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ENTREPRENEURS OF THE WEST

Eugene S. Rosenfeld

Interviewed by Stephen Elkind

Completed under the auspices
of the
Oral History Program
University of California
Los Angeles

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BIOGRAPHICAL SUMMARY

PERSONAL HISTORY:

Born: January 26, 1934.

Education: B.S., UCLA, 1956.

Spouse: Maxine Miller Rosenfeld, married 1957; two children.

CAREER HISTORY:

Accountant, Deloitte, Haskins and Sells, 1956-63.

Division controller, Kaufman and Broad Home Corporation,
1963-64.

Chief executive officer, Kaufman and Broad Home Corporation,
1969-76.

Chief executive officer, Anden Corporation, 1976-91.

Managing partner, Highridge Partners, 1976-present.

AFFILIATIONS:

The Anderson School at UCLA, board of overseers; head director,
planning committee; contributor, Rosenfeld Library.

UCLA Foundation, chair and trustee.

UCLA Chancellor's Associates.

Los Angeles Museum of Contemporary Art, founder.

INTERVIEW HISTORY

INTERVIEWER:

Stephen Elkind. B.A., Economics, UCLA; M.B.A., John E. Anderson Graduate School of Management at UCLA.

TIME AND SETTING OF INTERVIEW:

Place: Rosenfeld's office, El Segundo, California.

Dates, length of sessions: April 23, 1999 (45 minutes); June 1, 1999 (44 minutes).

Total number of recorded hours: 1.5

Persons present during interview: Rosenfeld and Elkind.

CONDUCT OF INTERVIEW:

This interview is one in a series of oral histories with entrepreneurs undertaken to create a permanent record of the initiative taken and the risks involved in helping to build the economy of California and the West. Dr. Alfred E. Osborne Jr., director of the Harold Price Center for Entrepreneurial Studies at UCLA's John E. Anderson Graduate School of Management, selected the interviewer, who was at that time a graduate student of the M.B.A. program, and made the initial interview overture to the interviewee.

In preparing for the interview, Elkind reviewed materials provided by Rosenfeld including a resume and information available at the Eugene and Maxine Rosenfeld Library at UCLA. Series interviewers' topics and questions were drawn from a uniform outline developed by the Price Center and Dr. Osborne.

The interview is organized chronologically, beginning with Rosenfeld's early employment history and continuing on through the founding of Anden Corporation and Highridge Partners. Major topics discussed include the difference between an entrepreneur and a manager and Rosenfeld's strategies for expanding his business ventures.

EDITING:

David Wood, editor, edited the interview. He checked the

verbatim transcript of the interview against the original tape recordings, edited for punctuation, paragraphing, and spelling, and verified proper names. Words and phrases inserted by the editor have been bracketed.

Rosenfeld reviewed the transcript. He verified proper names and made minor corrections and additions.

Jane Collings, senior editor, prepared the table of contents. Wood assembled the biographical summary and interview history. Daniel Ryan, editorial assistant, compiled the index.

SUPPORTING DOCUMENTS:

The original tape recordings of the interview are in the university archives and are available under the regulations governing the use of permanent noncurrent records of the university. Records relating to the interview are located in the office of the UCLA Oral History Program.

TAPE NUMBER: I, SIDE ONE

APRIL 23, 1999

ELKIND: So you were born January 26, 1934, in Chicago?

ROSENFELD: That's correct.

ELKIND: You have two sons, Dennis [Rosenfeld] and Michael [Rosenfeld], right?

ROSENFELD: Yes.

ELKIND: Dennis born 1960 and Michael born 1962?

ROSENFELD: That's correct.

ELKIND: What's your wife's name?

ROSENFELD: Maxine [Miller Rosenfeld].

ELKIND: Small family. One sister. What was her name?

ROSENFELD: Diane [Rosenfeld].

ELKIND: So you weren't too close to your extended family.

Your closest relatives were your parents, but neither one nor the other was more than the other? It was basically pretty even between mother and father?

ROSENFELD: Well, yeah, over the long run. My mother died ten years or so before my father did. So obviously I became closer to my father at the end.

ELKIND: What year did your mother pass away?

ROSENFELD: Father passed away in 1991, so she passed away in '81 or '82.

ELKIND: What was your mother's name?

ROSENFELD: Mary [Rosenfeld].

ELKIND: And father?

ROSENFELD: Irving [Rosenfeld].

ELKIND: You said that there weren't any other entrepreneurs in your family prior to yourself.

ROSENFELD: That's correct.

ELKIND: You went to Roosevelt High School--public school--then you went to UCLA, got a B.A. in business administration, from '52 to '56.

ROSENFELD: Correct.

ELKIND: You said you had struggled there as a freshman. Social life wasn't all that good, but you were a good student. But you weren't that good of a student in high school.

ROSENFELD: That's correct.

ELKIND: You went into the army in '57, drafted. You spent two years in the army, where you gave no credit to teaching you anything. You studied for the CPA [certified public accounting] exam while you were in the army. I remember you said you had met your wife before you went into the army, and then you married her while in the army. You consider your first success being when you were about thirty years [old] with Kaufman and Broad, when you made division manager.

ROSENFELD: That's correct.

ELKIND: You had been basically an accountant up until that

point. Your first entrepreneurial endeavor was at age forty-two. You left Kaufman and Broad [Home Corporation] to start your own company called Anden [Corporation]. Brief employment history-- Your first job was when you were about nine years old. What was that?

ROSENFELD: Selling papers on a street corner. They don't do that anymore.

ELKIND: I had a paper route as well. I had two paper routes, growing up. I don't know whether kids do that today.

ROSENFELD: I think so. Well, somebody does.

ELKIND: But it shows the paper's selling. So you worked with about seven companies, about seven full-time jobs up until then. First was Deloitte, Haskins, and Sells; that was right out of college.

ROSENFELD: It was actually at that time called Haskins.

ELKIND: Just Haskins and Sells.

ROSENFELD: Yeah. They changed.

ELKIND: Then Deloitte. It combined with Deloitte. So it was actually Haskins and Sells.

ROSENFELD: Right.

ELKIND: Then you went to the army [and] then you went back to Haskins and Sells. Then you left there and went to Kaufman and Broad. Where does Highridge Partners come into play there?

ROSENFELD: Let me see. Well, I had Highridge come into to

play while I was running Anden. It was myself and John Long.

I started the company. So I had duplicate companies going.

ELKIND: You had Highridge and Anden. It was Highridge, Anden, and, of course, we had the shoe store while you were in college.

Do you remember the name of the shoe store?

ROSENFELD: Berland's.

ELKIND: Berland's. And that was here in Los Angeles?

ROSENFELD: Yeah.

ELKIND: Okay. Mentors-- You credit your mother and your father and then Eli Broad as being your mentors. Obviously, Eli was your boss over at Kaufman and Broad.

ROSENFELD: Correct.

ELKIND: The point when you realized that entrepreneurship was what you wanted was basically less than a year before you actually started Anden.

ROSENFELD: That would be correct.

ELKIND: And you had said that you probably would have started something sooner but you had been traveling so you didn't have time and you had a young family?

ROSENFELD: Yeah, I think that's part of it. I don't think that's the whole thing. I think I was very busy with the company, and really it's hard to divide your loyalties, you know. And the last year that I was with the company I really started to realize that I didn't want to make this my life.

ELKIND: And then when you had realized that you wanted to do something different, you had basically left within about six months?

ROSENFELD: Yeah, approximately.

ELKIND: Six months to a year? Things that pushed you to become successful: Number one you had said was your mother. Said she wanted the best for you. When you wanted to go work for Sears?

ROSENFELD: Yeah, exactly.

ELKIND: Okay. And you had been told that by, I guess, a guidance counselor or someone--

ROSENFELD: Exactly. Yes.

ELKIND: --that you should go work for Sears. She said she wouldn't let you. She encouraged you to go ahead and stake your claim.

ROSENFELD: Well, she encouraged me to get an education.

ELKIND: Education? Okay. And then friends and teachers did not encourage you to be very successful.

ROSENFELD: No, not at all.

ELKIND: Okay. Other things that drove you. Your boss, Eli Broad-- And you said you have a love for challenges and a need and desire to win.

ROSENFELD: That's correct.

ELKIND: Okay. [laughs]

ROSENFELD: I say that emphatically!

ELKIND: Internally, as far as skills, you say you have a good ability to communicate well, ability to negotiate well, ability to raise money. You consider yourself with a high IQ, good management skills, but those were acquired, not necessarily born with it.

ROSENFELD: Oh, that's correct.

ELKIND: And your accounting skills.

ROSENFELD: Yes. I would say more financial skill. I'm hardly an accountant anymore. I mean, I couldn't pass the CPA exam even if I studied. [laughs] Because they've changed all the rules since I was doing it.

ELKIND: It's constantly changing.

ROSENFELD: Yeah.

ELKIND: Okay, a couple more things. As far as your attitude toward work, you prefer working alone. You prefer to manage hands-off?

ROSENFELD: I think those are oversimplifications. It's hard to answer that "yes" or "no," you know?

ELKIND: Okay. Maybe you can just expand on that a little bit.

ROSENFELD: I think that at the beginning of any business or pursuit you really have to manage hands-on, very, very much so, very carefully. And then as you get confidence in

people, then you can start to let loose, but it would be very, very difficult to start an operation or a company, or even within a company, and just leave it and go, so to speak, because you like the person you put there. So I think it's a step-by-step thing. You have to get confidence in the person who you've brought up to run it. And then you can start to manage-- The word "hands-off" is-- I never have liked that, because there's different levels of management. Just as an example, in our home building company, I have a young man who happens to be a UCLA business school graduate and he does the day-to-day things. You know, meets with the division managers, those kinds [of things], which takes a lot of time--looks at property before I do. On the other hand, I just wouldn't retire and let him run it yet; I will eventually. I get weekly reports of where our sales are, what our quarter looks like, what our cash flow looks like, what ground we're buying, what product we're going into. But I don't have to sit there with the architect, which I would do when I started the company. So it's that kind of a thing. So he has a pretty good rein, but he has to be responsible for results and reporting them, so we spend a day and a half a week together.

ELKIND: Okay. So it sounds like what you are saying is [that] as far as managing hands-off, yes, it's like that; however, it takes quite a significant amount of time before the people

whom you are managing-- You'll build up the trust and the skills and you feel--

ROSENFELD: Oh, sure. And it's a different level. We have a multidivision company in the home building and then the others are a little different. So you would have to go-- When I first started the company I had all the division managers reporting to me. So now they report to him, so I elevated myself one level, so to speak. So therefore he can, you know, synthesize and bring these to me and say, "Here's where we're at" and I will go out and visit divisions, you know, on a kind of semi-regular basis, but not-- He sees them all in a two-week span. I don't know how else to draw it, but I want to know, not because I don't trust him. It's really a matter of getting another opinion into the mix. Mine is certainly much more of-- He's thirty-two years old. Mine is-- You know, I'm older. [laughs] Getting my opinion-- I've got a lot more experience in it and I want to make sure he doesn't miss the obvious. He has a lot more energy than I have and can do a lot of what I call important day-to-day work.

ELKIND: As far as when you had started your entrepreneurial career, when you had started Anden, it was at that point you said you had welcomed risk.

ROSENFELD: Yeah.

ELKIND: But now you're much more cautious?

ROSENFELD: Sure, I had nothing to lose, I had very little to lose at that point. [laughs]

ELKIND: Do you think that's an inherent characteristic of an entrepreneur, to have to--?

ROSENFELD: I think that you can't be afraid of risk. I think that you have to understand risk. On the other hand, you know, again, none of these things are absolutes. Because you say, "Well, would you take the money that somebody gave you and bet on one horse?" Just to make the extreme and say "No," that's certainly risky and the rewards are certainly high if you're right.

ELKIND: Right.

ROSENFELD: That, I would say, you never should do. But as to beginning a company-- At different stages of a company--

ELKIND: What about back then? Would you have done something much more like that back then?

ROSENFELD: Well, I would have been-- No, I wouldn't.

[laughs]

ELKIND: You would have bet on two horses?

ROSENFELD: No, I would have said, "You know, I want to understand what the horses look like and how they run and so on and then I might have bet on five horses." But betting on horses is inherently risky, so today I wouldn't bet on

horses. [laughs] So that's all I'm saying, because, yeah, at the beginning there has to be risk. You're the smallest guy in the game. You're always at a critical financing position.

Very few people start a company with sufficient capital. You may think you have sufficient capital, but you don't. And you have not tested the market. You haven't tested any of your ideas, so there you are. That's the risk and if you're wrong at any one of the issues you're done. You run out of money; you fail. If you pick the wrong product or the wrong land or the wrong building you fail. Then you go to a different stage where you might examine things. Today, we have thirty-five pieces of property, so if one or two of them fail I can live with it.

ELKIND: Yeah, you're much more diversified.

ROSENFELD: Yeah, I could live with it. But now we have financing and we have experienced people. We have accounting controls, so the elements are-- The word "risk" is sometimes used a little different-- To me, the risk is that if you start a company there's a big risk you'll fail because of all the things you need to do to be successful, to succeed. As you get into a larger company there's still risk; every business has risk. General Motors [Corporation] has risk because they have fallen behind on their cars, as an example. And they have a big infrastructure of people and their cars are no

longer, for the most part, acceptable to today's buyers. So their margins are under great pressure. You know, those kinds of things. So their risk was not changing and developing management, so at every level-- But in terms of what I call win-or-lose risk, certainly, at the beginning, you have more of that.

ELKIND: Sure. Very good. Very good description. Let's see, "stress." Previous activities-- This has come up every time I've come in here. You exercise every day. ROSENFELD: That's until I hurt my back. [laughs]

ELKIND: Until you hurt your back today? Whoops. [laughs] Enjoy reading, community service. You're involved with the Anderson School at UCLA quite a bit. And you like to go to New York. You like travel.

ROSENFELD: Yeah, I don't mind travel. Yeah. I just got back from Beijing, actually.

ELKIND: Oh, really? How do you like China?

ROSENFELD: Again, it's one of those questions-- It's a very different country and a very different culture.

ELKIND: I was just there in December.

ROSENFELD: I was there twenty-one years ago.

ELKIND: Oh, really?

ROSENFELD: And what a dramatic change from then to now.

ELKIND: Were you in Hong Kong then?

ROSENFELD: No, I was in Beijing and then Shanghai and then Nanjing, and today, you know, except for the people, they're, like, not the same country.

ELKIND: It was something like totally shock-- You haven't been there in twenty-one years?

ROSENFELD: Yeah, that's correct.

ELKIND: Just a vacation trip or was this--?

ROSENFELD: Well, I have a partner in Taiwan, so I went to see him and spent three or four days with him, and while I was that far east, I said, "Well, I haven't been to China a lot, so I wanted to go and to see what it looked like and [how it had] changed. So it has changed. I mean, "dramatic" wouldn't be the word.

ELKIND: I can't even fathom. I just know what it was like--

ROSENFELD: I mean, when I first went there, all I recall is that the first morning I was in Beijing I got up early to jog and I went out into what is now Tiananmen Square and there were no cars that morning. You know, one car, two cars.

And there were a sea of people going to work on bikes, with all of them wearing-- What is the Mao outfit of the time?

ELKIND: Is it that black--?

ROSENFELD: Black or green-- There were different colors, yeah. And it was just like-- It just blew my mind, because it was a major road. I looked and there was this ton of people

on bikes going, I gather, to work. The person who was Chinese had no chance of a car. We could get a cab or something like that but not many-- And today there's a monumental traffic jam. There were no high-rise buildings. You know, it was, like, "Wow!"

ELKIND: Completely different city?

ROSENFELD: It was totally different, yeah. You know, the people don't change that much. There are still a lot of bikes on the street.

ELKIND: I was just in Guilin and then I went down a little bit further south to--

ROSENFELD: Well, Guilin you might have not seen as much change as you would in Beijing because I was [in] Guilin-- It's a beautiful city. I didn't go this time but, you know, it's more rural than--

ELKIND: It's very rural.

ROSENFELD: --Shanghai.

ELKIND: Even Guilin I thought was, you know, kind of a dirty city. I ended going further south to a little town, Zhangzhou, which was very, very rural. Very.

ROSENFELD: Yeah, well, it takes a long time for all that to catch up.

ELKIND: Yeah, I love that. Let's see-- Just other notes-- You were asthmatic as a child. You knew your wife for six

weeks before you got married.

ROSENFELD: Right.

ELKIND: Met her before going into the army. Let's see, you went to high school in a minority area where very few people went to college. However, you did graduate with Lou Adler.

ROSENFELD: Yeah.

ELKIND: That's right? Sam Cooke?

ROSENFELD: He was the manager of Sam Cooke.

ELKIND: Lou Adler was, oh, the manager of Sam Cooke. I'm sorry. And Donald Sterling, of course, the real estate guy.

ROSENFELD: [Los Angeles] Clippers owner and the worst team in basketball ever.

ELKIND: They actually just clinched the NBA [National Basketball Association] worst record this year. They were tied with seven [wins] and they just lost to--

ELKIND: And they just lost to the other team that had seven wins so now they've--

ROSENFELD: --they're on their way, once again, for the first draft choice.

ELKIND: Okay. Let's see, you'd said that even though you had worked full-time through college to pay for school--your father was a janitor, your mother was a seamstress--you would have worked even if you didn't need the money?

ROSENFELD: I wouldn't have worked full-time, but I certainly--

ELKIND: Yeah, that's what I have. You would have worked, but you wouldn't have worked full-time?

ROSENFELD: No.

ELKIND: Okay. I have a few quotes from you from our few conversations. One is, which you said again today, "Never fear failure--"

ROSENFELD: That's right.

ELKIND: "--your own mind is the only [thing] that counts."

"Don't be afraid of change or to push change. People shouldn't overplan. They should not be afraid just to leave one place and go where your heart takes you. There is a possibility to overanalyze oneself. Sometimes it's better to keep it simple and set realistic, simple goals."

ROSENFELD: I completely agree with every one of those statements.

ELKIND: Well, you said them. [laughs]

ROSENFELD: Okay.

ELKIND: I'll try to keep this quick. So this is another batch of some topics and some questions to go through. We'll get through as much as we can.

ROSENFELD: Sure.

ELKIND: Let's focus on your first entrepreneurial endeavor, which was Anden. What was the size of the market you saw when you first said, "All right"--? Now, you were working

with Kaufman and Broad. Obviously, you were very into the real estate development market. When you decided, "Okay, I'm going to branch out on my own; I'm going to do Anden," what was the size of the market that you saw the potential for you?

ROSENFELD: I can't answer that, because I don't remember at this time, but I don't think I really analyzed in that type of terms--

ELKIND: Okay.

ROSENFELD: --where I said, "Gee, it's this size and I'll get my piece of it."

ELKIND: Okay.

ROSENFELD: I saw it as an opportunity to enter the market and be successful, and the market in Southern California is a very large market.

ELKIND: So you didn't look at it in terms of dollars or units? You basically said, "This is a huge market, huge potential, and there's plenty of room for another player."

ROSENFELD: Yeah. And the plan that I did, although by business school standards it would be laughable, truly, was to say, "Look, if I can do-- What is the minimum number of houses this company could do"--as I got to figure what our overhead would be--"to where I could make a million dollars a year?"

ELKIND: In revenue or profit?

ROSENFELD: No, no, profits. Revenue doesn't count for anything. And so then I said, "Okay, that number," whatever it was, and I don't-- Because prices were different and things were different. And then I kept going down the scale, saying, "Well, can I do half that and still make a good living, so that I at least set my parameters? If I do better than that, super. That works out."

ELKIND: How did you do your first year?

ROSENFELD: Well, the first year is a hard year. The first full year I made about \$8 million.

ELKIND: Net?

ROSENFELD: Yeah. Well, before taxes.

ELKIND: That's pretty good.

ROSENFELD: Yeah, I think so, but the first year was, you know, a set-up year--buying property, putting a staff together and so on. We probably made a little or lost a little, but it wasn't anything significant.

ELKIND: Okay. So obviously [you] saw the market growing.

Did you think about how quickly it was growing? Did you quantify? Let's say it's growing at 10 percent a year--

ROSENFELD: No, actually I was wrong. It grew further-- I didn't analyze it numerically, so to speak, or statistically.

But I sat down and said, "This is the market that I see today and I can do this in this market if I can buy ground." You

know, I had nothing at the time. I had some money of my own, but as it turned out the market got much better.

ELKIND: Out of curiosity, that was about twenty-three years ago?

ROSENFELD: Around 1976.

ELKIND: Okay, around twenty-three years ago. Your approach toward starting your company and starting your own venture was much less analytical than, it seems, a lot of companies are, maybe, today, or at least the ones that get a lot of attention.

ROSENFELD: Well, because the business I was going into is not, I think, very difficult to analyze. It's very market oriented, so--

ELKIND: So you think it was a function of the industry as opposed to nowadays entrepreneurs need to do a lot more analysis?

ROSENFELD: Depending on what they go into. Home building is--as I have always said--not rocket science, and I knew the market on a day-to-[day basis] because I had been in it.

So it wasn't like I had just said "Well, I'm coming out of the beauty supply business and I'll try home building." So I had been in it for thirteen years and I knew Southern California.

I lived here and worked here. So it wasn't like I walked in blind. I just didn't sit down and draw up what I call a super plan.

ELKIND: But it sounds like you, because of your experience, kind of had a lot of that in your head, anyway.

ROSENFELD: Of course. That's why I said it would be laughable if I brought that to--

ELKIND: To business school?

ROSENFELD: I would fail.

ELKIND: That's funny, because they probably would have laughed--

ROSENFELD: No, they would. I mean, it was totally un--

ELKIND: --and it obviously worked. [laughs]

ROSENFELD: Yeah, but, again, there are special circumstances.

If I had gone into a different business, like the commercial business, it would not have worked, because I hadn't been in it, [unlike] real estate. I didn't know the players in the market. I knew generally, but not very much, who financed these things, none of the kind of block end tackling you really need to know. So I would have had to spend quite a bit of time putting together that kind of a thought process to get there. But this is a business I'd been in for thirteen years, so I don't think there was any--

ELKIND: So when you were at Kaufman and Broad you were only doing residential home building?

ROSENFELD: Yeah, we bought the insurance company and so on when I was there, but for the most part it's safe to say 90

percent of my time was home--

ELKIND: Residential.

ROSENFELD: So it wasn't like I just flew in blind and said, "Let me take a shot here and do it." What I didn't know is where I would get the money. So I had to put down a number of-- What are my prospects? Could I get financing? Where am I going to get financing? Who's going to sell me the land with no financing? Those kinds of things.

ELKIND: How did you overcome that? Was it basically going to people you had worked with before?

ROSENFELD: Some. But I had a great reputation in the market, okay.

ELKIND: "I'm Gene Rosenfeld and you know--"

ROSENFELD: Yeah. It wasn't like coming out of school and saying, "Gee, I'd like to buy your land." So I was known, so when I went to people to buy parcels of land they thought I had the money and I wasn't going to tell them I didn't, of course. [laughs] Well, I couldn't. And you couldn't get the money without the land, so to speak. It was one of those chicken and egg things. So, you know, I bought two or three pieces--I forget now--two or three pieces of property from people that I knew. One of them was just pure luck. Levitt [Company], which was a major home builder, was getting out of the Southern California marketplace for whatever reason

and to go into an eastern, actually southeastern, market. And they had a number of holdings and I was told about it by somebody I don't even remember, and I went to see the people at Levitt and bought two of their parcels, that turned out to be great parcels. But when I tied up a parcel I had to kind of then go down and get my financing sources. As soon as I had my financing in place, I was able to close the deal and start hiring people to run the company. See, it was kind of putting the blocks together. Those were the kinds of things that I had, the more-- You know, when I say to you the best thing in life, to me, as a manager, is keeping things simple-- You can overcomplicate your life. I say it very often, but I am very serious about that. In fact, I read a book by the guy from GE [General Electric], [Jack] Welch--who's got to be the world's best manager in a large company and so on--and his point is that simple is the thing to do, and that planning should be like fine wine, varied nuances-- His point is that that's just not true: simple, you know, if you're wrong, you're wrong, but you can be wrong if you're very sophisticated, too. It's not that I don't have the IQ to do [it]; I just didn't-- To me, it was simple. There were three or four things I had to get in place.

ELKIND: Okay. What were those three or four things?

ROSENFELD: One was land. And then I had to get the land so

that the person selling didn't want the money that day, because I didn't have the money. Two, I had to get the money. Once getting those two things together I could then build at least the start of an organization. I'm not a guy who's in a field.

I need to get, you know, that kind of a thing--

ELKIND: Did it end up coming together a lot easier than you had expected or--?

ROSENFELD: It came together easy, but it wasn't a matter of expectation, because that's when I say that's a stop-go kind of thing. [If] you couldn't do any of those blocks, you failed.

ELKIND: It wouldn't have worked.

ROSENFELD: Not failed necessarily. You don't go broke, but you failed. You didn't get it together. And making a bad start in a new start-up is kind of "fail."

ELKIND: Very fair. Was there any kind of--? Did you see any kind of technical or great trends in the industry that you saw coming down the road that you were looking to capitalize on or was it--?

ROSENFELD: No. My thought was that the industry had gone through a period of down sales and so on and there was no real reason for that, other than cyclical, and that, in essence, the market was far better than everybody thought. And then when Levitt [Company] said they're leaving and some of my

old people at Kaufman and Broad said, "You're out of your mind to buy those properties"-- You know, that was the bet that I was right-- That the market was going to turn. But there's no way to know. There are no statistics. There is nothing. You can research forever and--

ELKIND: If the people at Kaufman and Broad were saying "Gene, you're out of your head. You're crazy to buy those properties," did you feel that you knew something that they didn't? Or were you like, you know, I just--?

ROSENFELD: I just thought they were wrong. It wasn't that I "knew" anything. I had to sense it. I thought I had a better feel of the market than they did.

ELKIND: So a lot of it was gut instinct.

ROSENFELD: Of course. They were big and they had a lot of projects and I knew those because I was there. They had a lot of things going and for them to zero in on one or two pieces of property didn't really make a lot of sense.

ELKIND: Okay. You had said that you set up a goal of "My first year, I want to make a million dollars."

ROSENFELD: Yeah. Well, I said I want to plan to make a million dollars.

ELKIND: Plan to make a million dollars?

ROSENFELD: If I can make a million dollars, I did good.

ELKIND: Okay. And that was basically the thumbnail sketch

of "Here's my goals for starting this venture."

ROSENFELD: I need one hundred houses and that gets down to simple numbers. [laughs]

ELKIND: I would have loved to see the napkin you had to figure that--

ROSENFELD: Plus it was more allotmental. So, you know, if I can do 100 to 150 houses and make \$10,000 to \$15,000 a house, that's fine. If I can do more, but I can't do it on 5 houses, it won't get there, because my overhead will just kill me.

ELKIND: How did you view the competition when you first started up? And did you look around and say, you know, the competition out there is not all that strong and there's a lot of people out there that are not doing all that well, but they could be?

ROSENFELD: No. I knew the competition very well and my feeling was "Well, if the market turns even a blip up, there's plenty of room for everybody." The competition is very strong, always has been.

ELKIND: And you say that the market was kind of in a downturn--

ROSENFELD: Oh, very much so.

ELKIND: You felt like this was a temporary thing and when it "blips" up--

ROSENFELD: Yeah. It was just a cyclical and I thought that-- Cycles then were a little longer than they are today. They

change up and down now very quickly.

ELKIND: Were you afraid of any of the competition at the time?

ROSENFELD: Well, "afraid" is not the right word. I mean, I'm respectful of them. I'm not afraid. Yeah, there were some very large players out here.

ELKIND: Who were some of the players at the time?

ROSENFELD: Well, Bill Lyon [William Lyon Homes] and Kaufman and Broad. I don't think Centex [Homes] was here. Ray Watt's company and some others-- There was plenty for everybody. Levitt was here but getting out.

ELKIND: Okay. You said there were a lot of big players out there. Was it kind of like a big player market that you were getting into where there were five or six big players and there's not that much else out there, or were there a lot of little guys running around as well?

ROSENFELD: I think there was a big separation between the big guys and the smaller guys. The answer is yes. So I thought if I could kind of get in the middle that would be fine.

ELKIND: So you were looking to basically, pretty quickly, ramp up to a mid-sized company.

ROSENFELD: Yeah.

ELKIND: Okay.

ROSENFELD: But then I had my boundaries, saying nobody knows

what you can do on these things. That's the entrepreneurial part. And so, going back to my thing, if I can do 150 houses-- I can do that, I'm sure. Or I could do none. If I do none it doesn't matter. I can do 150 houses. I know cost; I know what I can sell them for. This is what I can make. That was a simple goal to me. I've got to do that or I got to go back and get a job. I mean, I certainly wasn't ready to sit at home.

ELKIND: You're still not.

ROSENFELD: No, that's true. I mean, but that was my plight.

So I would say, "What's my downside here?" I had at that time about \$1.5 million and I said, "I'm willing to risk that because I can earn it again even if my business fails." But I can earn at this high-- You know, I'm a good executive, and if I'm not a good executive, I'm kidding myself, so what's the difference, you know?

ELKIND: Actually, I'm going to go to the next thing here.

Would you characterize yourself more as a really good manager or would you characterize yourself as a true entrepreneur?

ROSENFELD: I don't know the answer to that. I think there's parts of both. I think I am a very good manager, but I don't know how to measure that. What is a good manager? I don't know. I don't think anybody really knows what the answer to that is. A good manager of a shoe store is one guy, okay.

The manager of a bank is another guy. A good manager of General Electric is another person and of totally different skills and knowledge. So the answer is I think I'm a good manager, but I don't think that's a universal term which says I can take that and run General Electric. I don't think that's even a slight possibility. You know what I'm saying?

ELKIND: Absolutely.

ROSENFELD: I'd say I'm a good entrepreneur who also is a good manager. But I don't think I'd be a good manager in an established--

ELKIND: Do you think that a successful entrepreneur has to really be both?

ROSENFELD: Either that or inventive. I mean, if you can come up and invent--the Bill [William H.] Gates [III] kind of guy--you don't need to be a good manager. In general terms, that's correct. And that's changed. You know, the world is so much different today than it was then. There were computers but no programmers, although it was a pretty basic business. So business then was more basic, in terms of what is done today. A good manager on the Internet has nothing to do with being a good manager--

ELKIND: In housing--

ROSENFELD: Yeah, it has nothing to do with housing. That doesn't mean that they won't be wildly successful, you know?

Or wildly unsuccessful.

ELKIND: It just takes very different skills.

ROSENFELD: It's just totally different. That's why I'm not trying to be cute with the answer, but I think you have to say, "In what area--?" I think there are guys who are smart that are terrible managers but they have developed a great business and had that foresight to say, "I don't know what I'm doing here," in terms of management. "I'll bring people in to do that."

ELKIND: I guess that makes a good manager.

ROSENFELD: Makes him a good manager because he picked the right guy. The definitions are tough for me.

ELKIND: Let me switch back real quick-- Run off on a tangent to-- Again, when you were looking to start Anden, did you consider what the competitive reaction would be? I mean, you're going into a market with all these big guys. Did you think, "Their reactions are going to be pretty hostile against me trying to come into their territory," or was it, like--?

ROSENFELD: They could care less.

ELKIND: They could care less. Do you think that's important, to go into an industry where--?

ROSENFELD: I think it's better, yeah. [laughs]

ELKIND: Yeah?

ROSENFELD: For sure. Yeah, you certainly wouldn't want to--

ELKIND: Did you consider that?

ROSENFELD: No.

ELKIND: That this would be good because the big guys don't really care, or--?

ROSENFELD: No. Never entered my opinion or thought process.

ELKIND: Okay.

ROSENFELD: It was a pretty instinctive deal, because I knew the business. Again, I think we have to keep going back to that thought process and that I knew the business. I knew that they wouldn't care. And if they did they couldn't do anything about it. You know, back to my favorite company, Microsoft. They couldn't crunch me. There's nothing they can do. It's such a fragmented business as it is, so it didn't matter.

ELKIND: Okay. As you said, you didn't have-- Did you ever have any long-term goals for the company? You said, "To make a million in the first year."

ROSENFELD: Oh, at least. Yeah.

ELKIND: Did you say, "In five years I want to do this; in ten years I want to do that?"

ROSENFELD: No.

ELKIND: Or, "If I can do this in the first year, then I can make it work--"?

ROSENFELD: I started developing long-term goals. [laughs]

First goal, I think, in any start-up, is survival. It's like birth, I think. You've got to get up on your feet and get in the pack and run. Otherwise, it doesn't matter. You can do a twenty-year plan. I mean, if you don't get past the first year, you're going to have nineteen years of blank paper, you know? [laughs] So, no, to me my first thought was "Can I get up, get established, have a business," and then we started thinking through-- You have to do all those things over again: different staff, different things. But day one is just to survive the start-up.

ELKIND: Okay. Also, when you started to go to the customers and marketing-- When you started Anden, [who were] your potential customers when you started? Were you looking for the same customers that were marketed by Kaufman and Broad and other companies? Or were you looking for a different niche of customer?

ROSENFELD: Absolutely the same.

ELKIND: Everything's the same? So you're going after the same players?

ROSENFELD: Yeah.

ELKIND: How would you describe those players? Were they just single-family residential stuff?

ROSENFELD: Well, for-sale housing, for sure. It didn't have to be single-family [homes]. It could have been condominium

or, you know, townhouse kind of things, but more mid-income people, working couples.

ELKIND: Was that the growing demographic?

ROSENFELD: It's the largest part of the market, yeah. Not too many years before that--this was no secret to anybody--but the Civil Rights Act-- It used to be, going back, where a woman in her childbirth years, even if she was pregnant or not, they wouldn't count her income. So that this secretary out here could have children [in the future] because she wasn't [yet] forty. They said, "Well, you could be working but then you can get pregnant and not work so we can't count your income in the mortgage."

ELKIND: Oh, really?

ROSENFELD: Yeah. So it was much more difficult. All of the income for young people, not only young people--

ELKIND: It must have been much harder to get loans for housing.

ROSENFELD: Oh, it was. It was all the husband's income and parents' support and things like that. And so they changed that and that opened an enormous market. It was just one of those things the government did that just worked out beautifully. Just opened an enormous market because, you know, most young couples work.

ELKIND: What was that act called?

ROSENFELD: It was the Civil Rights Act of-- I can't remember

which year it was. It wasn't the center of the act. The act, obviously, was for race and religion, but that was something that got in that was incredibly important.

ELKIND: Wow! I could see how that completely opened up a whole new market.

ROSENFELD: It just developed a whole new market overnight.

We've got about five minutes, okay?

ELKIND: Okay. I've got a couple more questions left. Did you have a different kind of pricing strategy or distribution strategy? Was it anything different than what you were doing at Kaufman and Broad, to differentiate Anden--?

ROSENFELD: Well, basically, the thing I did differently-- Our overhead structure and cost structure was lower than theirs, so, therefore, I could sell the houses competitively against theirs and other large developers.

ELKIND: What about advertising?

ROSENFELD: I couldn't do as much advertising, and rightfully so. They could do multitrack advertising and advertising over a number of tracks. So what I tried to do was to do it in billboards and things of that order. If somebody were coming out to an area to look at a Kaufman and Broad house, they would see my billboard. People when they shop for housing should and do look at everything they can find to compare. So I was trying to really--what do you call that--jump on

their bandwagon. Not only Kaufman and Broad, many of the large groups. So that I would know our competition in the area and I'd piggyback, you know, on that, because I could never afford to run ads of their size. So we ran little teaser ads and things like that, you know, would try to get people thinking about us and saying, like, "What haven't you seen in Diamond Bar that's better than what you have seen?" Maybe a small ad like that and then we'd put a phone number on it-- Get people to call and then we'd qualify them. And then we did it with a lot of signs.

ELKIND: Okay. There wasn't really a distribution strategy for housing or anything like that?

ROSENFELD: No. [laughs]

ELKIND: [laughs] Were there any other strategic factors that you focused on to differentiate Anden when you started or was it kind of like "We're going to do the same thing everyone else is doing, just--"

ROSENFELD: Better, hopefully.

ELKIND: --do it better, hopefully"?

ROSENFELD: Yeah, it's a very basic business, you see.

ELKIND: Okay. Almost finished here, then we can-- What did you estimate your financing needs to get Anden up and running?

You had said \$1 million of net after your first year. Did you--?

ROSENFELD: Yeah, I thought we needed to get a line somewhere.

When I use the word "line" much of it would be secured. We had to have \$10 to \$15 million worth of line of some sort or other to get there.

ELKIND: To get it up and running?

ROSENFELD: Not that we would spend it day one.

ELKIND: No.

ROSENFELD: Obviously. [But] where I could draw--

ELKIND: Draw down?

ROSENFELD: --over a period of time.

ELKIND: And you said you didn't really spend any time putting together financial models or cash flow statements, stuff like that? You just kind of, like, back of the envelope--

ROSENFELD: Certainly not financial models. We certainly did cash flows based upon when, you know, we thought that the house would deliver and so on.

ELKIND: Okay. Was this all before Anden? Before you--

ROSENFELD: No, after I bought the-- Well, what you do--and that's a step-by-step thing--you tie up a property and then you say, "Well, it's going to take me x time to--

ELKIND: I'm not talking about the specific properties; I'm talking about the company in general. Like, okay, here's the kind of financial numbers we need to put together for

our first year and our operational costs and all this advertising cost and here's what it's going to take.

ROSENFELD: No, I didn't do that because I didn't know what I could buy. And it really would have been an exercise in writing numbers down. I spent all of my time, really, out in the market and seeing what was there and talking to land sellers.

ELKIND: You said that the source of financing you got-- You put your own money in. Any money from friends and family or was it all bank?

ROSENFELD: All bank.

ELKIND: Last two questions. What were the major risk factors you considered when you started Anden? Was it the competition cutting prices that would cut you out of the market? Obviously, you had said, "Well, the trend is that housing development has gone down," and you were expecting it to go up. Were there any other risks?

ROSENFELD: No, I think the biggest risks that I saw were the two I mentioned: the market risk, which is always a large risk, and the ability to finance a company.

ELKIND: So it was just the finance? So you figure that if you get those two and you can get some property then you're--

ROSENFELD: Well, if you're right on the market, yeah. My feeling was that-- Because we had just come out of a very

poor market-- My competition, whoever they were, had a higher land base and a higher carrying charge, by carrying land that wasn't selling in their housing, so that I had an advantage, albeit on one or two tracks, but I had an advantage in that my money was fresh and I bought land at a discount. I would buy it at a discount because the market was bad and people said, "I've held it long enough-- I'm out." And so therefore I started off

with a basic advantage if I could buy.

ELKIND: That you were getting in with no property--

ROSENFELD: I had no baggage, so to speak.

TAPE NUMBER: II, SIDE ONE

JUNE 1, 1999

ELKIND: Last time we went through a number of questions about some of the stuff we talked about in the past, and now a few more questions-- I've kind of outlined here what I thought would be interesting, to get a better perspective of your view on entrepreneurship. Let's talk about your view of a definition of an entrepreneur. What would you say the ultimate objective of an entrepreneur is? Is it things like--? My guess [is] it's probably not power. Is it efficiency? Is it survival or growth? Is it--?

ROSENFELD: I think its multiple. I certainly think that an entrepreneur is driven to make lots of money, for sure, regardless of what they say about quality of life. And I think quality of life is not one of the things that are part of it, again within boundaries. And, two, I think it's individualism, freedom to be your own person, to do what you want to do and to create. [Those] would be the three things that I think would drive an entrepreneur. But certainly money is probably the leading one at the beginning, and after one makes a lot of money then it becomes independence and the ability to, you know, create and perform.

ELKIND: There's an old adage that says money can't buy everything and that people--

ROSENFELD: [laughs] That's true.

ELKIND: --and that people kind of strive for wealth and then once they achieve wealth they realize that wealth wasn't really the goal.

ROSENFELD: I'm not sure that's true or not true. I think it's such an individual thing. I think to answer that fairly you've got to say, "What would happen if a person were an entrepreneurially driven person and fails? What would their happiness be or their life be--

ELKIND: What did they end up doing?

ROSENFELD: --and what would their mind-set be?" There is no one thing that makes a person happy or not happy. There's too many other things in life that can go on. One, your family, your wife, children. Do you stay married? Do your children turn out to be rotten? good? There are a number of things-- Depending on where you live-- If you lived in Yugoslavia and you're an entrepreneur I think you wouldn't feel so good about life today. So I think you have to say those are things that would happen anyway in your life. So the real question-- I would ask it differently-- If an entrepreneur takes off, and really is an entrepreneur, to succeed, and then doesn't

succeed, what's his frame of mind? How unhappy is he?

ELKIND: Okay. If you hadn't done so well in real estate-- You happened to fall into a great niche, working for Eli [Broad], and then you branched off and created your housing development company. Both were very, very successful. Had that not worked out, do you ever think about what you might have ended up doing?

ROSENFELD: Well, I think out of necessity I would have gone to work in the real estate field for somebody else. I certainly wouldn't have stayed in accounting. You know, when I graduated from UCLA and I took and passed the CPA exam-- But I think I'd gone beyond that. But again it's at different stages of your life. What would you do if when I first went to work for Eli and it didn't work--? I probably would go back to accounting-- After I worked for Eli I never would have gone back to accounting [laughs], but if I had failed in the other company and failed Eli I would have gone to work for a real estate company, only because I would have needed the money to live at, you know, that I want to live. I would have not been happy about it, but it would have been what I had done.

ELKIND: Okay. We talked a little bit about defining an entrepreneur. I'm going to go through something that actually is going to show up a couple of times today-- Try to define

the difference between an entrepreneur and a manager. Would you say the ultimate aim of an entrepreneur is different than that of a manager? How would you--?

ROSENFELD: Well, I think it can be. Your question is so broad.

Some managers are entrepreneurial managers; they work for a company-- If you work for--well, let's use easy ones-- Microsoft, you certainly wouldn't want to think that "I could do better on my own, but I want to really create within Microsoft and therefore I am an entrepreneur and I will benefit from it." If you're a manager at General Motors you're a different kind of manager. So I think the difference between an entrepreneur and a manager at a more staid or regulated company is that an entrepreneur tends to want to try things and get out of

the box when he thinks it's necessary; whereas, a manager-- We use General Motors-- Couldn't even dream of doing that.

He has to follow a certain path up.

ELKIND: When you say, "When he thinks it's necessary," do you think an entrepreneur just--? Is it more of the, kind of, "ventures out of the norm just when it's necessary" or is it more, kind of, that's where he likes to operate?

ROSENFELD: I'm not sure that a person knows, to be honest.

I'm just going to refer to myself. I think you have to do--a

lot of instinctive thoughts to start with. The minute you start saying, "I'm going to be an entrepreneur; I'm going to go off and do things on my own or within a company on my own," you've already gone out of the box. You've put away the rule books and you've gone-- Then the real question between a successful entrepreneur and a not successful entrepreneur is his financial planning. You know, reality. Can this really work and if it can work, do I have enough money to make it work? Do I know where to get more money? How do I put together a team, my partners? How do I raise more money? It's not just being a gambler, so to speak, where you run off and say, "Well, I'll try something." But any one of the entrepreneurial people that you've seen at school-- I went to Paula [Kent Meehan], the lady from Redken, who was there. John [E.] Anderson asked me to come by and I did and here was a lady that was a single mother who went off and came up with the idea of a thing for women's cosmetics and so on.

ELKIND: Actually, I met her. I remember her.

ROSENFELD: A pretty amazing lady. She had no money. The money she had, she had \$15,000 or some small number of dollars, and went out and put together an idea. And her thought was--and I think it was a good thought--that "If it didn't work I always

felt I could go back and be what I was before. That was my safety net, but I was willing to risk all my money." Those are parts of what it is. You know, you can't--it's hard to be both--so at least in my case when I left Kaufman and Broad I put all my money at risk with the idea that if I lost I'd go back and work. If I could do it at Kaufman and Broad I could do it elsewhere and I'd go back to work and try to regather.

[laughs]

ELKIND: Did you like working for Kaufman--?

ROSENFELD: Sure. Yeah. Absolutely.

ELKIND: Because I know some people, when they leave a job to go do something else, a lot of it is because they just can't stand where they are and they really just don't want--

ROSENFELD: No, my reasons were different. I mean, I certainly-- You know, it's a long story, but I started there as an accountant and ended up being the president, chief executive of the company. So I liked that. Did I like it everyday? No. Was it easy to work with Eli? Not particularly.

But, you know, I think it was time for me to move on. I, at that time, didn't see that I could really gain much more.

But if you said, "Was my whole experience good?" I'd say, "Absolutely."

ELKIND: You had said that-- I think it was the last time--

You had kind of been ready to move on for about six months to a year before you actually--

ROSENFELD: You know, that's something-- You go through a process in your own mind. What am I going to do? Is this what I want to do? And you should never stop doing that.

ELKIND: Was it something that kind of presented itself to you that said, "This is what I'm going to branch off and do," or is it--?

ROSENFELD: I think it just more or less happened, you know?

But, you know, nothing "just happens." There were a lot of things. The company had gone through a very hard time. I just felt constrained at that point in my life and thought I wanted to move on. And I didn't know what I wanted to move on to. No, I didn't start the company while I was there. I actually left with nothing to do but sit home, really.

ELKIND: How long did you sit home for?

ROSENFELD: Not for long. But I had no plans, none, truly did not. I mean, I didn't work on it while I was leaving or anything like that, so I sat home and kind of spent a little time skiing and thinking about things and then kind of made my mind up what I wanted to do. But it was nothing-- It was better for me to do it, in that I didn't want to get pushed into doing something. I might add I had a number of job offers

and so on when I left. I just decided that, you know, that I'd done that. I'd try something else.

ELKIND: Is there anything that was at Kaufman and Broad, a certain aspect of that work environment, that basically, maybe, pushed you a little more toward venturing off and doing your thing? If the place had been different, if Kaufman and Broad had been different-- Maybe if Eli had been easier to work with or something like that, then you probably wouldn't have ventured out?

ROSENFELD: Again, it's hard to answer that with a quick answer, because Kaufman and Broad was a very competitive, hard-driving company at that time, and those who could not stay in the heat of the thing, you know, fell off. I had no trouble with that and kind of liked it. And it was very challenging, and I was much younger, obviously, then, and to me it was fine.

I liked that; I liked the competition--and everybody competed with everybody else there and everybody knew you were competing with everybody else, and it was a tough environment, that I liked. Would I have [stayed] if Eli would have left? I probably would have stayed. But, you know, he wasn't going to leave, so that's five years only. You know, [if I was] six inches taller and had blond hair, I could be the king of England. But I don't think there's any one thing. But,

you know, I had done very well there and made enough money, and hadn't really worked very hard, in a very competitive area. So I thought it was time. You just reach a stage, you know--

ELKIND: That's interesting. Let's see. Let's talk a little bit about your decision making for the projects you take on now as a-- Let's say, a little bit differently, now, than maybe five years ago or eight years ago, something like that--more so, quite a little while ago. When you take on a certain project, are there more calculated probabilities for its success or how much money it's going to make or what the upside is, or are those probabilities a little more in the air? How definite do your outcomes have to be before you make a decision to go with something?

ROSENFELD: I think I'm more concerned on the downside than I am the upside. So I kind of like to know going into projects now, because I have considerable net worth, what, in my mind or our group's mind, can happen? What bad can happen? What would that mean--other than the moon coming and hitting the earth or something like that--? So I'm interested in that.

It's hard to determine what the upside will be in an entrepreneurial project. You just don't know, and you can run numbers till they mean something, but they're only numbers,

so you can say--

We did, in 1996, 1997-- I should say Highridge [Partners] did it, where we bought retail centers that were anchored by grocery stores. That was what we set at a certain size--\$5 to \$10 million--with the idea of accumulating a large number of them. And my thought was that if we could buy them at the prices we thought they were out there, my downside was limited. Although there was always a downside, [it] was limited because-- So we were doing it at cap[italization] rate, so we were buying them at 9 cap rates with the idea that we could sell them at 8's and bust them at 10's, which we could sell at 9. So in that range, depending where the location was.

And I said, "So I could be wrong. The cap rates may not change, but historically we haven't seen cap rates in good centers go too much below 10 or above 10." I keep going backwards.

So I kind of understood my downside. But my whole goal there was to accumulate a group. And we did. We accumulated \$400 million worth of them. [I] took in a partner who supplied 95 percent of the money and we supplied 5 [percent] and got a promote of 35 points on the thing, and paid for our money.

You had to pay, you know, a carry cost. And my idea was that we would either make it, become a REIT [real estate investment trust], when we accumulated enough, or sell it to a REIT.

And my downside was that we'd just sell off individual units in a lose-some, win-some [situation] and probably not make very much money.

ELKIND: That was the downside?

ROSENFELD: That was my downside, at least as I could see it, and that's what we did. So we ended up-- And we did sell it to a REIT.

ELKIND: So when you take on projects--that's interesting--you're not looking for a minimum or a certain amount of upside; you're basically saying, "All right--?" Obviously, you're not going to invest in the work if maybe you're only going to make \$5,000 or \$10,000--?

ROSENFELD: No, I think I have to believe there's an upside, but there's no way-- I don't know how to judge a minimum on the upside because it's something you can't control.

ELKIND: So you just try to keep on minimizing the risk?

ROSENFELD: If we had done it today we would not have carried it off, because the REIT market is flat. People aren't buying [and] we couldn't have created a REIT because the market wouldn't accept another REIT, so we would have had to go to plan F or whatever [laughs]--which would be to either hold them or start flaking them off. So you just don't know. As it is, our timing was great, but to me that was all luck. I mean,

who knew that REITs would, you know-- It's easy to say you're smart when things work out well. [laughs] You know, it was.

Who knew? Nobody could have guessed that REITs were going to collapse, because then I would have-- Instead of spending money on that, I would have gone short on REITs. It would have been easier--

ELKIND: I know, but then the change in that, you know?

ROSENFELD: So I'm just teasing when I say that, but that's what I would have done, but you don't know. But, again, time is everything in real estate and you have to move very quickly and take advantage--like any business. I think you've got to really be out in front, and what I keep telling the young people that work here is that you can study or think for so long, but then you've got to do something. And I'd rather you do something and do it quick-- Not without thinking, but, you know, make a decision and get on with it. If you're wrong, you're wrong. But if you keep studying it, you will be wrong because you made a decision not to do it. So eventually you'll just grind yourself to death on--

ELKIND: On numbers.

ROSENFELD: Oh, yeah. Because who knows? Who can guess the numbers? I don't know anybody smart enough to do that.

ELKIND: It says right here that you financed it 95 percent

with a partner and 5 percent of your own money. Would you consider that somewhat creative financing?

ROSENFELD: That was creative, yeah. But I think you could do it very easily at 10 to 15 [percent] of your own and the rest-- So it was creative in that we put up 5 [percent] of our own.

ELKIND: Had you made the decision to do this deal, and then you went out and tried to find the financing, or do you basically try to find--?

ROSENFELD: No, no. Decide to do the deal. Packaged up a plan and then went and talked to people.

ELKIND: Okay. So regardless of how it was going to get financed, you've already decided, "We're going to do this"?

ROSENFELD: Oh, yeah. Well, and we could have not done it had I not found the financing, but at least you had to have-- You can't show up at a fund or a Wall Street company and say, "I've got this great idea [but] I can't show you anything. Would you give me the money?" You might not even get lunch. We had a plan and said, "Here's the possibilities and here's the downside possibilities and we think we can accumulate--" At that time we thought we could do \$500 to \$600 million. "And here's what we think we have to pay for it; here's our expenses [that] we think we'll incur and here's our exit.

If we hit A or B, we'll make this much money. If we can't hit A or B, this is kind of our floor, and we'll lose some money but not a lot."

ELKIND: Okay.

ROSENFELD: You know, I think the time you can gamble best is when you're young and you have nothing to lose. I have two young sons, both of them are entrepreneurial guys, and they're always asking me--

ELKIND: What are they doing now?

ROSENFELD: Well, one is in real estate and the other does financial things. But I call them "young": they're thirty-nine and thirty-six. [laughs] They're "young" because they will always be young next to me. But when you have nothing, you can take--I mean, you just don't flip a coin--chances, and you should, because at that stage if you fail you just fail.

ELKIND: I've got to venture out before I make anything then?
[laughs]

ROSENFELD: No, before you have a lot. Not before you have anything.

ELKIND: You think that there are some elements of an environment that kind of promote entrepreneurship?

ROSENFELD: No.

ELKIND: So it's more just completely part of the individual?

ROSENFELD: Absolutely. Yeah. I'm not saying there aren't times when the environment is correct, but then the person who is the entrepreneur saw that environment whereas most people didn't, if you know what I'm saying.

ELKIND: I guess.

ROSENFELD: I mean, there's an environment, like shopping on the web. That's an environment that five years ago didn't exist, three years ago, maybe, didn't exist. So whoever saw that moved and moved dramatically. You know, that was a bet that that would become a real thing. So I was back in New York, and a lot of people have become billionaires over that, at least on paper, with an idea that three to five years ago, whatever that time is, that was not even--that was like you going to the moon. You may go, but I mean you can't count on it to--

ELKIND: I wouldn't count on it?

ROSENFELD: No, but you might. It might be that ten years from now you can get a bus and go on up, rocket off and go.

Instead of going to Vietnam you'll go to the moon. But the idea is that those who saw that or thought they saw it, saw the environment changing, saw the ability, that there were this technical aspect of life and the Internet was going to

be something more than for people to write notes to each other and to check on movies and restaurants and stuff. And they saw that. So the environment was there and it was there for all of us to see. The entrepreneurs are the ones that said, "You know, that makes sense, I'm going to do it" and took a chance.

ELKIND: I guess the market, a certain market that makes it easy-- The Internet, I think, creates a lot of entrepreneurs.

One reason is because it has a very low barrier to entry.

ROSENFELD: Yeah. But it doesn't really though. In order to get a company together of any size you really have to raise a large amount of money. I think you can come up with some kooky idea, but if you say, "I want to hit the ball out of the park" you're not going to do it on just having a website, so to speak. I think you have to-- I mean, I'm working on one right now and--you know, for fun--and I hope it will hit. But by the time you get done, you've really got to raise a lot of money: you've got to advertise it; you've got to hire people who are high paid; you've got to give them ownership in the thing; you've got to organize. If you're right, how do you deliver what you're talking about delivering? It's really a business, so it's a lot of money.

ELKIND: Is there a certain kind of cultural environment, such as an environment where people don't have much money or are more hungry for success that maybe breeds entrepreneurship or--?

ROSENFELD: I don't think so. I think every environment has-- They're just different things. I just don't think so. Except the extremes. Obviously, if you were here in the Great Depression it would have been very difficult to be an entrepreneur or if you lived in Bosnia today you couldn't-- But in general times, I think there are opportunities and that there always will be.

ELKIND: What about families that have entrepreneurs. I mean, you're an entrepreneur. You've got two sons who are now entrepreneurs. You think basically growing up and watching your parents who are entrepreneurs makes you think, "Well, that's how things are," so you, in turn, develop the entrepreneurial mind-set to things, versus your dad who's on the assembly line of GM [General Motors] or something like that?

ROSENFELD: I don't think it matters. I think, obviously some exposure to it, but-- I can only look at my own family. Of the two [sons], one is a far more aggressive entrepreneur than the other and is willing to-- And the other is

entrepreneurial, but he's always going to keep a certain amount behind him.

ELKIND: Which one is more entrepreneurial?

ROSENFELD: I don't think it's necessary--

ELKIND: Okay, yeah, I figured that. Let's talk more about the difference between your first business, Highridge Partners-- How did you first organize the business?

Centralized? Decentralized? It was you who started it. The people you hired on-- How did you select who you would have help manage things?

ROSENFELD: The way I started out was simple. I had made a lot of money in the housing business. [I] wasn't really enamored with the people I was dealing with in the stock market, in that I thought I knew more than they knew. I didn't know the right people, obviously, and, therefore, didn't want to invest heavily in the stock market, certainly didn't leave any cash. So I hired a young man [John Long] who I had hired at Kaufman and Broad out of school, who I thought was very bright, and is very bright, obviously. [laughs] I went over and talked to him and he was interested in it, so we started a company, and I invested the money--he had no money--with the idea that we would do real estate deals. I set some parameters. I didn't want to do tax-oriented deals because

I didn't think-- There were too many people doing them and that didn't make sense to me. The returns weren't enough, so we would try to do things that other people weren't doing, trying to find opportunities away from the crowds. Otherwise REITs at that time--they weren't REITs, but they were funds--buying all office buildings, and we would be looking at apartments or vice versa. We would try to find our spots and build a company out of that. He came aboard at a very low salary and a percentage of the deal. That, to me, was an entrepreneurial decision for a young man, because he took a very monstrous cut in pay but he had a piece of the deal.

I put up the money and made it clear that we were going to lever, because I didn't have enough that we couldn't lever, we could buy things for. And I let him go. He went and found the opportunities and we would meet on a semi-regular basis, you know, twice, three times a month, where I would go over his packages with him, and we would go forward or not. He's still my partner.

ELKIND: So obviously it worked out well for him.

ROSENFELD: Worked out fine for both of us. He did very well and so have I.

ELKIND: How do you--? This is a guy who you had worked with and you had seen him work, and you'd been really exposed to

what his work ethic was and so on. Besides directly working with someone for a period of time to decide whether you want to hire them or work with them, are there other criteria you use to hire people on as managers or directors?

ROSENFELD: No, not really. I mean, obviously you go through an interview, but I do it more on the feel. Obviously, if the guy said, "I just did twenty years for embezzlement"-- I think I do a lot of it on feel for the person, because you can't tell. It's like dating, you know? You don't know when you date a girl that you're going to marry her or that if you marry her you'll even be happy, so you kind of take time, you know? So to me it's a lot on the feel. Sometimes you can clearly see it's not going to work out.

ELKIND: Do you give yourself any minimum amount of time? Do you think you can just know right away?

ROSENFELD: I can tell in the first five or six minutes. I may not end it then, but I can pretty well tell in the first five minutes. And a lot that I'm interested in is intellect.

I don't mean that he's well-read. I want to know if somebody has a pretty agile mind and can deal with things that are not routine and not ordered. So it's an important part of what I want, because what we do is not orderly. There's no manual you can go to, so you have to really find-- I really

am interested in that.

ELKIND: Do you think that's a criteria for a true entrepreneur?

ROSENFELD: It is for me, yeah. It's hard for me to answer that, but to me, if a guy isn't intellectually going to be able to keep up, when there isn't a "take a look at the whole field" kind of guy, we're just not going to get along.

ELKIND: That's fair. Actually, many of the guys I know from school, guys and gals, who are starting their own businesses are very much along those lines as well. They need to have a lot of different things going on at once. And that's kind of what they--

ROSENFELD: Yeah, I don't mean that they are disorganized, but it's one thing to sit down with a guy who says, "Nobody is buying real estate except if it's at \$10,000 yield, so therefore we shouldn't buy any either"-- I mean, oversimplify.

And my answer is, "Why would you say that?" you know. "Are there opportunities that may be a 10 [percent] that we could go to a 15 yield on? Or are you just going to say every package you look at--?"

ELKIND: You've got to be able to think outside the box.

ROSENFELD: Yeah. That's not going to work because we're not going to be able to compete against REITs. They have far more money than I'll ever have to spend, so they are going

to spend more time being-- "Here's our criteria. Here's what we're looking at. Here's how we'll do it." There's no reason for us to do that. We're wasting our time because they can outbid us; they could settle for a lesser yield. So I want to find a deal where somebody comes and says, "Gene, you know, this deal, even though it has a 6 [percent] yield today, which nobody will look at, here's what I think we can do to get it to a 15." And if it sounds realistic, I mean, other than praying, that's the kind of thinking I want. Or, some say, "I think we ought to stay away from office buildings; there's too many people out there buying. Or we ought to drop down to B and C office buildings, where there's nobody to look at them, so we can get it." You know, the last thing you need is somebody who will say, "No. It won't work because--" Sometimes it won't. Sometimes you have to walk away and say it isn't going to work and we should be looking at industrial sites.

ELKIND: When you hired the gentleman out of Highridge [Partners], in your opinion, is there a way that entrepreneurs should treat their managers or their subordinates, given that the manager or subordinates probably or oftentimes are not of the same entrepreneurial mind? So in order to get everything out of them and get the most of them you need to treat them

a certain way? Are there kind of steadfast rules or--?

ROSENFELD: I don't think there's any rules, no. You look at different people and there's no rules on that. That's an individual thing, you know? I would do it differently than Nathan Shappel would do it, you know, and he's very successful. So, no, I don't think so.

ELKIND: Do you deal with conflicts with subordinates or managers in any standard way?

ROSENFELD: No. I don't think you can because there's no particular standard conflict.

ELKIND: How about disagreements over what should be done?

ROSENFELD: If they disagree with me?

ELKIND: Yes.

ROSENFELD: Yeah, I do, but I'm not a hard guy to work for.

I think although I tend to make somebody-- I would be a hard guy to work for if somebody comes unprepared and they just say, "What do you think?" That's not a pleasant conversation, you know? But I like to listen to the other side carefully because they may-- You know, if I reach the conclusion that I'm dealing with smart people that have worked hard on a project, I want to hear what they have to say, and I've often changed my mind.

ELKIND: You say that you've often changed your mind. Do you change your mind based on what came about in the conversation or do you oftentimes go to some other third party to get advice on something?

ROSENFELD: The first, not the second.

ELKIND: Okay. As far as getting advice or a sounding board for decisions, you kind of rely on your own self?

ROSENFELD: Yeah, I might go talk to my partner, but for the most part I want to hear-- Again, I'm saying the person that's done it has done a lot of work on it, really understands what we're doing, trying to do, and then comes in and we have a long talk about it. We can make a decision very quickly. And if I think he's wrong, I'll tell him, "Hey, I think you're wrong and this is what we're going to do." [If] one of us has to make a decision I'll make it. But, generally, I do like to hear what they have to say.

ELKIND: Okay. How do you make decisions on your investments as far as what you decide--? You talked about before [that] your decisions don't necessarily look at the upside as much. You've got to believe that there is an upside.

ROSENFELD: Oh, yeah.

ELKIND: But you basically look at the possibility of a downside and then--?

ROSENFELD: Well, I think you have to go a little further than that. I think that you have to say, "Does the idea intrinsically make sense to me?" because there's nobody that knows that. So does it make sense to accumulate shopping centers with grocery anchor centers? And the answer--I'm just using that as an example--to that was, "I think so," because one, they have not participated in the updraft that's happened in all the other shopping centers, because they're too small and they're too fractured, fragmented is a better word. Nobody owns a lot of them; maybe somebody owns two or three individually. So they're completely fragmented. It hasn't been a part that Wall Street and other large investors, REITs, have really jumped on, so that to me there's an idea there. So the next question is "Okay, does that make sense to accumulate them?" And if the answer is yes to those questions, then I worry about the downside. But if the idea makes no sense, or if I can't get over on the idea, then I wouldn't do it. But certainly that's the most critical part: Does it make sense to zero in on that?

ELKIND: Is that a large part of your business now, as far as buying up some kind of commercial property? I thought a lot what you are doing is more residential development?

ROSENFELD: Well, we have both. We do a lot of residential.

We're a pretty good-sized company in residential. But then there's a whole other side to the company, which is all in commercial and some finance. I'm trying to put together a finance company now that will make mezzanine loans to real estate people.

ELKIND: Okay. At this stage of your career is there one area that seems more interesting than others?

ROSENFELD: I don't think so. [laughs] I struggle with what I should be doing. But I want to keep working, so--

ELKIND: I think we might have touched on this before. We'll go through this one aspect once again-- What adjectives would you say describe an entrepreneur? Independent? Self-reliant? Resilient?

ROSENFELD: Yeah, all those. For sure.

ELKIND: Okay.

ROSENFELD: Yeah, there's no one, obviously, you know?

ELKIND: Are there any others that you can think of?

ROSENFELD: Well, I'll have to think about that for a minute.

ELKIND: Okay.

ROSENFELD: [laughs] Well, certainly those three you mentioned. I think stubborn is a fourth one, maybe. Okay? Focused.

ELKIND: Interesting. How focused, do you think?

ROSENFELD: Very focused. I think an entrepreneur focuses on an idea or a plan, not a business plan so much as a plan.

ELKIND: So [the entrepreneur] is more focused on "This is the goal and just keep going after the goal"?

ROSENFELD: Yeah, yeah. Does it make sense? That starts to drive him night and day on what's going on. So I think focus is a very important part. Then there's many-- Some entrepreneurs are totally horrible people and there's others who are terribly nice people. So it's hard to tell. They're no different in that regard.

ELKIND: I think you had mentioned before that you are kind of a workaholic, used to be. From our conversations and what I've gotten to know, it sounds like you have been able to develop a much better balance with your family and so on.

ROSENFELD: Well, I've always had a good balance with my family.

I would say that I could not work as much as I used to nor would I want to. But when I was in my youth, all the way up to my mid-fifties, I worked a regular six- day week, twelve minimum hours, fourteen day-- And then Saturday a half day.

And it didn't bother me. There were days it did bother-- But I worked this weekend. I talked to a guy in Atlanta about doing a deal there. But I don't need to do-- I have young people here who should do that instead. But it doesn't bother

me. If we were doing something, I would-- So I don't think that I'm less focused, less work-- It's just that one of the things I want to do is develop people who can carry on the business. And I can't develop them if I do everything.

ELKIND: That's something that has come up with other entrepreneurs that I've spoken with, as far as the inability to give up control, which, in essence, leads to you basically having people around you who-- You inherently don't necessarily trust them taking over the responsibilities. How do you propose to overcome that?

ROSENFELD: It's not my problem. I feel strongly about developing people to take over. I'm not willing to turn around-- Because there's a young man that's over there who is also a UCLA graduate. I'm not willing to walk in there and say, "You don't have to call me or talk to me ever again and you're in charge," to make an extreme-- But I've given him a lot of room and then I expect to meet with him at least once a week and kind of go over what he's doing, but I don't want to micromanage him, either. He's got to have his own style. He's got to deal with people.

ELKIND: Did you used to be more of a micromanager? Or do you think for you it's always been a little more hands-off?

ROSENFELD: No, I was when I first started. I had to be a

micromanager when I was hiring and running people day in and day out. "Micro" meaning we had certain things that I wanted to know about not-- I didn't want to know whether he was going to fire a secretary or something that would have no interest to me. But I really am a great believer in building people and very strongly, actually. I want to do-- That's a large part of my drive.

ELKIND: Do you think that--it's more of a general statement; obviously you can't know for sure--every successful entrepreneur eventually has to overcome--?

ROSENFELD: Yeah.

ELKIND: And [you] have to be able to delegate--

ROSENFELD: That or get out. Sell the company. They have to do one of the two. If they sell the company it's not a problem anymore. But if they are going to stay in the company, then they have to do it, because nature will take its course. There's no way I can work at seventy like I worked at forty. That's just not going to happen.

ELKIND: That's very fair.

ROSENFELD: Yeah. [laughs]

ELKIND: Very fair.

ROSENFELD: See, I've never read many books and things like that. I'm trying to catch up on my life.

ELKIND: Actually, I think that's one of the things that was going to come up. Actually, that's the second question. What would you do differently if you had had the opportunity? You say you're trying to catch up on reading and stuff like that--

ROSENFELD: I wouldn't have done it differently, because you can't do things differently, but "What am I doing differently" might make more sense.

ELKIND: What are you doing differently?

ROSENFELD: I'm really trying to expand my life and see what didn't I do when I was in the middle of working insane schedules and traveling. I love reading and I didn't do much reading because I had a young family and I was traveling and doing things like that.

ELKIND: What kind of stuff do you like to read?

ROSENFELD: I really like biographies and nonfiction, but I also read fiction. I'm a very good, fast reader. I can read a book over the weekend if I want to. So I want to catch up on that. I'm getting back into classical music and things like that. I try to go to concerts and I've been doing a little more traveling. I'm going to Italy for a month--Italy and France and England--just because I want to do that. But I never got to do that. I tried to play golf and I was too

terrible. I don't want to do that because I don't want to do something I'm not very good at it. Too frustrating. I have a home in Aspen [Colorado]. I do a lot of skiing. So I'm trying to live a more balanced life. My children, you know, are grown and I probably didn't give them a fair shake in life in terms of being home a lot. But I can't change what happens. They turned out fine.

ELKIND: Are you trying to--?

ROSENFELD: I can't do anything. They're too old for that. There's no way to nurture. I mean, I'm friends with them, but you certainly can't nurture a thirty-nine- year-old the way you would a nine-year-old.

ELKIND: My mom still tries to nurture me.

ROSENFELD: Yeah, but you're a young man. [laughs]

ELKIND: Well, I'm not that much younger than your sons. As you look back, what would you say are the one or two most rewarding experiences you had as an entrepreneur?

ROSENFELD: Wow, that's a tough one.

ELKIND: Well, I had about five. [laughs]

ROSENFELD: Well, I don't know if I can mention one. I think that certainly selling 50 percent of my company before the crash happened in '91 was rewarding, because I saw the market changing, and you're never wealthy until you have money or

something, the equivalent of money. Certainly starting this company, both the commercial and the residential part, has been very, very rewarding for me. We've done very, very well and I'm excited by it. And I'm still very anxious to come in every day and work. So those are two things and, thirdly, I think the major decision I made in my life was to get out of public accounting, which, at that time, was not an easy decision, because we had two very small children and a high mortgage. And to leave something that I had gone to school for for a number of years and studied and passed the exam and went to work for a large-- One of the Big Eight at the time; it's no longer Big Eight. But for me to walk away from that was one of the best decisions I ever made, because in the end I would have not liked it.

ELKIND: We're just about running out now. Before we conclude, I'll ask is there anything else--? Any words of wisdom, any other thoughts on your mind that you'd love to just--?

ROSENFELD: I would give you some advice.

ELKIND: Please.

ROSENFELD: Never be afraid to change your mind.

ELKIND: That's very good.

ROSENFELD: And I mean that sincerely. I gave that to both of my children. I call them "kids" and they get very mad

at me [laughs]-- Both my children. I don't mean change your mind about little things, but I think that if you make a career decision and it doesn't seem to be working out, hanging in is the worse thing you can do. It doesn't get better. And who knows [if] that will work out or not work out? If it works out that's great and life just takes funny twists, but if you're an intelligent, hard-working person, and you're not making it where you are to your satisfaction, it's time to move on and not be afraid to do so.

ELKIND: To cash in on what you had done, even if you don't know where you're going; it's better to make a change? Is that true?

ROSENFELD: I think you have to be careful with that. I mean, I had enough money that I-- At which stage? When I left public accounting that was a lot harder emotionally for me than leaving Kaufman and Broad--emotionally--because I didn't know anything other than selling shoes, which I wasn't going to go back to--

ELKIND: Had you heard about Eli Broad? Did you know who this guy was or--?

ROSENFELD: No.

ELKIND: So you basically just kind of like--

ROSENFELD: Lucked into a job. Wrote some resumes, got an

answer from Kaufman and Broad, which I had no idea who Eli Broad was. So that was a very hard decision for me, because I had been trained at-- I spent a lot of time studying and passing the CPA exam; I worked for a good firm, looked like I had a future there, although I didn't like it. So that was tough. Leaving Kaufman and Broad was not as tough, because I had built a reputation. I was certain that if I couldn't make it on my own I had no doubt that somebody would hire me. And then I felt that Eli was a tough enough--and I have high regard for Eli-- taskmaster that I never would have been there had I not been good. I wouldn't have gotten to where I'd got--so that gave me confidence. I wasn't tortured by that at all. There were always those moments of insecurity but I wasn't insecure. I wasn't going to starve. But when I left public accounting, it was a very tough decision for me. Very tough.

ELKIND: Very good. Okay.

ROSENFELD: All righty.

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