

**BarterNews:** In your business career with General Electric you recommended that your position be eliminated twice – that’s highly unusual. Why? What was your impetus?

**Billingsley:** I’ve always looked at things a bit differently, I guess. Others have told me to look “outside the box.” But really, my world doesn’t have a box. To me what’s most important is understanding. If I realize something I’m pursuing is the wrong thing to do, I adhere to Peter Drucker’s management tenet – one has to be responsible.

**BarterNews:** At a relatively young age you have experienced many different business situations. Why are you pursuing such a serious course with the athletic clubs, versus some of the other businesses you’ve been involved in?

**Billingsley:** Early on, with little resources, I followed the best opportunities available to me in my surroundings. I actually tried to sell the athletic club years ago. But just before I did, the pipes froze and flooded the place with three feet of water.

The sheet rock became sheet mud and all the equipment rusted. It happened just before New Year’s Eve. So when everybody else was concerned with their New Year’s resolutions, I had an unexpected resolving process of my own to contend with!

The people wanting to buy the place lowered their offer to 30-cents on the dollar. That was ridiculous, because I knew the value was there. And, I figured if I couldn’t sell it, I’d build it up. So that’s what I did.

We picked up two other clubs and by 1994 we were rated the sixth fastest growing, privately-held company in the Silicon Valley.

We also made *Inc.* magazine’s 1995 and 1996 list of the 500 fastest-growing companies in the nation. That’s when I thought, “Gee, we can probably do something with this.”

From the very beginning I always believed the way to go was through acquisitions – build a company to a sufficient size, and then come out with a public offering.

**BarterNews:** How large a company, in annual sales, is needed before going public?

**Billingsley:** Well, normally, you have to get to around \$20 million in sales. I’m stepping in earlier because we were doing so well in setting up acquisitions.

Additionally, I felt there was a unique window of opportunity in the fitness world. It was ripe for consolidation, just like what happened years ago with the Blockbuster video consolidation.

Back ten years ago, if someone had asked if you’d like to open a video store, it would have been a good idea. The first ones in town made a lot of money.

Then pretty soon there were a lot of individually-owned “mom & pop” stores appearing, and a maturing or saturation occurred. Next, along came Blockbuster and their consolidation effort.

I remember in my neck-of-the-woods Blockbuster bought Sunnyvale Video, which was the biggest and nicest video store in town.

Blockbuster didn’t change a thing for almost a year, then all of the sudden it became a full-fledged blue and yellow Blockbuster Video instead of retaining the Sunnyvale Video format.

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## MAIN STREET ATHLETIC CLUBS, INC.

At the time Blockbuster was in the process of doing as many acquisitions as quickly as they could, to get as large a market share as possible. Once they completed the consolidations they went back and standardized things – took advantage of the economics of scale and developed synergy.

**BarterNews:** So, you see today's athletic clubs similar to what video stores were years ago?

**Billingsley:** Yes.

**BarterNews:** Is there a formula for doing these consolidations?

**Billingsley:** Basically, yes. And it doesn't matter whether you're talking about dry cleaners, pet supply stores, nursing home services, shoe repair shops, video stores, athletic clubs, or whatever.

Because private buyers want to get their money back in, at most, five to seven years, stand-alone businesses will sell for about five to seven times what the current owner earns (annual profit).

Stock, on the other hand sells at a higher ration – more like 20 times earnings for an average company, and from 25 to 40 times for expanding companies.

**BarterNews:** So as a consolidator you're really doing an arbitrage.

**Billingsley:** Exactly. We buy in one market and simultaneously sell in another market.

**BarterNews:** Your offer of stock to the owner is really a barter deal, right?

**Billingsley:** That's right. My message is, "I'll give you part of my company (stock) for your company." The difference is that my company's stock is based on a high-priced retail market.

Whereas the company we're attempting to buy can be purchased, to put it in the same context, as a much lower wholesale price.

**BarterNews:** And a small business owner will sell out to you under such an arrangement, because the higher price isn't available to him in the marketplace?

**Billingsley:** Exactly. If you're selling a private business that makes \$100,000 a year – after taxes, after depreciation, after everything is deducted – you won't get twenty times, or \$2 million, for the business. You'll get around \$500,000, or what businesses in that industry will typically sell for.

But on the other hand, stocks trade at 20 times earnings, every day. The difference occurs because only a very few companies (about 8,000 of the 21 million businesses nationwide)\* are publicly-traded companies.

There're now some 75 million individuals who own, directly or indirectly, stock of companies in the very limited 8,000 sector. And the money flowing into this market, the high-demand, drives up the price of this stock.

So, there're fewer people buying private businesses, and at the same time there're a lot more people buying stock (a part of a publicly-traded business).

And it's this difference that causes stocks to be priced at a higher multiple. Additionally, ownership in stocks is easy to facilitate, and much more liquid than the buying and selling of a business.

\* Of the 21 million businesses in the country, 15 million of them have less than three employees.

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**BarterNews:** And much less of a financial commitment. I can buy \$500 worth of stock for my kid's college education, but to buy a business takes a lot more money – not to mention time, knowledge and ability.

**Billingsley:** You bet. And there're not many people who can just put up \$100,000, plus take on a \$400,000 loan to buy an entire business.

*Main Street Athletic Clubs will be only the third publicly-traded company out of over 7,000 athletic club businesses nationwide.*

**BarterNews:** Tell us about your trading efforts. How do you use barter in your operations and acquisitions?

**Billingsley:** Actually a good portion of the securities business is very barter-like.

Anytime a company does an initial public offering (IPO) or a secondary underwriting the market makers, the broker dealers, or the intermediaries will often take stock (along with some cash) to do the deal and/or options (opportunities to buy stock at a reduced price at some time in the future) as payment for their services.

A typical effort of a high-priced arrangement with these intermediaries might be 10% cash, 2% non-accountable expenses (which is cash), and then 10% in warrants to purchase the stock at 120% of the current price sometime in the next five years. And that portion, the warrants, could be the most valuable piece of the consideration in a high-flying stock.

In our acquisitions of athletic clubs the purchase is typically structured with 10% cash, 50% stock, and 40% debt.

By working in this manner, there's an advantage to the seller tax-wise, and our consolidations often give an aging entrepreneur the best opportunity to move a business. One they have run for a lifetime, but their children can't or won't take over.

We bartered our stock for the printing of our offering circular (prospectus) and other promotional materials. The total package was over \$75,000.

We called every vendor we had, too. Telling them, "We're doing a public offering and incurring about \$300,000 in extra costs. We would like to provide you with an opportunity to acquire some of our stock at our before offering price, as a payment for your services." The response to that offer was quite good.

When we acquire an athletic club we immediately go through the payables and see how much is owed. Then we work on trading out (stock) for some of these payables. It's another way to capitalize the company.

*“From the very beginning I always believed the way to go was through acquisitions – build a company to a sufficient size and then come out with a public offering.”*

**BarterNews:** How about a new vendor that approaches you, do you offer them the opportunity of getting your business on a trade basis?

**Billingsley:** Absolutely, that’s routine now whether it’s a designer, printer, janitorial services, or whatever. We’ll pay them in stock when it makes sense to do so. Although we realize we’re paying a little bit more in this manner, because we’re giving away a part of the business that will someday be very valuable, we feel we have a lot of business to give away, and just a little bit of cash, relatively speaking.

**BarterNews:** And cash is a real catalyst for you.

**Billingsley:** With cash, if one is disciplined, it can be multiplied about five to one. Acquiring five times as many athletic clubs is very important to us. We have to move fast in the acquisition phase, because our best window of opportunity is only about six months.

**BarterNews:** Have you ever traded stock for stock, taking ownership of another company’s stock?

**Billingsley:** Yes, we did that with Merritt Diversified. They helped us secure some market makers and did some research work as well. We paid them in stock for their services, and then we traded stock for stock.

It worked out well for both of us because they needed a little extra capitalization and our publicly traded stock provided it.

They got what they wanted and we did too. Holding their stock gives us a little diversity. So we both profited.

**BarterNews:** Do you see yourself doing more of that?

**Billingsley:** Oh sure. I’m looking at a joint venture with a fellow where we’ll purchase various manufacturers of furniture, cabinet making, prefabricated homes, and lumber yards.

Despite my friend’s expertise, he needed some help and a way to acquire these companies.

**We can use our company’s stock, as “barter cash” if you will, to purchase these new businesses and bring them into the partnership.** It’s a marriage of his expertise and our “barter cash” that will accomplish these acquisitions.

**BarterNews:** What’s the advantage of Mentor Capital, your investment firm, being the underwriter rather than an outside securities firm?

**Billingsley:** An outside securities firm would be better, but when you’re just starting it’s hard to get somebody to do this.

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So instead of waiting until we're doing \$20 million in sales, which would take several years to accomplish normally, we decided to do it ourselves right now. Getting money in so we could make further acquisitions.

**BarterNews:** Which will enable you to get there faster?

**Billingsley:** Right. We can move to that \$20 million figure in sales within six months, after going public.

*“In our acquisitions of athletic clubs the purchase is typically structured with 10% cash, 50% stock, and 40% debt.”*

**BarterNews:** What else are you doing?

**Billingsley:** We're talking to institutional investors, on a smaller scale. It's a process that will evolve as we do. Today, for example, I talked with Van Casper & Co. And we're sending out 200 faxes to broker dealers.

Now it's a “chicken and egg” thing. If you're not there, you can't get the help. And if you're not there, you don't need the help.

We're sort of in between – we're there but we're doing it ourselves. We don't need the help but we do, because we can expand more quickly with help.

**BarterNews:** When you bought out your partner Joe Gigantino, was the “low seven figure” payment a stock deal?

**Billingsley:** No. That was a cash and note transaction. I did so because he didn't believe we could get listed to do the stock transaction. As a partner, something had to happen. So I bought him out.

Then when we were approved, he asked to come back in. So he's back with us. He's a great asset to the company.

*“If I had a model that I respect and could emulate it would have to be Warren Buffet of Berkshire Hathaway.”*

**BarterNews:** Tell us a little about your goals and aspirations, where are you headed?

**Billingsley:** If I were to name a model that I respect and would hope to emulate in a small way, it would be the character and approach of Warren Buffet of Berkshire Hathaway.

I feel I'm best suited to work in a fashion that is similar to the mode that he perfected. But let's face it, he's now in a completely different ballpark.

But the idea of understanding the difference in the capital markets, and being able to bring financing to firms that need it, is something that is attractive to me.

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## MAIN STREET ATHLETIC CLUBS, INC.

I feel that I can efficiently allocate assets, because I generally see quite clearly what's going to happen in different situations. In complex matters I usually see the center path well. And then act on the one or two strategic points – those items that make it important.

So that's what I'd like to do – bring good financing together with good companies, deserving owners, to help them grow and meet their dreams.

If I bring money to a few good companies, I'm taking it away from the companies that just perpetuate old ways of doing things. And I'm not speaking just about the industry I'm a part of now, but on more of a broad spectrum – it could be in any field – beyond what we're doing today.

*“I feel we can easily achieve \$100 million to \$250 million in size.”*

**BarterNews:** How far can you go in the athletic club field?

**Billingsley:** I feel we can easily achieve \$100 million to \$250 million in size, after all this is a \$7 billion industry.

I've got \$189 million worth of acquisitions lined up, or in the discussion stage, where I've personally talked directly to the owners or designated brokers about buying them. And I'm getting favorable responses.

Should half of these companies join us, along with the \$20 million in business that I firmly have in hand, we'd soon be at the \$100 million point.

So there's plenty of opportunity there to bring good financing together with good companies, to reward the people who have done well (built their individual athletic clubs in a profitable way).

**BarterNews:** Who are the leaders in the industry today?

**Billingsley:** The largest is Bally Manufacturing of Chicago. They manufacture gaming equipment, and own casinos in addition to fitness centers.

They're now losing \$2.36 a share (the last time I looked), and their shares are trading at about \$7 a share. Annual sales are about \$400 million.

It seems they harvested all the money out of this cash-flow business for a number of years putting it into their casino operations, and did very well.

It was a very smart business move for them, because they seem to make more in casinos than they can by running health clubs.

The other publicly-traded company in the industry is the Sports Club Company of Santa Monica. They went public about three years ago – had a great offering, took in \$42 million and paid off their debt, paid of a partner, and pocked the rest.

But now Sports Club is sitting still. They haven't used the money to move forward and make acquisitions.

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Bally's is sort of sitting there too, because their stock isn't doing well with negative earnings and losing money. So there's not a lot of competition for us. The top-ten athletic club chains combined have about 10% of the market.

**BarterNews:** So this is a pretty wide-open field?

**Billingsley:** Right now it is, there's no one else doing this acquisition thing. But we have to move quickly. And realistically, we're in a position to do so.

As we move forward – with little or no debt – to the next stage, I expect others will come along and say, “Look, you've grown 1,000%, how about if we give you some more money?”

**BarterNews:** How come the “money” isn't pursuing the other two public companies?

**Billingsley:** Yes. As a matter of fact, I recently received that flattering suggestion that we merge with or acquire Sports Club since they're not doing acquisitions. If we did the acquisitions for them (should we merge) it would make them a winner.

*“I'm always ready to talk about a good transaction or a good investment with anybody at any time.”*

**BarterNews:** So you have several options?

**Billingsley:** Anything is possible. But we can also expand on our own, because Bally's is selling some of their locations.

I'm always ready to talk about a good transaction or a good investment with anybody at anytime. If someone is a sophisticated player with capital and wants to jump on board, we have the opportunities. And we're always happy to find some way to make it work.

**BarterNews:** Do you have one last thought you'd like to share with our readers?

**Billingsley:** Over the years, I've learned that you can't do a “good deal” with a “bad guy”.

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