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FAT CAT INVESTING AT THE CLICK OF A MOUSE

How Andy Klein and the Internet Can Give Everyone a Seat on the Exchange

ANDREW D. KLEIN

1.

Andrew Klein was an undergraduate student at Brandeis University in 1980 when he and a few friends bumped into a touring English soccer coach named Les Thwates at a Burger King in Boston. Les was impressed with the enthusiasm for soccer displayed by Andy and his friends who were varsity soccer players, and Les invited Andy and two of his friends to come to London to train with West Ham United, one of Britain's most prolific soccer teams.

Realizing this was the opportunity of a lifetime, Andy and his friends borrowed some money, took a leave of absence from university and headed off to London. They wasted no time in reporting to Ed Bailey, the coach of West Ham United, who was rather surprised by their appearance as he had never heard of Les Thwates and as far as he knew, soccer was not played at a very high level in the United States.

However, feeling sorry for the American trio, Ed Bailey agreed to let them practice with the team for six months as long as they didn't want to be paid. Therefore, to pay their bills, Andy and his friends ended up in the only job they could land without work visas - tending bar at night. They ended up having a great six months posing as professional soccer players, and then spent a few months touring Europe trying to meet girls.

When he returned to university, Andy decided to enter law school and was successful in being accepted into Harvard Law School in 1983. This was fortuitous timing, because by the time he graduated, corporate America was in the middle of a huge burst of acquisitions, mergers and junk bond funded reorganizations. This meant that law firms and investment banks were feverishly adding staff, and Harvard Law School graduates were considered top of the heap.

Andy started to gain some experience in the way corporate law companies operated during summer internships during his years at law school. Upon graduating, however, he decided that rather than choosing which company to work for, he would spend one year as a law clerk for Judge Irving R. Kaufman, the chief judge of the United States Court of Appeals for the Second Circuit. (This was a highly influential commercial law court as the Second Circuit has jurisdiction over New York).

Within three days of starting work, however, Andy had decided Kaufman was a raving lunatic, and he and two other law clerks resigned in protest. They were finally persuaded to finish out their one year terms as law clerks, with Andy being responsible for the preparation of 3-page bench memos which summarized everything from complex securities litigation to criminal appeals. It was an excellent legal grounding as well as practical training in how to write and speak concisely.

2.

In late 1987, Andy started work as a lawyer at Cravath, Swaine & Moore, one of New York's leading corporate law firms. The company had a policy that new lawyers did not specialize, but were required to rotate from one practice to another to gain background experience - which in Andy's case meant that he spent the first year working with Bob Roseman, one of the nation's top securities lawyers.

This was an excellent grounding, because he had the opportunity to participate in due diligence examinations, to listen in on negotiations with federal regulators, to assist with developing merger and acquisition strategies and more. Over the next few years, he also learned how to draft complex commercial documents, compile federal filing packages and research peripheral legal issues.

Despite the fact he was now earning \$175,000 per year as a corporate lawyer, Andy felt uncomfortable about the way the industry operated with a total disregard to reasonable costs, which were ultimately passed on to the clients. The lawyers thought nothing of incurring huge unnecessary expenses, and even more alarmingly, the companies thought nothing of paying such outrageous bills. It was just an accepted part of the cost of doing business.

"The amounts of money spent in the process of executing an IPO, or effecting a merger, or fighting a hostile takeover struck me as staggering. And the cavalier attitude with which the money was spent made me uncomfortable. Time and again, I ran into high-priced lawyers and investment bankers who never thought twice about doling out huge chunks of other people's money as if it were their own. The team was working late and needed dinner? Call the four-star restaurant in the next block and have it delivered. One of the partners had left a file at his weekend estate in the Hamptons? Order a limousine to retrieve it. Time to make a presentation to the client? Hire a team of top-notch multimedia consultants. After all, in the end, it's the client's money.

The scale of the expense account confirmed my suspicion that, to lawyers and their clients, money equaled authority. The more money at stake, the more we spent; the more we spent, the more brilliant we could be confident we were.

One could argue, of course, that these expenditures were justified. Moreover, given the amounts of money involved in most of the deals we were effecting - hundreds of millions of dollars, even billions - the thousands spent on expenses seemed a trifle. Given what was at stake, our expense sheet was not disproportionate.

Despite the one-way conversation, however, a worm of doubt was beginning to crawl around in my gut."

– Andy Klein

This was even more apparent in working on Initial Public Offerings (IPOs), where huge teams of lawyers were assigned tedious legal work to ensure the process went smoothly. Andy observed that the investment banks, although appointed by the company going public, worked to ensure that their own networks of institutional investors and wealthy individual investors had an opportunity to buy IPO stock at a favorable price long before the average man on the street was ever able to get in on the deal.

"After all, if a company set out to float, say, \$100 million in new stock, its managers would soon be awash in new money, and the underwriters would make 7-percent on the deal. Among company management, lawyers and investment bankers - all of whom were living off the fat of the land to make the deal happen - nobody seemed at all inclined to blow the whistle on the process.

That's the way it all proceeded on my first IPO. At the closing dinner, when the lead investment banker stood up suddenly, raised his glass, and asked us to toast the fact the new issue had leapt 38 percent above the offering price in a single day of public trading, I saw the company president nearly drop his glass, heard the chief financial officer gulp, and watched the vice president's face fall.

And who could blame them? The investment bankers had assured company management that the low stock price offered to all those preferred investors was the best they could get, the highest the preferred customers would pay. Accept that price,

they had advised the company, or see the issue fail. As soon as the IPO reached the public, however, with buzz and hype by ordinary stock brokers paving the way, eager retail buyers had snapped it up, trading up the price.

It was their money - the investing public's money - that had been squandered on lawyers and bankers, on Lear jets and limos, on restaurants and road shows. As the new shareholders of the company, they were its real owners. Yet nobody had given them much thought at all - not at any point during the lavish IPO process, and not at the closing dinner in the elegant surroundings open only to a privileged few."

– Andy Klein

3.

In the middle of the increasing disillusionment Andy felt, he fell in love with a Dutch woman, Liesbeth who was working temporarily at the United Nations New York headquarters. When she returned to Amsterdam at the end of 1989, Andy decided he would ask to be transferred to Cravanth's London office in order to be closer to her.

Fortuitously, Andy's application to move to London coincided with Cravanth's U.K. client, BAT Industries, becoming the target of a hostile takeover bid and Andy was soon assigned to work out of the London office to assist in the corporate battle. For almost a year, the takeover battle raged white hot, until it dissipated with the collapse of the junk bond market and other external factors.

With the completion of his work in Europe, Andy faced the prospect of returning to the New York office, but he and Liesbeth decided instead to take a 6-month trip through India, Nepal and China. At the end of that time, they decided to head to Holland to be married.

While in Holland, Andy had his first great moment of inspiration. He was introduced to a local Belgian beer, called "witbier" or "vit-beer". It is a cloudy beer with a spicy kick which comes from a unique blend of Spanish orange peels and coriander. It is a very light beer which is ideally suited to quenching the thirst on hot days.

Andy was smitten with the beer, and tried it out on all his friends who came over for his wedding. They all seemed to like it, so Andy decided he would start a new company to introduce witbier to the United States. There were just a few minor details to work out first - including the fact he was still on a leave of absence from a job as a corporate attorney and that he didn't have a clue of how to go about building a company to sell witbier.

Andy and Liesbeth headed back to New York in late-1991 for Andy to resume his career with Cravath, Swaine & Moore. He also spent the next six months researching the beer industry in general and witbier in particular. He wrote to a number of companies seeking information, but the only reply he received was from Herm Hegger who was an experienced witbier brewer who had just sold his private brewing company.

Andy and Liesbeth flew across to Amsterdam and met with Herm Hegger, and immediately established a good rapport. They decided to join forces and to introduce witbier to the U.S. They formed a partnership and created the Douglas Beer Company. Their total assets were a recipe for witbier and know-how in how to brew it. What they lacked was an actual brewery or sufficient funds to be able to buy or build one.

