

Buyer Seeks to Pay Off Detective Agency's Debt

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VAN NUYS — Last year, Thomas Wathen bought a \$994,500 home in Bel-Air. A few months later, he spent about \$95 million to buy Pinkerton's, the legendary security guard and private-eye company, in a leveraged buyout.

Anyone seeking a clue into the nature of the Pinkerton's deal can start with Wathen's driveway.

Right now he doesn't have the cash to repair the driveway at his new home. "I'd like to fix it. But I have no liquidity at all. It doesn't bother me," Wathen said. His bank has Wathen on a strict schedule to repay the Pinkerton's debt. Does this mean the Pinkerton's deal was too much for him to handle?

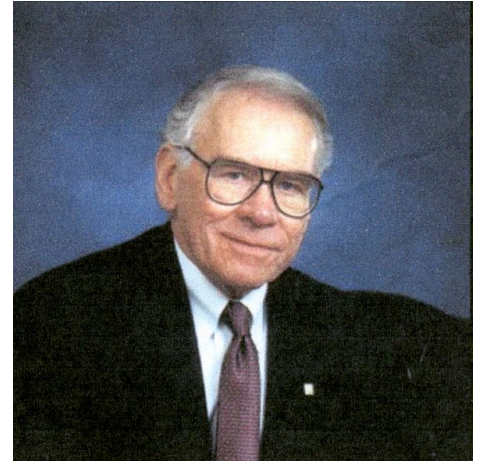
"Tom has his hands extremely full," said Richard Wackenhut, president of Wackenhut Corp., a publicly held security company based in Coral Gables, Fla. "He's a capable competitor, and he's been a success story. But it's a little too early to tell yet how he's going to do with the purchase of Pinkerton's"

'A Big Question Mark'

Wathen is "one of only a few people in the whole industry who have the ability to turn around Pinkerton's, which is clearly required," said Robert McCrie, editor of Security Letter, a trade newsletter based in New York. But because of Wathen's debts, "how well he's doing is still a big question mark," McCrie said.

The idea in a leveraged buyout is to pile up the debt by using as collateral the company's assets, gambling that the company's business is strong enough to pay off the debt and stay a step ahead of the bank.

Wathen spent nearly 25 years building his original business, CPP Security Service in Van Nuys, into one of the nation's biggest security guard firms. But almost no one outside the industry knew what CPP was. Pinkerton's, however, founded in 1850, was the most famous name in the business, and even if it was losing money, Wathen couldn't resist making an offer to buy it.



Tom Wathen, CEO of Pinkerton's, Inc.

In January, the deal went through and the combined CPP-Pinkerton's operations will have sales this year of about \$650 million and will rank as the industry's biggest security guard company, with Wathen remaining its sole owner.

But the leveraged buyout game is risky. Two weeks ago, Liquor Barn, the San Leandro-based liquor store chain, stumbled into bankruptcy protection only 14 months after it had been bought in an LBO.

That won't happen to Wathen, according to the man who arranged the financing for the Pink-

erton's deal. Lloyd Greif, an investment banker with Sutro & Co. in Los Angeles, says that of the 30 LBOs he's assembled in the last five years, Pinkerton's is one of the soundest. "In many deals, it's one company plus one company equals two. What made the Pinkerton's deal so attractive, is it was more like one plus one equals five," Greif said.

In buying Pinkerton's, Greif continued, Wathen got his hands on "the strongest name in the business," more than doubling the size of his business while managing to make his debt payments on time. Greif said that Wathen and his top four executives have a century's worth of experience in the security industry and figured they could merge Pinkerton's operations into CPP without much trouble and at the same time cut costs.

Legendary Work

There's no doubt that Wathen bought himself a company with a storied history. It was founded in 1850 by Allan Pinkerton, who soon made a name for himself by guarding President-elect Abraham Lincoln on his move to Washington. Pinkerton's motto is, "We Never Sleep," and the company's work soon became legendary. It was Pinkerton's men who chased

Butch Cassidy and the Sundance Kid in the late 19th Century. And a former Pinkerton's detective, Dashiell Hammett, helped create the private eye literary genre by writing such novels as "The Maltese Falcon."

Wathen says: "The word Pinkerton is almost generic. When someone says get me a Pinkerton, it means get me a guard. Like saying go Xerox something on a Sharp copier."

However famous the Pinkerton's name, under its previous owner, American Brands, Pinkerton's lost about \$500,000 a year on sales of \$400 million, Greif said. Part of the problem, McCrie said, was the company bid on too many unprofitable jobs to boost sales while its management wasn't the best.

Wathen, meanwhile, a former Air Force investigator, had earned a reputation as a savvy manager by building CPP from almost nothing to \$250 million in sales in less than 25 years. From the moment he bought Pinkerton's, Wathen has been swinging his hatchet, and he's chopped out at least \$12 million in yearly costs. "That's more money than we've ever made" in a year, he said.

Modest Headquarters

Wathen isn't one for extravagance. He makes do with a modest headquarters building in Van Nuys near the airport. After taking over Pinkerton's, he shut down its corporate headquarters in Manhattan, a few blocks from the World Trade Center, and trimmed 157 jobs, which will save about \$7 million a year.

Pinkerton's had offices in many of the same cities as did CPP, so Wathen shut down about 125 duplicate offices, while laying off about 400 people in all. He hasn't chopped out all the fat, though. He's stuck with a 10-year lease on a spacious Pinkerton's office in Aurora, Ill., that is equipped with an indoor firing range. "It's still one of the things I cry about," Wathen said.

There's no doubt that Wathen watches his pennies, but he has to. The average security guard company earns a mere 1 to 2 cents profit per dollar of sales.

Part of the reason is the soaring insurance costs and the predictable inventory of lawsuits. Wathen's company has been involved in more than 80 lawsuits in Los Angeles County over the last dozen years. Halston Fragrances, for one, sued CPP for \$2 million in damages, alleging that because of CPP's sloppy security work, more than

\$800,000 in perfumes and cosmetics were stolen from its New Jersey warehouse. The case has not been resolved.

Huge Debt

Still, Greif said Wathen's company will post a higher profit margin this year than will Wackenhut. But even allowing for a 2% profit, CPP-Pinkerton's is only going to earn about \$13 million a year. It's not unreasonable to assume that the interest payments on a \$95-million loan, for example, are at least \$10 million a year. Then there is the matter of repaying the principal.

Revolving Credit Line

Greif points out that only 55% of Wathen's debt is due to be repaid within 7 years. The remainder amounts to a revolving credit line that has no fixed repayment date. Both Wathen and Greif say it's possible that Wathen's company, soon to be renamed Pinkerton's, will try to sell stock to the public in the next two or three years, which would help trim the debt.

To keep growing, Wathen will start an advertising campaign soon. But he must also remake Pinkerton's image as a sloppily run company. McCrie says that

has yet to happen because he still gets calls from some big Pinkerton customers who grumble at the service they receive.

One promising area Wathen hopes to investigate is Pinkerton's original field--private-eye work. Pinkerton's was doing about \$12 million a year in investigation work when Wathen took over, and he thinks there's room to grow. Unlike the security guard business with its slender profits, the hourly tab for detective work can run \$30 to \$50 and produce a pretax profit of 20%, contrasted with about 3% in security guard work, Greif said.

In the private-eye business, Wathen said, "The one drawback is the better you do the job, the sooner you're out of work."

Maybe so. But if Pinkerton's solves enough cases it might help Wathen solve one more mystery: how to find the money to get his driveway fixed.