management groups located in Boston, Osterville, and Manchester, NH.

Peter Talbot and Michael Lindquist will continue in their roles, providing wealthy individuals with tailored wealth management solutions, including: alternate investments, private banking, trust services and tax, estate and financial planning capabilities.

Save These Dates

March 18, 2004
7:30 am-11:00 am
Business Family
Case Study and
Panel of Experts

April 15, 2004
7:30 am-10:00 am
Story of the
Washington Post
Alan Spoon

May 19, 2004
7:30 am-10:30 am
Lessons from the
World's Most Enduring
Family Businesses
Dr. William O'Hara

Family Perspective

Act II, Scene 2: The Changing of the Guard Succession Planning at Erving Industries

Charley Housen succeeded his father as head of Erving Industries and created one of the nation's largest privately owned paper-processing companies. His son, Morris, is very bright, passionate and energetic. But Morris and Charley have very different styles. And those styles aren't always compatible. Charley would like to see Morris at the office by 8:00 AM in a shirt and tie. Morris says his father doesn't see him at 1:00 AM working in his shorts in his home office. As a follow up to two previous presentations to the Center, Charley and Morris share the latest chapter in their work together.



Charley Housen

Ego conflicts, loyalty issues and differences in strategy and vision. These are just some of the succession issues that Charley and Morris Housen have struggled through, yet they still managed to avoid family conflict. They accomplish this by effectively separating their business and personal feelings.

The attendees at the November Executive Breakfast meeting were treated to the third part in a series of presentations on the succession planning at Erving Industries. Charley Housen and his son, Morris, discussed their working relationship with Center members in an entertaining and candid manner.

Charley Housen, Chairman, began with a brief recap of the timeline of events over the past several years. He mentioned how his son, Morris, had left and returned to the company twice before. The first time, Morris served as COO. But Charley and Morris were unable to agree on a single vision for the corporation. They were both trying to be CEO at the same time.

Charley also felt Morris needed more time to learn the job. Charley saw Morris as a "non-executive son" with a work style that differed from his own. Morris prefers to balance work hours with family commitments, not working the traditional hours, but putting in additional time late in the evening as needed. Charley expected Morris to work "standard" hours and dress formally. Morris was more concerned about results and less about process.

The father-son team struggled with several issues:

1. Communication-their personal relationship was fine, but their business relationship was poor.
2. Strategy/Vision-not the same. Charley said they were "watching different movies of the same company."
3. Profit vs. growth-their objectives were different, but they agreed to disagree. Morris wanted results; Charley wanted process.
4. Ego conflicts-they disagreed on selling existing businesses that Charley grew. The double CEO format simply did not work. As Morris said, "We weren't on an equal footing."
5. Managers and loyalty issues-younger managers looked to Morris; older managers continued to go to Charley. Managers were most loyal to the one who hired them.

Charley's and Morris' work styles and personalities clashed. Morris struggled with deference to his father, but was always respectful. So Morris soon left to pursue a different career path. He started up Birch Point, a specialty paper products company.

In the meantime, the paper industry was changing. There was consolidation and the larger competitors were buying market share. Erving Industries'

growth had slowed and Charley lost the passion. He lacked "the energy and enthusiasm." Charley had always claimed "I am a builder, a grower, an acquirer and Morris is bottom line". Morris' Birch Point business was going along well, but he was also becoming increasingly interested in his father's business.

Charley was now ready to relinquish CEO responsibility. The two came together and discussed a second tenure at Erving Paper for Morris.

This time Morris approached Charley with a set of "conditions." "It was a strongly worded statement, but not an ultimatum," Charley said. The most important issue was for his father to relinquish direct management of the company. Charley agreed. He felt that Morris was ready. "As a parent you know when your son or daughter is ready." Charley had been disappointed when Morris initially didn't want to succeed him in leading the business. "I had originally felt Morris lacked the competitiveness," he said, "But now he has acquired it."

Now, with father as Chairman and son as President and CEO, there are still some day-to-day challenges: Charley still answers emails directly with VP's. (Morris prefers that he doesn't do that, but at a minimum asks that he copy Morris with the responses.) Charley still finds it difficult selling off businesses in which he has had a long-term interest. He says that Morris has an MBA, a "making money kind of thing."

Older managers whom Charley hired still second-guess Morris' decisions, asking, "What would your father say?" Morris is now more assertive. Many of the younger managers whom Morris hired during his first tenure are still with the company. Charley had always hired more seasoned managers and kept a clear command, while Morris has the patience to develop and train them and let them operate more autonomously.

Since retiring, Charley finds his mail is not as interesting. He gets fewer

phone calls and has a lack of urgency in his life. One of the things they both realize is that management and ownership do not need to be the same thing. Professional managers and family owners can coexist.

They both realize that there had to be a formal passage of power and recognition of Morris as the new President. The closest Charley and Morris came to a passing of the baton was at a recent Quarter Century Club meeting of many current and former employees. Charley indicated that he would be passing control of the business to Morris and then Morris addressed the crowd as their new leader. When Charley and his father went through a similar transition it was also formalized at a Quarter Century celebration. At that event, Charley's father presented his son with his 50-years service lapel pin. The accompanying speech and presentation of the pin was their turning point.



Morris Housen

Charley has asked to not have a retirement party. In lieu of such a celebration, Charley surprised everyone at the conclusion of the breakfast meeting by presenting Morris with that same 50-year pin. The changing of the guard occurred. The leader for the next generation had been anointed.

At the second half of the November Executive Breakfast meeting there was a workshop for attendees. The topic was related to the presentation by Charley and Morris Housen on succession. Paul Karofsky asked the attendees to breakout into tables by senior and younger generation and discuss what each generation needs from the other to help the succession process.

What does the younger generation need from the senior generation?

- Formalize process-strategic planning
- Stronger communication skills
- Bring younger generation into roles
- Put transition plan in writing-how to get there
- Have a specific point of turnover
- Gray area is where trust is acquired
- Be allowed to make mistakes

What does the senior generation need from the younger generation?

- Realize expectations might be set too high
- Try working someplace outside before taking over-outside experience
- Build your confidence through achievement
- Do children really want to be in the business?
- Have a means of measuring results-keep eye on business benchmarks
- Honesty between generations-communicate what they REALLY want to do
- Communicate results,-not just numbers; give parents what they need to know

In our fast-paced online and wireless world, we can easily forget that there was a simpler time in the early and middle twentieth century when Lexington, MA and the surrounding towns were family farm communities. Those farms were mostly unable to cope with the emergence of suburbia and have disappeared, their lands turned into suburban homes. Except for Wilson Farms. In its early days a nondescript member of the community of small farms, Wilson Farms is today planning for involvement of the fifth generation of Wilsons. It is at once an agrarian artifact and a retailing powerhouse. In an average week, 16,000 customers seek out its fresh produce, flowers, and prepared foods. In this interview with Family Business Quarterly editorial advisor David E. Gumpert, two generations of the Wilson Farms family, Don, (72) and his son, Jim (49), ponder the richness of the farm's history and the challenges associated with preserving that history for future generations of the family.

Conclusion (continued from previous issue)

DG: When did you actually make the transition to retail?

Don: Officially in 1950. In the late 1940s we sold poultry and eggs, a pretty extensive egg business. It was the end of the war, so people were glad to have a place to buy food.

DG: What was behind the decision to go retail? Not too many farms become retail establishments.

Don: Financially we had to. Markets were drying up. That was one of the reasons these other farms sold out. You couldn't make a living with the traditional marketing.

DG: Explain that.

Don: The prices weren't high enough to support the land or the labor to work the land. As wages started to rise, you couldn't be still offering 35 cents an hour to employees, with no benefits. The prices received at wholesale didn't even cover the costs of production.

DG: So going retail was a means of survival.

Don: It was forced on us.

DG: What was keeping other farmers from doing this? Was there competition?

Don: In those days, your major chains were A&P, First National, and Economy. There was a trend away from fresh fruit and vegetables. Their big thing was meats, poultry, and dry groceries. Stores were judged by their meat departments. Vegetables were a poor second cousin. They treated the farmers as such, as poor second cousins. Today it is all different. For the major chains today, produce is their flagship, their banner. Think about their advertising today on the radio. It's all fresh produce, fresh fruit. I don't think I've heard meat advertised for the last two or three years, except maybe meat for barbecue on sale.

DG: Jim, I am curious as to how the family's unique history has affected your view of the business.

Jim: I have more of an appreciation of how things came about, of how much hard work went into it. When I was growing up my mom worked full-time as cashier. My dad worked full time. We would come down and work or hang around the farm as kids. That's just the way we grew up.

DG: You have how many brothers and sisters?

Jim: I have one brother, who is also in the business.

DG: Has it been assumed that you would go into the business?

Jim: Yes, it really was. It's pretty much the only job I've had. The same with my brother, Calvin, and my cousin, Scott.

Don: All of us met our wives working on the farm, except Alan. Myself, Jim, Calvin, and Scott. The girls came to work in the store or on the farm.

DG: So it seems as if you, Don, were expected to work in the business, and the same with your two sons.

Don: Yes, we just went along. That's the way it was in farm families.

DG: Don, you're the third generation and Jim, you're the fourth generation of Wilsons running the business. How has the family been able to avoid sub-dividing the land to satisfy all the family members?

Don: Well, you have to remember that there haven't been that many family members until Jim's generation running the business. There were two members of my grandfather's generation and two members of my generation. Now with cousins and wives there are a lot more. But I think there's been a real focus over the years on the big picture, on one-for-all rather than all-for-one.

DG: How important has knowing this his-



Wilson Family Members; Jim is 6th from left in back row and Don is 4th from left in front row.

tory been to you, Jim?

Jim: It's been unique. Most people don't have as rich a history in their families. It certainly has made me feel good about moving into the business.

DG: Does it come up in civic affairs or in how you interact with local residents?

Jim: It's a pretty good calling card when you are talking to someone and you can mention your family has been in town for 140 years.

DG: Are you involved in politics or civic affairs?

Jim: I've been a town meeting member for 22 years. My dad, uncle, cousin, aunt, have all held town offices of one level or another. Dad was in the housing authority for more than twenty years. In Lexington, we have a special award that's given to the citizen of the year, the White Tricon Hat, and it's awarded on Patriots Day. It's quite prestigious. Both my dad and aunt have been winners. To my knowledge, this is the only family that has won twice. Dad won in 2002, and my aunt, Lynn, won in 1992.

DG: You seem very proud, rightfully so. Do you take pride in the land as much as the family?

Jim: Yes, I'm proud to be the fourth generation to farm this land. The farmer in this country is moving toward extinction, so I feel as if we're bucking the trends and preserving an important part of this country's heritage.

DG: Jim, do you have children?

Jim: Yes, I have three children, my brother has three children, and my cousin has three children. They range in age from eight to seventeen.

DG: Do you expect they'll all go into the business?

Jim: It's a little early, but the oldest ones are working summers. My nephew Timmy is working on the farm this summer. My daughter Jen is working in the office. Last year on the day before Thanksgiving, which is one of our busiest days; all the kids were here working, down to the eight-year-old.

Don: That's pretty good, when you're busy you can put on nine extra workers to cover the business.

DG: It's a different world today. It's probably not as much a given that all the children will go into the business. Do you think they'll all want to and, if so, will there be room for all of them?

Jim: One thing we're real proud of is that we now have 600 acres in New Hampshire, between Nashua and Manchester. We started accumulating it in the 1960s when we couldn't afford it here in Lexington any longer. Last November we purchased 200 acres from a farm adjacent to ours up there. That land ensures that if the kids are all interested in the business, which is probably unlikely, that there now will be room for as many of them as want to come into the business.

DG: How does that ensure that there will be room in the business?

Jim: You've got to figure that the New Hampshire market will be very similar to

and fall crop on the same land. It took years to be able to figure that out, to make the numbers work. Right now, even though it's mid-July, a lot of our first crops have been harvested and our next crops are planted on the same piece of ground.

Jim: When I say we're more mobile than the chains, I mean we do things immediately. Immediately to us is if we harvest a given crop at 9 a.m., normally by three in the afternoon we have a new crop in the ground. Not 24 or 48 hours later.

DG: Sounds like just-in-time farming.

Don: That accomplishes a lot that people don't even think about. It cuts down tremendously on weeds because the weeds don't have a chance to go to seed. It also cuts down on pests, because pests have no weeds to provide cover where they can hatch and develop. This requires a minimum of pesticides.

DG: Jim how else do the family values help you maintain a sense of tradition?

Jim: The fact that the whole family is involved, the kids are involved, and everyone is down on the farm, makes a big difference. If a child is sick, the school nurse calls the farm. They know they're going to find us. All of us go home for lunch just about every day. We see our kids. We work a lot of hours but we're still part of the family and the farm all the time. It's all one thing. We all live very close to the farm.

DG: You're something of an anomaly. A farm family in an urban environment.

Jim: I went to Bentley Business School. All my friends are accountants and they'll come down and see me covered with dirt and wonder why I can't get a real job. They'll tease me about working on a farm.

DG: Give me some sense of the scale of the business.

Jim: Today we employ 200 people. Half full-time and half part-time. A lot of part-time cashiers. In a normal week, we'll see 16,000 retail customers. A lot of our employees have been with us 25 or 30 years.

DG: Which parts of the business do best?

Jim: The fastest growing is prepared foods. The biggest is fruits & vegetables. Other big areas are cut flowers, bakery, poultry, eggs.

DG: And who runs what?

Jim: We aren't big on titles, but my uncle does wholesale and is CEO. My brother runs the seasonal business, my cousin runs the store. I run everything from the store back, the whole farm. My dad is between here and the New Hampshire farm each day.

DG: Is anyone not in the business?

Jim: In this generation, only my cousin Leslie is not in the business. She's a schoolteacher.

DG: With so many family members now involved, how do you keep open the lines of communication?

Jim: We have business and family meetings. Every evening at 5 all the managers, family and non-family, meet to make sure everyone is on the same page before the next day. Once a week, about five of us get together in a smaller group. Sometimes we discuss competitive issues or internal problems. We pinch problems so they aren't allowed to fester.

Don: We had a problem with strawberries. We were doing a mediocre job on pick-your-own strawberries and retailing strawberries. So we did away with pick your-own. We graded our strawberries and put only the top strawberries out for sale here, and held to \$6 a quart. The competition had strawberries for \$4, but we kept selling them and couldn't keep them in stock, and they couldn't sell everything. All the B-grade berries were put into value-added products-sauce, bakery products, even strawberry soup. All at increased margins. We're doubling our crop next year.

Raising Capital in the Private Equity Market

by Richard Vinci
Managing Partner, Newbury, Piret & Co.

(continued from page 1)

reached the institution's lending limit, debt service coverage is too lean, or a plethora of related internal, external and regulatory considerations. It can all add up to frustration and potentially missed opportunities. Strategic alternatives for growing, recapitalizing or exiting one's business should not be entirely beholden to economic cycles and the state of the capital markets. If an owner does not implement the appropriate strategies at the right time, the owner can sacrifice a large amount of the company's worth.

Notwithstanding the foregoing, an ample supply of capital is currently available for those with access from the Private Equity markets to finance a wide range of financial strategies. The problem is that many business owners do not know what Private Equity is or how to access it in a meaningful way for their business.

What is Private Equity?

Private Equity can be broadly defined as privately negotiated transactions in public or private companies. While more Private Equity transactions involve investments in private companies, they can range from the financing of early stage companies, to investing growth equity into an expanding company, to buying out mature public or private enterprises. Private Equity investments are typically structured as either non-control or control positions. They can work with your existing lenders or be enhanced by building a tiered capital structure incorporating non-regulated finance companies and mezzanine capital providers. Private Equity investment can occur at virtually every stage of a company's life cycle. Venture Capital, Late Stage

Private Equity, Mezzanine Financing and Distressed Debt are four common subclasses of Private Equity.

Qualitative and Quantitative Considerations in Accessing the Private Equity Market

For the uninitiated, raising money in the private market can be a challenging proposition. Private Equity is an often overlooked capital alternative to commercial debt financing. While many lenders and equity investors are eager to finance middle-market businesses, challenges do exist to successfully arrange financing. While the market is competitive, lenders and investors are still scrutinizing risk as closely as ever. Therefore, it is imperative that a company present itself, its planned use of capital, and its business clearly and in a compelling fashion.

Accordingly, there are many factors to consider in accessing the Private Equity Markets. It is not as simple as evaluating which group has the lowest rates and terms. Certain investors focus only on specific industry sectors where their team has core experience. Some firms pride themselves on offering strategic guidance and operating expertise. Others are more financially oriented and are not as effective in providing intellectual capital and counsel to management. It is important that the financial sources which are approached are currently investing or lending to companies like yours.

It is important to protect the company's confidentiality and reduce the time commitment by management by only soliciting qualified investors for the specific opportunity while still creating a competitive environment within the investment community for the individual transaction.

The Role of a Financial Advisor

The seasoned financial advisor will create material that best presents the company and its value proposition. In selecting experts, the business owner should not only examine objective measures, but also take into account subjective qualities such as personal style and people management skills. The advisor's style should be compatible with that of the company's management. An effective advisor will have experience to approach only qualified investors for a particular company and will have prior relationships with those investors that will assure access and attention to the client company's project. Therefore, when seeking to explore alternative financing strategies, it is helpful to select the advisor early in the process to facilitate coordination between management and other professional services providers such as the company's attorney and accountant. This can also facilitate input on valuation, structure and related considerations before approaching financial sources which can preserve credibility and maximize value.

In closing, when working with the Private Equity community it is important to effectively manage the process and to treat the first contact with prospective investors as if it may be the only chance you will get. A clear and focused strategy to providing a compelling value proposition is essential. By managing a discreet and efficient process that focuses on maximizing value, the Private Equity Capital Markets can be the key to accessing untapped financial resources to enable you to execute your company's strategy.

Types of Private Equity

Venture Capital ("VC")

Venture Capital is an important source of capital for start-up companies and those in the initial stages of developing products and services that do not have access to more conventional sources of financing. Most venture-backed companies are at the development growth stage in sectors such as life sciences and technology. Several stages of VC investing exist often marked by financial and/or operational milestones. Valuations can increase as these companies grow and they proceed from round to round.

Late Stage Private Equity

Late stage investing is targeted at relatively mature businesses and typically is used to fund growth, acquisitions, recapitalizations and Buyouts. Buyouts, also referred to as "leveraged buyouts" or "LBO" or "management buyouts" or "MBO" involves the acquisition of a relatively mature product or business. As the name implies, LBO's and MBO's make use of significant amounts of debt. Returns are generated through operational improvement, asset appreciation and/or leverage. They are often used in the acquisition of industrial or consumer-oriented businesses.

Mezzanine Debt

Mezzanine debt has a fixed maturity date. It is senior to equity and junior to senior debt. Mezzanine investors enjoy downside protection through the equity cushion beneath them. They are compensated for the higher risk they have assumed in relation to senior debt holders through higher interest rates and often "equity kickers" in the form of warrants. The interest portion of the mezzanine security's return typically comes in the form of a cash coupon and/or payment-in-kind interest (i.e. compound interest that is deferred until the final maturity) which is often structured to assist companies in preserving cash flow.

Distressed Debt

Distressed Debt Private Equity firms buy corporate notes of companies that have either filed for bankruptcy or are likely to do so in the future. There are two distinct strategies within distressed debt investing.

1. Debt to Control – A strategy wherein the investor seeks to gain control of a company through a bankruptcy or reorganization process.
2. Trading Strategy- This strategy is typically employed by a hedge fund in which the investor purchases distressed debt from a significant company and seeks to profit as the underlying company recovers and the debt appreciates.

89

The percentage of businesses in the U.S. that are family owned.

(Family Businesses Contribution to the U.S. Economy; a A Closer Look, 2003)

60

The percentage of workers in the U.S. who are employed by family businesses.

(Financial Planning, November 1999)

39

The percentage of U.S. family businesses that will have a shift in leadership in the next 5 years.

(Arthur Andersen/Mass Mutual American Family Business Survey, 2003)

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