

# LOS ANGELES BUSINESS JOURNAL

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## Up Front



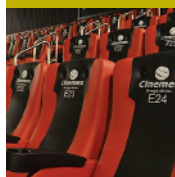
Why Psy is now singing for a second L.A. food company.  
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## News & Analysis



L.A. hotels and retailers are preparing to serve big influx of Chinese.  
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## Cinemas



Maker of vibrating seats for theme parks now shaking up movie theaters.  
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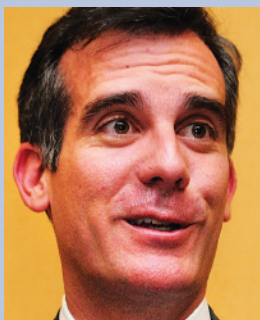
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## SPECIAL REPORT THE RACE FOR MAYOR

# WHO'S BETTER FOR BUSINESS?

**'The private sector is everything. Everything that I've done in my time in public office has come from the economic vitality of my district.'**

ERIC GARCETTI



**'We need people who get educated here say they are going to stay here because this is where the jobs and the opportunities are.'**

WENDY GREUEL

Will the next mayor of Los Angeles strive to make the city business friendly? Will **WENDY GREUEL** or **ERIC GARCETTI** work to eliminate the gross receipts tax, streamline the permit process and stop expanding living-wage laws? Greuel and Garcetti recently met with the Business Journal to answer these and other questions designed to help business people decide. **PAGES 54-55**

## Medal Event Shows Mettle

**SPORTS:** Special Olympics to be biggest event in 31 years.

By **DAVID NUSBAUM** Staff Reporter

It will be L.A.'s biggest sports event since the 1984 Olympics.

More than 7,000 of the world's top athletes with intellectual disabilities will compete in Los Angeles in the 2015 Special Olympics World Summer Games.

"The Special Olympics will have more athletes from more countries than the 1984 Olympics," said **David Simon**, president of the Los Angeles Sports Council and 2015 Special Olympics board member.

Organizers expect athletes, their families

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## Food Trucks Running Risk

**INSURANCE:** Operators moving faster than coverage.

By **ALFRED LEE** Staff Reporter

**Victor Vargas** last spring came across a flier advertising food truck insurance plastered to the windshield of his taco truck. He called the number on the flier and soon had \$90,000 in coverage on the truck — higher than average due to a costly new stainless steel kitchen he installed.

It was a prudent purchase: A few weeks later an electrical fire totaled the truck.

But instead of paying off the full \$90,000, his insurance company only offered him \$47,000, setting off a legal dispute. The problem, Vargas' attorneys argue, is that **Progressive**

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Jubilee: From left, Chris Duffield and Kristopher Schellhas with 2-carat stone at Investment Diamond Exchange's office in Santa Monica.

# Gem of a Deal?

## Firm polishes up diamonds as investment

By **JAMES RUFUS KOREN** Staff Reporter

**A**N armored truck rolls up your driveway and an armed guard hands you a black leather case. Buying diamonds as an investment, you see, is not like buying stocks.

But putting aside the unusual delivery aspects, **Chris Duffield** and **Kristopher Schellhas** are betting that investing in diamonds could be the next big thing.

They founded **Investment Diamond Exchange LLC**, or **IDX**, a Santa Monica firm that sells dia-

monds — the actual stones, delivered by that armored car — to investors with a standing promise to buy them back. The company is one of a handful of firms trying to turn diamonds into an investment commodity much like precious metals.

"The two key things any market needs are price transparency and liquidity," said Schellhas, 30, a former commodities trader at the **Chicago Board of Trade**. "Those are two things the diamond

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**Managing cyber security is no longer an option: it is a core responsibility for businesses.**

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# Insurance: Food Truck Coverage Not Up to Speed

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Corp., his insurer, was treating his food truck more like a regular car, in which the insurance payouts typically equal only the depreciated value of the vehicle. Vargas expected the full \$90,000 to get him back in business.

"It wasn't actually that different from most automobile policies, but it was marketed to be different," said **Howard Shernoff**, who is representing Vargas in a lawsuit against the insurer.

Progressive, which declined comment on the case, is fighting the allegations in court, but Vargas' case illustrates the lack of standardization in an insurance market struggling to keep pace with the booming food truck business.

Food trucks can range in value from \$25,000 for a bare-bones model to \$250,000 for a mobile kitchen tricked out inside and out. Insurance companies, too, offer widely different policies, some specifically tailored to the needs of food truck owners, others as reconfigured small-business or auto policies. Many truck owners are unaware of how to navigate what coverage is available or needed.

"It's an industry in its infancy I'm not sure the insurance companies have kept up with," said **Jerry Prendergast**, a Culver City restaurant consultant. "Things are constantly changing."

Indeed, insurance underwriters and their agents are more aggressively selling policies to the growing food truck industry, drawn to newer and more expensive gourmet trucks that can command higher premiums.

Several agencies specializing in food truck insurance have cropped up in Los Angeles, and some out-of-town agencies make trips here to secure clients. They paper food truck lots with fliers and use the same social networking tactics that have been so successful in the marketing of the trucks themselves.

## Gaining traction

**Tichard Gomez**, who handles leasing at L.A. food truck company **AA Cater Truck Inc.**, said calls from insurance companies and agents picked up last year.

"Food trucks are getting a lot more visibility and becoming nationwide and different insurance companies are trying to tap that market," he said.



Driving Concern: Customers check out food trucks parked along Miracle Mile.

Though food trucks are commonly perceived as a shortcut around the costs of running a brick-and-mortar restaurant, their insurance costs tend to add up quickly.

Trucks are required by law to have auto insurance. On top of that, many truck owners buy general liability coverage that can be used to cover other problems, such as customers getting sick from food poisoning or food allergies. There is also property insurance to cover equipment as well as workers compensation.

Truck owners can pay between \$100 and \$400 a month. Rates can vary based on an owner's driving record, business experience and volume of business.

A few hundred dollars a month might not sound like a lot, but it can add up for many trucks that are lucky to break even during the fall and winter when business slows down, said **Ash Ube**, chef at the **No. 1 Currywurst Truck of Los Angeles**.

Some food truck leasing companies, such as AA, require that clients buy their own insurance, while others buy the policy themselves and include it in the cost of the lease.

Food truck insurance usually is higher than for fixed-location restaurants. While a standard restaurant can expect to pay premiums equal to

1 percent to 1.5 percent of sales, a food truck can pay between 2 percent and 3 percent, said **Greg Kniss**, a partner at Pasadena's **Krost Baumgarten Kniss & Guerrero**, an accounting firm for both restaurants and food trucks.

"Even then, it should probably be a little higher," he said. "It's such a unique business model that many of them are underinsured."

## Changing market, problems

The growing opportunity has attracted insurance agents and underwriters. **Cal-Society Insurance Services Inc.**, a Koreatown insurance brokerage, has been selling insurance to mobile food vendors for many years, but has ramped up marketing recently and now counts gourmet food truck owners as about half of its mobile vending clients.

"The excitement has changed the industry, and the risks they face," said **Olu Adesuyan**, Cal-Society's chief executive. His company sells insurance from a range of providers, with Progressive the most popular underwriter.

**Denny Christner** started a food truck insurance agency, **Insure My Food Truck**, in Alameda in 2010. He only focuses on gourmet food trucks because the trucks tend to be more expensive and to drive around less than taco

trucks or catering trucks. He makes two trips to Los Angeles a year to recruit potential clients, and has about 20 clients in the L.A. area.

He said he worked with **Hanover Insurance Group Inc.** and **AmTrust Financial Services Inc.** to craft policies specific to food trucks, including coverage for theft or fire regardless of location, which not all policies offer.

"The (insurance) carriers don't really understand the business too much," he said. "And the food truck owners don't know what they don't know. A lot of them don't understand they're going to need general liability, going to need higher auto limits, going to need coverage for (kitchen) gear always in motion."

Indeed, some policies sold to food truck owners aren't as tailored.

Some **Allstate Corp.** agents, for instance, have been marketing and selling policies to food truck owners in the L.A. area. But Allstate doesn't have a specific plan for food truck owners – the policies are general small-business insurance policies that have been repackaged, and not all food truck owners can qualify for them, according to a company spokesman.

But in a case such as Vargas', critics say insurance companies are taking advantage of the confusion.

**Chris Grivakes**, attorney at Century City's **Affeld Grivakes Zucker LLP** who reviewed Vargas' case for the *Business Journal*, said it appeared Progressive was charging higher premiums based on a stated amount of coverage, but paying out a lower amount in the case of the loss.

"I know it's marketed as this specialty program for food trucks," he said, "but it's a form of coverage that's almost illusory in my opinion."

Cal-Society, which sold Vargas' policy, said that it rarely gets complaints about Progressive from truck owners.

As for Vargas, he was able to get an offer for the full amount of \$90,000 after he filed a lawsuit, but is still fighting in court over the larger issue of what he claims is deceptive business practices. He doesn't know if he'll start another food truck business.

"I liked the food business and I wanted to start my own," he said. "But I'm not sure yet."

# Sports: Special Olympics Seen as Big Score for L.A.

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and 3,000 coaches from more than 170 countries to travel to Los Angeles for competition in 27 sports. They expect 2,000 media in attendance and 500,000 spectators at venues such as Staples Center, Pauley Pavilion and Home Depot Center.

The nine-day competition will kick off with an opening ceremony at the Los Angeles Memorial Coliseum on July 24, 2015. It's the first time the event will be staged in Los Angeles.

The **LA2015** non-profit company manages the 2015 Special Olympics, also known as the World Games. The organization, in downtown Los Angeles, has a fundraising target of \$90 million. It now has 11 full-time employees for fundraising and planning, but in the next two years leading up to the event, the organization will add 150 full- and 200 part-time employees.

The athletes and coaches will pay their own way to get here. But once in Los Angeles, the host committee will provide food, housing, medical care and even translators for participants throughout the three-day welcome program and nine-day competition.

"We're going to provide 360,000 meals over 12 days," said **Patrick McClenahan**, chief executive of LA2015. "In total, we have 67 different cost centers and a 1,300 line item budget."

Transportation will be one of those costs.



Ready, Set: Patrick McClenahan of LA2015 at his downtown L.A. office.

Participants will be shuttled to 27 venues throughout Southern California.

Athletes and coaches will stay in dorms at USC and UCLA; about 6,500 will stay at USC and 3,500 at UCLA.

The \$90 million is a fraction of the \$14.9 billion that the 2012 London Olympics reportedly cost, although the regular Olympics typically involve immense construction projects.

The Special Olympics follow a similar format to the International Olympics, but for athletes who have intellectual disabilities. (Physically disabled athletes compete in the Paralympics.)

The athletes will participate in 27 competitions and demonstrations, including badminton, basketball, gymnastics, powerlifting and sailing.

The Special Olympics was founded by

Eunice Kennedy Shriver, who organized the first one in Chicago in 1968. Smaller events are held annually across the world. The major international competition alternates every two years with winter and summer competitions. Pyeongchang, South Korea, staged the 2013 World Games winter competition. Athens, Greece, was the site of the last summer competition in 2011.

## Winning bid

The bid for the upcoming summer games was awarded to Los Angeles that year. A study commissioned by the bid committee forecast an economic benefit for Los Angeles County of \$415 million. That includes direct spending of \$128 million from attendees, \$23 million for accommodations and \$28 million for production of the games. The event is expected to generate tax revenue of \$27.5 million.

For comparison, a Super Bowl can have an economic benefit for its host city of \$150 million to \$300 million, with a high of about \$500 million.

In other countries, the government is heavily involved in bidding for these types of world-class events. For example, the 2007 Special Olympics in Shanghai received 85 percent of its budget from the Chinese government.

"Our basic premise and model is privately funding this event through philanthropic dollars," said McClenahan.

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# Investment: Will Investors Take Shine to Diamonds?

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industry has lacked. Now, you can see prices on our website, and we create liquidity. You have the ability to sell your diamond position back to us."

In short, Schellhas and Duffield are trying to become market makers, but for a product that's only been regarded as a potential investment for less than a decade.

Until just nine years ago, South African diamond giant **DeBeers** controlled most of the market, allowing the company to influence prices – and keep investors out, said Edahn Golan, editor in chief of diamond price index **Index Online** in Tel Aviv.

"It made no sense creating any sort of financial vehicle based on polished diamonds as long as one company could manipulate prices," Golan said.

But that monopoly was broken up in 2004 when the company pleaded guilty to price fixing. Other big firms now have more market share, leading to increased competition. Diamonds have been appreciating about 4 percent annually and investors have started to take an interest. **IDX** and other companies see opportunity as a result.

**IndexIQ**, a manager of exchange-traded funds based in Rye Brook, N.Y., last year filed a request with the Securities and Exchange Commission to create a fund backed by diamonds. **GemShares LLC** of Chicago earlier this month filed a request for another exchange traded fund, **GemShares Physical Diamond Trust**.

"This is the first time the industry is seeing this much interest from the investment side," said **Paul Zimmisky**, chief executive of Madison, N.J., firm **PureFunds**, which manages an ETF that's invested in diamond mining and retailing companies. "There's a real, fundamental investment story behind diamonds. Demand is forecast to increase and there's limited new supply."

## Murky market

Diamonds are valuable, portable and essentially indestructible, and their value is not correlated to that of other commodities or broader markets. That makes them a potential safe haven for investors, said **Paul Miller**, managing director in the Westwood office of Irvine wealth management firm **First Foundation Inc.**

"People are always looking for noncorrelated asset classes," he said. "In order to diversify, you want something that's going up when other things are going down. Gemstones are another way to do that."

But Miller and others note that investing in diamonds isn't easy. The first step is to buy diamonds at a fair price. But most diamond exchanges are private, open only to diamond traders and jewelers, leaving investors to buy at retail prices that can be twice as high as wholesale.

Diamond price indices such as **Index Online** list only the asking price for specific stones, not



In Exchange: Co-founders Chris Duffield, left, and Kristopher Schellhas at Investment Diamond Exchange's headquarters in Santa Monica.

the sale price, making it difficult for investors to know if they're getting a fair deal.

What's more, unlike a piece of gold, an individual diamond's price depends not only on its size, but on its shape, the quality of its cut, color, clarity and other factors.

And once investors have the diamonds, they have to be able to sell them. That's difficult to do without taking a loss, said **John Hekman**, an economist and managing partner in the L.A. office of **FTI Consulting**, a West Palm Beach, Fla., financial advisory firm.

"There's never been much of a secondary market for diamonds," Hekman said. "If you buy a diamond for \$5,000 then try to sell it back, you're going to get very little."

## Nuts and bolts

**IDX** aims to get around the diamond-pricing problem by listing prices on its website, **InvestmentDiamondExchange.com**.

Cutting and polishing factories provide diamonds to **IDX** on consignment. (The factories process raw diamonds into the stones used in engagement rings and other jewelry.)

Prices are set by cutting factories and **IDX** tacks on 5 percent. Even with that markup, diamonds listed by **IDX** are between 15 percent and 50 percent cheaper than stones of similar quality for sale by major diamond retailers, according to a comparison of **IDX** and **Zales.com** prices. For instance, **IDX** recently listed a top-quality 1.05-carat diamond for \$23,899. A similar diamond listed on **Zales.com** costs 42 percent more, or \$33,968.

Duffield said **IDX** can charge a smaller markup because it doesn't have brick-and-mortar stores or jewelers on staff. And by getting consignments from many factories – he wouldn't say how many – **IDX** creates com-

petition and drives down prices.

**IDX** isn't the only diamond exchange where investors can buy actual diamonds, but it is unusual in that others, such as **Singapore Diamond Exchange Private Ltd.**, typically require minimum investments of hundreds of thousands of dollars. **IDX** has no such minimum. Schellhas said the company has even sold to noninvestors who want diamonds for jewelry.

For each diamond listed on **IDX**'s site – there is about \$25 million worth at any given time – the company notes the size, color, clarity and other factors, as well as two prices: a sale price, which includes **IDX**'s 5 percent margin, and a buy-back price, the price the company would pay an investor selling a similar diamond.

By promising to repurchase diamonds from **IDX** customers, and by listing buy-back prices, **IDX** allows customers to track the value of their diamonds and lets them know they'll be able to cash out if they want.

When an investor calls **IDX**, a sales representative helps them build a package of diamonds based on a budget and investment goals. An investor might want many smaller diamonds that can later be sold off piecemeal, or fewer large diamonds that are expected to appreciate more. **IDX** sells only top-quality diamonds between 1 and 5 carats in size – the types most in demand.

Once an investor's diamonds are selected, **IDX** has them sent to the **Gemological Institute of America Inc.**, a non-profit diamond examination company in Carlsbad. There, they are inspected and individually sealed into plastic packages. The investor wires money to **IDX** and diamonds are delivered the following day by armored truck or guaranteed shipment, depending on the value

of the order, arriving in a leather case designed to fit in a safety deposit box.

Schellhas and Duffield said they expect investors to hold on to their diamonds for at least five to 10 years. When investors are ready to sell, they call **IDX** to lock in a price, the company arranges for pickup and money is wired to the investor.

## Ten years out

While **IDX**'s prices are significantly lower than those of mainstream diamond retailers, they're often only slightly lower than those of online diamond seller **Blue Nile Inc.**, for example.

And **IDX**'s prices are often significantly higher than diamond prices listed on private diamond indices. However, those indices don't provide detailed information about the quality of the diamonds, making price comparison challenging.

"I think they're taking a step in the right direction," said **Zimmisky** at **PureFunds**. "But at the moment, I don't think there's any vehicle or index that makes the price of diamonds transparent enough."

What's more, **IDX** is just one company and a startup at that. **FTI**'s Hekman cautioned that if the company goes bust, an investment in diamonds could suddenly become much harder to unload.

"If they're not around 10 years from now, who is willing to buy these diamonds?" Hekman asked. "I respect their attempt to create a market here, but it sounds pretty risky."

Schellhas and Duffield said diamond buyers can sell to whomever they choose – other investors, a local jeweler – but they acknowledge that other potential buyers likely won't offer as much as **IDX** will. That means investors could take a big haircut if **IDX** fails.

"A jeweler would buy them back from you. Are you going to get what you want or what you'd get from us? No," Schellhas said.

But he and Duffield said they have strong cash reserves – which they'll need if investors start wanting to sell – and strong financial backing. They say they're in the process of a multimillion-dollar fundraising round but declined to offer more specifics.

**IDX** had its first sales last year and is already profitable, Schellhas said. Just last week, the company was in the process of closing a sale of \$15 million worth of diamonds to an investor. That sale alone would represent revenue of \$750,000 for the 10-employee company.

One customer, Manhattan Beach resident **Jon Kubler**, said he's not concerned about whether **IDX** will be around a decade from now. He bought diamonds valued in the six figures – he declined to be more specific – and said he plans on holding them for the foreseeable future.

"The benefit to me is risk mitigation – it's a hedge," he said. "It's something I can own that, based on demand, should increase in value. Unless we're in an overall catastrophic economic state globally, I think this is something that will be passed on."

# Non-Profit: Companies Pledge In-Kind Donations

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In order to raise the \$90 million needed to meet the organization's budget, he and his team have reached out to corporate sponsors and wealthy individuals for donations. In total, the organization expects to raise 75 percent of its budget from cash donations and the balance from in-kind gifts.

So far, they have received five contributions of \$1 million in cash from **Mattel Inc.**; **AEG**; **Kaiser Permanente**; **Steven Spielberg** and

his wife, **Kate Capshaw**; and **David Geffen**.

The companies and people who commit to a \$1 million gift are recognized as founding champions. McClenahan expects 12 to 15 companies to sign up at that level. For that level of contribution, companies will receive 25 seats at the opening and closing ceremonies at Coliseum, access to VIP lounges and other perks. Lower-level sponsorships are available starting at \$25,000. The organization also expects to receive small donations from individuals who support its mission.

In addition to corporations and individuals,

several local foundations have made contributions, including **California Community Foundation**, \$200,000; **California Endowment**, \$200,000; **Weingart Foundation**, \$100,000; and **Rose Hills Foundation**, \$100,000.

Some companies are contributing in-kind donations as well. Kaiser Permanente pledged \$1.5 million in-kind by lending its medical expertise. Local agency **Davis Elen Advertising Inc.** has taken on the organization as a pro bono account. It has provided \$2.5 million in services that includes logo development, video production, branding strategy and

other advertising work.

The local office of **Deloitte** has provided \$3 million in-kind that includes office space for LA2015, business plan development and a financial officer who serves as controller for the organization.

"We have a cash budget that we provide for charities, but the talent of our people is a valuable resource," said **Michelle Kerrick**, managing partner of Deloitte's L.A. office. "As a firm, we have a commitment to provide \$60 million in pro bono work and we've set aside \$3 million for the Special Olympics."