Online interview with Justin Hibbard [since removed from the internet]

Back in 2005, former *Businessweek* reporter Justin Hibbard did what many journalists eventually do: he ditched his trade for greener pastures. He first joined a hedge fund as a company research analyst. Six months later, with requests from other investment managers beginning to pile up, Hibbard decided to open his own shop.

Today, Burlingame-based Quidnunc Group — for the Latin *quid nunc*, a person who seeks out the latest news — has evolved into an unusual combination of private investigative firm and investment research house, one that caters to everyone from venture capitalists needing background checks, to activist shareholders wanting to know just how a management team is spending its time, to hedge funds looking to concretely explain an uneasy feeling about a potential investment.

I caught up with Hibbard earlier to learn more about his business — and what he makes of the Entellium case.

First, you've nabbed a private investigator's license, and a Registered Investment Advisor's license. Why were both necessary?

I started out just doing investment research using investigative techniques. I was looking at stocks but doing deep background checks using forensic accounting-type methods, like looking at aspects of a business that hadn't been examined closely, doing surveillance when necessary, following up with people. I was selling my research on a subscription basis, but some clients were interested in hiring me to look at cases individually. That's when I looked into getting a PI license.

How tough is it to become a PI? What's the process like?

Well, you need 6,000 hours of investigative experience prior. In my situation, the work that I'd done as a journalist had qualified me because I'd done so much with public records and also physical on-site surveillance. You're also required to take a test that has to do largely with your knowledge of the law –demonstrating that you're aware of what's legal and illegal to do.

And I'm right that your clients all inhabit the "alternative assets" universe?

Right, our clients have been hedge funds, buyout firms, venture capital firms, tech companies, startups and attorneys, and we do everything from background checks to competitive intelligence — like working with an established company that wants to learn more about particular competitors or areas of their market. We also do asset searches when a company that has won a judgment against another wants to know about the other company's ability to pay. And we do litigation support, providing services to law firms doing litigation on behalf of one of their clients.

Do you mind discussing what you charge for your services?

It’s pretty broad, depending on what people want. The most cursory of background checks, which isn’t going to be too much more than aggregating information from databases, it can be as low as $150, though I kind of have to feel comfortable that I’m not going to provide someone so little information that it could come back to bite them.

A more in-depth type of background check can range from $2,500 to $5,000, depending on how much a client wants to do and how complicated the situation is and how far back into the history they want us to look. Investigating someone from a different countries might increase the cost because of the help that might be needed abroad. Where surveillance is necessary, hourly costs can be incurred and increase the price, too.

So having someone spied on isn’t cheap. Who are the types of businesspeople you’re typically hired to tail?

From time to time, I get contacted by shareholders or activist investors who are interested in corporate governance issues. They want to know just what a board is doing and how the members are spending their time. Or they want to know how the management team is spending its time. They want to compare what they’re being told and what someone can observe covertly.

So you literally stake out their offices?

It’s not much different than if you were investigating someone for insurance fraud. You start early in the morning and you set up an observation point from a safe perimeter, usually at their residence. You get a positive ID on the person and their vehicle. Then you go into mobile surveillance. You can do it with one car or several if you need it. The subject is usually going to the workplace, so you then set up surveillance outside. Later, you watch to see if the subject leaves and who they meet with, while both identifying people and recording license plates.

But the meaty stuff happens inside the conference room. What can you glean from a parked car on the grounds outside?

You can’t see everything of course. But as long as you see what’s happening in public places, you can gather a fair amount. Also, you’re often working from some information you’ve gathered, like that someone is having a meeting or that some other people will be coming to the office on a particular day, so you might want to look at who’s showing up and how long they stay.

There are cases where you’ll follow the CEO and you’ll see that he’s on the golf course all day, which is something that shareholders are interested in knowing. You might follow him to a restaurant, a public place where you can go in and see who he’s lunching with. Just seeing what time people show up to office and leave is information clients are sometimes interested in.

Have you gone crazy buying spy gadgets?

Hah. I think the only thing I have like that is a covert camera, which simply allows you to take photographs and video without having other people see that you have a camera. It's about the size of a button, so you can attach it to clothing or a bag. You can hide it in objects that you can just leave in a place.

Like, say, a conference room?

Uh, no. You can't get access to information where people have a reasonable expectation of privacy.

So what is it that VCs ask you to look into most often?

VCs usually want to know the background of the principal managers or entrepreneurs they're considering funding. If it's a second or third round of financing, they might have me look into a company's background to see if they can get some insight into who else that company is doing business with.

A lot of the time, a venture firm is also interested in whether a company or its entrepreneurs have any conflicts of interest with the VC firm's other portfolio companies. A lot of entrepreneurs are LPs or GPs of their own small funds that no one knows about. My VC clients want me to see if there are LPs in any funds who would stand to benefit from the company receiving a certain valuation.

Sounds like Entellium's backers should have called you. What do you make of the case? What should have happened to prevent the fraud?

In a case like this, the obvious things you check are whether anyone has a criminal record, or a credit record, or, if they've done other startups in the past, what happened with them. Beyond that, if its CEO was saying they had, say, $4 million in revenue, but they only had servers, software developers, and bandwidth to support less than half that much business, you'd have to wonder how the company was booking as much as they were saying they did.

Are there other telltale signs of fraud that people miss?

It's often the case that no one finds out about fraud until someone with first-hand access to primary documents says something about it, as happened with Entellium. So a lot of the time, what you want to do is talk to those people. Talk to current and former employees under circumstances where they have total confidence that they can speak candidly, whether that's because something has been put in a contract, or because of the nature of who they're speaking with. You want to get the perspective of people who aren't on the management team and don't have a direct interest in sticking to its storyline.

What's some of the really audacious stuff you've come across at Quidnunc so far?

The justifications that people give for fraud are pretty audacious. There is a certain psychological profile that fits people who engage in acts of fraud, and there's often a high recidivism rate, according to the U.S. Department of Justice. Many people who've committed fraud and been successful will go on to commit more frauds. Sometimes, it's like an addiction. But a lot of the time, the fraud centers on an incredible sense of entitlement, people saying, "I should have received that money anyway, because investors had taken more than their fair share" or "I made a lot of money for this firm and wasn't awarded fairly."

What really makes my jaw drop sometimes is that investors will come to me and say, "will you do a background check on this person, because we've heard some things and want to know if they're true." I do it and sure enough, the person has a criminal record or unpaid debts or some history of civil litigation and I'll show the investors these things, and they'll go ahead and make the investment anyway, I don't know what they know and can't judge them without that, but it's kind of amazing. If someone has committed fraud or blackmail before, even if it was a desperate situation, that person poses a pretty significant risk.