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Up Front

Malyn Joplin cues up fashion line inspired by her aunt Janis. **PAGE 3**

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Paper Claims Right Focus for L.A.

PUBLISHING: Register promises libertarian leanings, local stories.

By JONATHAN POLAKOFF *Staff Reporter*

Kushner

As **Aaron Kushner** lays out plans for the Los Angeles Register, he's hoping his upstart newspaper's libertarian viewpoint can attract enough readers to carve out a place alongside the liberal Los Angeles Times.

Kushner's firm, **Freedom Communications** of Santa Ana, announced last month that it will start the L.A. Register this year. He said the launch will come soon, though he wouldn't say exactly when.

Kushner will be publisher of the paper and plans to use what he calls "a Register approach" to newspapering. That means a strategy focusing on local news coverage and opinion pages that carry a political perspective based on a belief in free markets.

"We will bring a very different political perspective than the L.A. Times in a civil, intellectual way," Kushner told the Business Journal last week. "Having a strong alternative, from a political perspective, from the L.A. Times will be valuable for the community and hopefully well-received."

The paper's political perspective will be clear in its three daily pages of opinion pages, said Kushner. An editor said that the news reporting would come without an overt political bias.

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High Times

RINGO H.W. CHIU/LABJ

Fired Up: Medbox's Pejman Vincent Mehdizadeh with pot-dispensing machine in 2012.

Soaring stock mints first legal pot billionaire

By JAMES RUFUS KOREN *Staff Reporter*

On Tuesday, Jan. 7, at 7:02 a.m., the price of a share of obscure West Hollywood company **Medbox Inc.** hit $52.50. At that moment, Los Angeles County gained a new billionaire – for a while, anyway.

For the rest of that day and most of the next, Medbox founder **Pejman Vincent Mehdizadeh**'s huge stake in the tiny company, which makes marijuana dispensing machines, was worth upwards of $1 billion.

Four years ago, he was bankrupt. Now, the 35-year-old son of Iranian emigrants is the first person in the United States – maybe anywhere – to legally build a billion-dollar fortune in the cannabis business, if only on paper.

"I'm officially a billionaire," he wrote in an email to the Business Journal that Tuesday. "What an amazing situation I find myself in."

Amazing for a few reasons. For starters, Medbox reported net income of just $388,000

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Suit's Funding Courts Trouble

LAW: Former clients no longer want to foot bill for other case.

By ALFRED LEE *Staff Reporter*

Law firms are finding more and more creative ways to finance litigation these days. But one method said to be used by a Century City firm has turned into a cautionary tale.

William and **Roxanne Glenn**, former clients of **Cohen & Lord**, a boutique law firm known for handling business and construction disputes, said they were persuaded by the firm to fund the legal defense in another case to which they had no direct connection.

"This is something I've never heard of and is entirely unique from my perspective," said **Donald Vinson**, chairman of El Segundo's **Vinson Resolution Management**, a company that specializes in third-party financing of lawsuits.

The Glenns, who had previously retained Cohen & Lord in a residential property dispute,

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PHOTO BY THOMAS WASPER

Backed Up: Ma, left, Nayot and Luzzatto.

Fundless Firms Hunt for Money

INVESTMENT: Diversis found target then lined up backing.

By JAMES RUFUS KOREN *Staff Reporter*

Traditionally, when private equity firms go looking to buy a company, they've already got cash in hand in the form of money pledged by big investors.

When Santa Monica's **Diversis Capital** went looking for its first deal in October, that wasn't the case. That's because it's one of a handful of so-called fundless sponsors – firms that haven't raised typical private equity funds – that have sprung up in Los Angeles in the past few years.

Like many of those firms, Diversis is small and was founded by young guys who left a bigger private equity shop – Westwood's **Gores Group**, in this case – in search of their own fortune. Instead of buying companies using a pool of money

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02

'I've seen more new firms in the last year than ever before. It really started a year or so after the financial crisis, but it's really picked up steam.'

ANDREW APFELBERG, Greenberg Glusker

'By definition, they don't have the money. As a seller, it adds a layer of contingency to a deal that you don't face when you have a funded sponsor.'

DUANE STULLICH, FocalPoint Partners

'Investors who came through the financial crisis are more wary ... With a fundless sponsor, you can veto a deal. You get to be involved in the decision-making around the deal.'

TIMOTHY SPANGLER, Sidley Austin

Investment: Fundless Firm's Approach Pays Off

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PHOTO BY THOMAS WASPER

Lined Up: Kevin Ma, left, Ron Nayot and Marc Luzzatto at invesment firm Diversis' headquarters in Santa Monica.

pledged in advance by investors, fundless firms have to line up investors for each acquisition, a process that often leads to busted deals.

Despite that pitfall, more firms like Diversis have entered the market. In California, 39 fundless sponsors did deals last year, up from 28 in 2009, according to Seattle research firm PitchBook. Only 20 such firms did deals in 2004.

"I've seen more new firms in the last year than ever before," said **Andrew Apfelberg**, a partner with Century City law firm **Greenberg Glusker** who works with companies being sold to private equity firms. "It really started a year or so after the financial crisis, but it's really picked up steam."

Timothy Spangler, a partner in the downtown L.A. office of Chicago law firm **Sidley Austin**, said the number of fundless firms is on the rise because investors are putting less money into typical private equity funds. With less money raised, private equity firms need fewer bodies, leading many younger professionals to start their own shops.

"The volume of private equity talent out there exceeds the current appetite for committed funds," Spangler said.

Money man

As more firms start up, new ones are looking for ways to differentiate themselves. **Kevin Ma** and **Ron Nayot**, the managing directors of Diversis, say what sets their firm apart is that it has a more stable source of potential investors than the typical fundless sponsor. That's thanks to **Marc Luzzatto**, chairman of Diversis and also chief executive of the **Luzzatto Co.**, a real estate investment firm. Luzzatto plans to bring investors from his firm into Diversis deals. The two firms share a Santa Monica office.

"He's a well-connected guy," Ma said of Luzzatto. "We're young guys. To be taken seriously, and to control tens or hundreds of millions of dollars, that's the credibility Marc brings."

Nayot and Ma had worked together at Gores Group until last year when they left to start Diversis, which opened in May. Nayot knew Luzzatto socially and he and Ma asked him to back them.

Ma said he was uneasy about leaving Gores, which has raised $2.4 billion in committed funds in the past few years, to start a shop with no fund at all.

"I've seen guys do the fundless sponsor route and you see the same problems over and over," Ma said. "You spend so much time and energy getting new investors that it takes away from the time it takes to do due diligence on a deal."

Like Ma and Nayot, most private equity professionals who leave big firms to start their own shops have experience finding and executing deals, not on raising money from investors. That often leaves fundless sponsors to turn to wealthy acquaintances or investment banks when they need cash for a deal. Few firms disclose who their investors are or detail how they arrange an investment.

At Diversis, Nayot and Ma, along with a team of six employees, do the deals, while Luzzatto brings the cash.

From 1995 until 2007, Luzzatto was president of **Welk Group Inc.**, a holding company that invests the fortune of late TV personality Lawrence Welk. The group is one of Luzzatto Co.'s biggest clients and Luzzatto said he might try to bring Welk money into Diversis deals.

But the Welk Group was not part of Diversis' first and only deal to date: its acquisition in October of bow-and-arrow manufacturer **Martin Archery** of Walla Walla, Wash.

Luzzatto said he keeps his investors apprised of deals Diversis is considering, gauging their interest well before a deal is final. He wouldn't say how many investors he has.

"By the time we get a letter of intent, we already know who's on board and who's not," he said.

In turn, Ma and Nayot say they're confident Luzzatto will come up with the cash if there's a deal they like.

Diversis looks for struggling midsize companies with annual revenue ranging from $30 million to $400 million, Nayot said.

He would not disclose Martin Archery's revenue, but said the company was in trouble. Its founder died in July and Martin was on the verge of liquidation when Diversis bought it.

Since then, Diversis brought in a new chief executive, who has tried to improve deliveries to retailers – the company had a reputation for delays – and started a social media marketing campaign tied to the archery theme of the November blockbuster "The Hunger Games: Catching Fire."

Fundless

Luzzatto, Ma and Nayot might have a more reliable source of cash than the typical fundless sponsor, but they must still convince investors of the merits of every deal.

That's different from a typical private equity firm, which gets commitments from investors who will pay into whatever deals the firm selects. Individual investors don't get a say.

In the case of Diversis and other fundless sponsors, investors chip in on a case-by-case basis. And there's always a chance they'll take a pass, which means sellers should be wary, said **Duane Stullich**, managing director for Westwood's **FocalPoint Partners**, a boutique investment bank that has helped fundless sponsors find deals and investors.

"By definition, they don't have the money," Stullich said. "As a seller, it adds a layer of contingency to a deal that you don't face when you have a funded sponsor."

But there's been more interest in these deal-by-deal investments since the financial crisis, said Spangler at Sidley Austin, because investors want more control. They can't get that with typical private equity investment, so they're investing less in committed funds.

In 2007, U.S. private equity firms raised $241 billion; they raised less than half of that, $110 billion, through the third quarter of last year, according to research firm PitchBook.

"Investors who came through the financial crisis are more wary," Spangler said. "They learned the mistake of being too hands-off. With a fundless sponsor, you can veto a deal. You get to be involved in the decision-making around the deal."

Luzzatto acknowledged there are plenty of downsides to being a fundless firm, but pointed to some advantages. For instance, a traditional private equity fund has to return capital to investors in seven to 10 years, meaning firms have to acquire, fix and sell companies within that period. Fundless sponsors have no such schedule.

"If you really love a piece of real estate, why would you ever sell it?" Luzzatto said. "I feel the same way about businesses. If you find a great company, you have the flexibility to be able to hold on to it. When you have a fund, you have to sell."