

## *Chapter 1*

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# **THE DANGERS OF USING OTHER PEOPLE'S MONEY**

**“The roots of excellence are the freedom to dream  
the unthinkable and to finance the impossible.”**

*—Arthur C. Frantzreb*

“I can’t save you. This is a total disaster; you are bankrupt...Oh my god!”

The room went silent, the air was liquid lead. The dull sheen of the solid, dark oak “power” boardroom table reflected the mood. The venture capitalist had spoken.

Normally a calm, capable young executive who flaunted her MBA, this excited representative of a major Canadian bank was visibly upset. Her red-blond hair was askew with static electricity, while members of the Board of Directors of my little company were in shock.

Just ten months earlier, I was the golden boy. The venture capitalist division of my bank, along with a small independent venture capital group, had made a significant investment in me.

Together they had loaned my company, Liv Canada Limited, \$200,000 and arranged bank financing for another \$400,000 to allow me to purchase a lighting manufacturing company. Today's Board meeting was being held in the heart of Toronto's financial district, in the bank's plush offices on Bay Street. I was the direct cause of their distress—I had just presented consolidated financial statements for our fiscal year ending August 31, 1978, showing a loss of \$150,000. Big money for a little company in the 70s.

How could things change so quickly? A few months ago, I was their best friend. They loved me. Today they were white-faced and in panic mode; I was a loose canon. Their money was at risk and their true colours were showing.

The "venture capitalists" had quickly turned into "vulture capitalists" and they would do anything to get their money back. And I mean anything.

The young MBA was concerned about her career. Her record was about to get a negative mark. How would it look if the bank's first venture under her guidance resulted in a loss of their investment. Ass-covering was in full motion.

The other venture capitalist member of my Board of Directors, a short, myopic little guy with two faces and a serious hair-to-head ratio deficit, was a more experienced risk taker, but his vote was clearly dictated by his banker partner. He was mute and my simple explanation fell upon deaf ears. I pointed out that my company had not really lost money. "We had just made a few changes on paper," I tried to explain, but no one was listening. In my opinion, the company assets were the same as they were a month ago. I had voluntarily made an inventory adjustment on the year-end financial statements for the lighting factory I had acquired less than a year ago.

Following the acquisition of this established 30-year-old lighting manufacturing company, I discovered that a significant amount

of the inventory that I had purchased consisted of parts and pieces that could not be used to make the new line of lighting products I was designing and developing. At year end, when the auditors asked if any of our inventory was obsolete, I said, “Hell yes!” and I instructed them to write off \$200,000 worth of old stock.

We would use the parts someday, but not in the immediate future. New product lines required new parts. I had plans to clear the old inventory when time allowed by making low-end lighting fixtures for direct sales to builders. I didn’t consider the consequence of a quick writedown. In my mind it was the right thing to do. I was inexperienced and naïve. We still had the old inventory, nothing had really changed.

Wrong decision. Wrong! Wrong! Wrong! I was thinking like an entrepreneur and getting on with building a business. New designs, new products, who cared about the old inventory? The bankers cared! The venture capitalists cared! They both cared a great deal.

**“Bankers don’t think like entrepreneurs.”**

This was my first brush with venture capitalists and the day I learned—the hard way—that bankers don’t think like entrepreneurs. If you remove numbers from a financial statement, they become real dollars to a banker. To a banker, the written-off inventory has disappeared off the face of the earth; but to me, I still had it to utilize later. It was sitting in the warehouse. I never did understand accounting.

As you read the play-by-play of this dilemma and others throughout this book, you will clearly see that risking other people’s money is quite different from putting your own dollars on the line. Banks don’t take risk; so a bank playing venture capitalist is an oxymoron—and I was a bit of a moron to think otherwise.

By the time I returned to my office in North Toronto following this traumatic Board meeting, I was surprised, but not shocked, to learn that my friendly banker had called in my operating line. When I phoned the bank manager, he said that a formal letter demanding immediate payment of all monies owing to the bank—a total of \$600,000—had been sent to me by registered mail. I received it the following day. It seemed the venture capital loans had quickly moved to be part of the total credit on demand.

Oh yes, and they planned to appoint a receiver to manage my company funds and affairs while they retrieved their money. At risk was my little empire and nearly ten years of my blood, sweat and tears. My small corporate group was on the verge of being flushed down the drain so that the bank could retrieve its money quickly. Both the venture capitalists and the bank wanted their money back. Pronto!

All of my companies were linked. Bank loans overlapped with cross-guarantees, all of which were backed by my personal

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signature. It was one thing to attack the new lighting factory for the mistakes I had made, but they were attacking all of my companies. This was a serious situation.

I risked losing my profitable chain of 25 franchised lighting stores and my rapidly growing 15-store chain of gift stores, as well as the lighting factory. The plug was being pulled, I was swirling down the drain, well on my way to losing my first million dollars.